# CHINA SHENGMU ORGANIC MILK LIMITED
# 中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability) Stock Code: 1432

# Global Offering


Joint Sponsors

BOC INTERNATIONAL

Goldman Sachs

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

BOC INTERNATIONAL

Goldman Sachs

Joint Bookrunners and Joint Lead Managers (In alphabetical order)

農銀國際 ABC INTERNATIONAL

交銀國際 BOCOM International

CICC 中金香港证券

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

# CHINA SHENGMU ORGANIC MILK LIMITED
# 中國聖牧有機奶業有限公司

*(Incorporated in the Cayman Islands with limited liability)*

## Global Offering

| | | |
|---|---|---|
| **Total number of Offer Shares under the Global Offering** | : | **444,800,000 Shares (subject to the Over-allotment Option)** |
| **Number of Hong Kong Public Offer Shares** | : | **44,480,000 Shares (subject to adjustment)** |
| **Number of International Offer Shares** | : | **400,320,000 Shares (subject to adjustment and the Over-allotment Option)** |
| **Offer Price** | : | **Not more than HK$2.95 per Share and expected to be not less than HK$2.39 per Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund on final pricing)** |
| **Nominal value** | : | **HK$0.00001 per Share** |
| **Stock code** | : | **1432** |

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

BOC INTERNATIONAL

Goldman Sachs

***Joint Bookrunners and Joint Lead Managers (in alphabetical order)***

農銀國際 ABC INTERNATIONAL

交銀國際 BOCOM International

CICC 中金香港证券

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and our Company on or before Monday, July 7, 2014 or such later time as may be agreed between the parties, but in any event, no later than Friday, July 11, 2014. If, for any reason, the Joint Global Coordinators, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Friday, July 11, 2014, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK$2.95 per Share and is expected to be not less than HK$2.39 per Share although the Joint Global Coordinators, on behalf of the Underwriters, and our Company may agree to a lower price. The Joint Global Coordinators, on behalf of the Underwriters, may, with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus (being HK$2.39 per Share to HK$2.95 per Share) at any time on or prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Public Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.youjimilk.com as soon as practicable but in any event not later than the morning of the day which is the latest day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

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

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Hong Kong Public Offer Shares, the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, have the right in certain circumstances, in their absolute discretion, to terminate the obligation of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for Termination." It is important that you refer to that section for further details.

**The Offer Shares have not been and will not be registered under the U.S. Securities Act, as amended ("U.S. Securities Act") or any state securities laws in the United States, and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares are being offered and sold only (i) in the United States to QIBs in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (ii) outside of the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.**

June 30, 2014

| | |
|---|---|
| Latest time to complete electronic applications under **HK eIPO White Form** service through the designated website **www.hkeipo.hk**[2] | 11:30 a.m. on Monday, July 7, 2014 |
| Application lists open[3] | 11:45 a.m. on Monday, July 7, 2014 |
| Latest time to lodge **WHITE** and **YELLOW** Application Forms | 12:00 noon on Monday, July 7, 2014 |
| Latest time to give electronic application instructions to HKSCC[4] | 12:00 noon on Monday, July 7, 2014 |
| Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s) | 12:00 noon on Monday, July 7, 2014 |
| Application lists close | 12:00 noon on Monday, July 7, 2014 |
| Expected Price Determination Date | Monday, July 7, 2014 |
| Announcement of the Offer Price | Monday, July 14, 2014 |

Announcement of:

- the level of application in the Hong Kong Public Offering;
- the level of indication of interest in the International Offering; and
- the basis of allocation of the Hong Kong Public Offer Shares to be published

  (a) in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese); and

  (b) on our website at www.youjimilk.com[5] and the website of the Hong Kong Exchange and Clearing Limited at **www.hkexnews.hk**[6] on or before ........ Monday, July 14, 2014

| | |
|---|---|
| Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers where appropriate) to be available through a variety of channels (see "How to Apply for Hong Kong Public Offer Shares — 11. Publication of Results") from | Monday, July 14, 2014 |

| | |
|---|---|
| Result of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers where appropriate) will be available at **www.tricor.com.hk/ipo/result** with a "search by ID" function | Monday, July 14, 2014 |
| Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before[7] | Monday, July 14, 2014 |
| HK eIPO White Form e-Auto Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications to be dispatched on or before[7][8][9] | Monday, July 14, 2014 |
| Dealings in Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on | Tuesday, July 15, 2014 |

*Notes:*

(1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure and conditions of the Global Offering, including conditions of the Hong Kong Public Offering, are set forth in "Structure and Conditions of the Global Offering" in this prospectus.

(2) If you have already submitted your application through the designated website at **www.hkeipo.hk** and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications.

(3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, July 7, 2014, the application lists will not open on that day. See "How to Apply for Hong Kong Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for the Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC should refer to "How to Apply for Hong Kong Public Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

(5) None of the website or any of the information contained on the website forms part of this prospectus.

(6) The announcement will be available for viewing on the Hong Kong Stock Exchange's website at **www.hkexnews.hk**.

(7) Applicants who apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by their Application Forms may collect refund cheques (where applicable) and Hong Kong share certificates (where applicable) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, July 14, 2014. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives each bearing a letter of authorisation from their corporation stamped with the corporation's chop. Both individuals and

authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. Uncollected refund cheques and share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

(8) Applicants who apply through the HK eIPO White Form service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to their application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the HK eIPO White Form service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the HK eIPO White Form Service Provider, in the form of refund cheques, by ordinary post at their own risk.

(9) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

The Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be on or about Tuesday, July 15, 2014. Investors who trade the Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

## CONTENTS

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

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorized by our Company, the Joint Global Coordinators, any of the Underwriters, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.youjimilk.com, does not form part of this prospectus.*

# CONTENTS

# SUMMARY

## OVERVIEW

Shengmu is the largest organic dairy company in China and the only vertically integrated organic dairy company in China that meets E.U. organic standards, according to the F&S Report. We had a 54.2% market share in China based on 2013 organic raw milk production volume, according to the F&S Report. Together with our associate, Shengmu Forage, our unique vertically integrated "grass-to-glass" organic ("全程有機") production model covers the entire dairy industry value chain, meeting E.U. organic standards for all major stages of the dairy production process: forage growing, dairy farming to produce raw milk, and processing to produce high-end liquid milk products. According to the F&S Report, we are a major producer of organic liquid milk with a market share of 25.3% in terms of retail sales value of organic liquid milk in China in 2013. In addition, we are also among the top eight producers of premium non-organic raw milk (which refers to the raw milk that meets certain nutrition and safety standards) in China with a market share of 2.6% based on 2013 production volume, according to the F&S Report.

China's organic raw milk market accounted for 0.5% of the overall raw milk market in China in terms of production volume in 2013, and is expected to grow at a CAGR of 53.5%, reaching 3.2% of China's total raw milk production volume in 2018, according to the F&S Report. The total retail sales value of organic liquid milk in China was RMB1.9 billion in 2013, accounting for 1.3% of the total liquid milk market in China. In addition, China's high-end liquid milk market accounted for 28.8% of the overall liquid milk product market in China in terms of retail sales value in 2013, according to the F&S Report.

Our business consists of the dairy farming business and the liquid milk business. We commenced our dairy farming operations in 2010 by engaging in the premium non-organic raw milk production in Hohhot, Inner Mongolia, and in 2011 expanded into the production of organic raw milk in Bayannur, Inner Mongolia. In 2012, we further expanded into the liquid milk business under which we produce and sell packaged organic liquid milk products under our "Shengmu 圣牧" brand. All of our liquid milk products are produced from organic raw milk produced internally by our organic dairy farms. We are the only dairy company in China that offers branded organic dairy products that are 100% processed from raw milk produced by self-owned certified organic dairy farms, according to the F&S Report. We expect that our future growth will primarily be driven by the growth of our organic dairy farming and liquid milk businesses.

The following table sets forth the components of our revenue by operating segment for the period indicated.

| For the year ended December 31, | Dairy farming business: Segment revenue | Dairy farming business: Inter-segment sales(1) | Dairy farming business: External sales | Dairy farming business: External sales as % of total revenue | Liquid milk business: Segment revenue | Liquid milk business: Inter-segment sales(1) | Liquid milk business: External sales | Liquid milk business: External sales as % of total revenue | Total revenue (after elimination of inter-segment sales) |
|---|---|---|---|---|---|---|---|---|---|
| | (RMB in thousands, except percentages) | | | | | | | | |
| 2011 | 389,417 | — | 389,417 | 100.0% | — | — | — | — | 389,417 |
| 2012 | 682,179 | 15,345 | 666,834 | 95.2% | 33,929 | — | 33,929 | 4.8% | 700,763 |
| 2013 | 972,308 | 131,561 | 840,747 | 73.5% | 302,962 | — | 302,962 | 26.5% | 1,143,709 |

(1) Represents internally produced organic raw milk sold to our liquid milk business.

The following table sets forth the sales volume of our organic and premium non-organic raw milk for the period indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Tonnes | % of total | Tonnes | % of total | Tonnes | % of total |
| Organic raw milk | | | | | | |
| External sales | 21,484 | 20.9% | 33,397 | 21.2% | 68,518 | 33.6% |
| Inter-segment sales(1) | — | — | 2,708 | 1.7% | 23,813 | 11.7% |
| Subtotal | 21,484 | 20.9% | 36,105 | 22.9% | 92,331 | 45.3% |
| Premium non-organic raw milk | 81,165 | 79.1% | 121,300 | 77.1% | 111,465 | 54.7% |
| Total | 102,649 | 100.0% | 157,405 | 100.0% | 203,796 | 100.0% |

(1) Represents internally produced organic raw milk sold to the liquid milk business.

The following table sets forth our gross profit and gross margin for each of our segments both before and after elimination of internal profit from inter-segment sales for the period indicated.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Cost of sales | Gross profit | Gross margin | Cost of sales | Gross profit | Gross margin | Cost of sales | Gross profit | Gross margin |
| | Amount | Amount | % | Amount | Amount | % | Amount | Amount | % |
| | (RMB in thousands, except percentages) | | | | | | | | |
| **Dairy farming business** | | | | | | | | | |
| Organic raw milk | | | | | | | | | |
| Before elimination | 64,829 | 17,945 | 21.7% | 125,144 | 58,297 | 31.8% | 271,176 | 213,303 | 44.0% |
| After elimination(1) | 64,829 | 17,945 | 21.7% | 115,758 | 52,338 | 31.1% | 201,237 | 151,681 | 43.0% |
| Premium non-organic raw milk | 209,987 | 96,656 | 31.5% | 331,712 | 167,026 | 33.5% | 312,670 | 175,160 | 35.9% |
| Subtotal: | | | | | | | | | |
| Before elimination | 274,816 | 114,601 | 29.4% | 456,856 | 225,323 | 33.0% | 583,846 | 388,462 | 40.0% |
| After elimination(1) | 274,816 | 114,601 | 29.4% | 447,470 | 219,364 | 32.9% | 513,907 | 326,841 | 38.9% |
| **Liquid milk business** | | | | | | | | | |
| Before elimination | — | — | N/A | 25,193 | 8,736 | 25.7% | 200,998 | 101,964 | 33.7% |
| After elimination(2) | — | — | N/A | 19,235 | 14,694 | 43.3% | 139,377 | 163,585 | 54.0% |

(1) Represents gross profit after elimination of internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in our liquid milk business and (ii) the production costs for such organic raw milk calculated as the product of (a) total cost of sales of organic raw milk and (b) the volume of organic raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.

(2) Represents gross profit after adding back the internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in this segment and (ii) the production costs for such organic raw milk calculated using the formula in note (1) above.

As of December 31, 2013, we owned the largest herd of organic dairy cows in China, with a 58.0% market share in terms of herd size, and the third largest herd of dairy cows overall in China, according to the F&S Report. As of that date, all of our 13 organic dairy farms were located in the Ulan Buh desert while all of our 12 non-organic dairy farms were located in Hohhot, Inner Mongolia, with a majority of our dairy farms having the capacity to house between 2,500 to 4,500 cows. Our average annual milk yield in 2013 was 8.5 tonnes. The following table sets forth the number of our dairy farms and dairy cows as of the date indicated.

| | Organic | | | | Non-organic | | | | |
|---|---|---|---|---|---|---|---|---|---|
| As of December 31, | Dairy farms | Calves and heifers | Milkable cows | Dairy cows subtotal | Dairy farms | Calves and heifers | Milkable cows | Dairy cows subtotal | Total dairy cows |
| 2011 | 4 | 3,423 | 5,559 | 8,982 | 13 | 8,405 | 17,729 | 26,134 | 35,116 |
| 2012 | 7 | 5,557 | 8,554 | 14,111 | 14 | 16,190 | 19,082 | 35,272 | 49,383 |
| 2013 | 13 | 13,796 | 16,825 | 30,621 | 12 | 10,811 | 19,025 | 29,836 | 60,457 |

The table below sets forth the sales amount, sales volume and average selling price of our products by product segment for the period indicated.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Sales amount | Sales volume | Average selling price | Sales amount | Sales volume | Average selling price | Sales amount | Sales volume | Average selling price |
| | RMB | Tonnes | RMB/ tonne | RMB | Tonnes | RMB/ tonne | RMB | Tonnes | RMB/ tonne |
| | (In thousands except sales volume and average selling price) | | | | | | | | |
| Raw milk[1] | | | | | | | | | |
| Organic ...................... | 82,774 | 21,484 | 3,853 | 168,096 | 33,397 | 5,033 | 352,918 | 68,518 | 5,151 |
| Premium non-organic .. | 306,643 | 81,165 | 3,778 | 498,738 | 121,300 | 4,112 | 487,829 | 111,465 | 4,377 |
| Subtotal ....................... | 389,417 | 102,649 | 3,794 | 666,834 | 154,697 | 4,311 | 840,747 | 179,983 | 4,671 |
| Liquid milk products........ | — | — | — | 33,929 | 2,246 | 15,106 | 302,962 | 20,715 | 14,625 |

(1) Represents sales to external customers.

## Our Business Model

### *Our organic business model*

We stringently control each major step of the production process under our "grass-to-glass" organic milk production model, which focuses on the following aspects:

- *Organic environment*. The Ulan Buh desert, where both Shengmu Forage's growing fields and our organic dairy farms are located, offers a number of benefits compared to conventional farming environments in China. These benefits include cool and dry weather preferred by dairy cows, limited human activity, little pollution as well as very low levels of bacteria, viruses and pests. In addition, according to F&S Report, there is abundant water resources and rich soil underneath the sandy surface.

- *Organic forage planting*. Currently we source our organic forages substantially from Shengmu Forage, which grows, among others, corn and alfalfa in the Ulan Buh desert without using any agricultural chemicals or chemical synthetic fertilizers. Shengmu Forage currently grows organic forages on parcels of land with a total area of approximately 115,000 mu (76.7 square kilometers) in the Ulan Buh desert; by 2020, Shengmu Forage expects to develop a total of approximately 560,000 mu (373.3 square kilometers) of growing fields for organic forages.

- *Organic dairy farming*. We are committed to cattle welfare as part of the culture of organic dairy farming, which we believe also contributes to our product quality. We raise our organic dairy cows in a low density environment with organic feed using no growth hormones.

- *Organic processing*. All of the raw milk we use to produce our liquid milk products is supplied internally by our organic dairy farms. No preservatives, artificial coloring or artificial flavoring is added during the production process.

- *Organic milk origin tracing*. Each unit of our organic milk product is given a code recognized by PRC Certification and Accreditation Administration (中國國家認證認可監督管理委員會) to trace the origin of production of each product as a quality control measure.

***Our non-organic business model***

We also operate non-organic free-stall dairy farms with rationalized herd size, uniform farm designs and layout, standardized operating procedures and automated equipment. We currently implement substantially the same procedures in our premium non-organic raw milk production process as in our organic raw milk production process, including farm management, feeding management, milking process and disease control. The major differences between our non-organic production process and organic production process include the following:

- *Location*. All of our non-organic dairy farms are located in Hohhot, Inner Mongolia. Hohhot has a cool and dry weather similar to that of the Ulan Buh desert that is favorable to dairy farming.

- *Average space per cow*. Our non-organic dairy farms are free-stall farms designed similarly to our organic dairy farms except that the average space per cow is approximately 30 square meters as compared to 60 to 80 square meters for our organic dairy farms. As with our organic dairy farms, our non-organic dairy farms have easy access to food and water, clean, comfortable, dry sand bedding and sport fields that allow our dairy cows to eat, drink and relax freely.

- *Conventional feed.* We feed our non-organic dairy cows with the same types of feed as our organic cows, including corn silage, guinea grass, alfalfa and concentrated feed purchased from third party suppliers; however, we do not require them to be organic. In addition, unlike our organic cows which drink purified water, our non-organic dairy cows drink underground water from wells on our farms. We inspect the water quality regularly to ensure that it is clean and safe.

**Customer Base and Distribution Network**

Our customer base may be largely categorized into industrial customers and distributors. In 2013, sales of raw milk accounted for 73.5% of our revenue (consisting of 30.9% from organic raw milk and 42.6% from premium non-organic raw milk). Our premium non-organic raw milk is sold to a limited number of leading dairy companies in China, including primarily Mengniu Group and Yili Group. In the first quarter of 2014, we also entered into annual raw milk supply agreements with Want Want. A portion of our organic raw milk is sold to these industrial customers, but increasingly sold after processing as liquid milk products under our "Shengmu 圣牧" brand. Our liquid milk products are primarily sold to distributors, which in turn sell to supermarket chains, department stores, convenience store chains and other points of sales. In 2013, sale of liquid milk products accounted for 26.5% of our revenue. As of December 31, 2013, we had 316 distributors with over 50,000 points of sale. A minimal amount of our liquid milk products is also sold directly to consumers.

The table below sets forth certain information about our customers.

| Product type | Major customers | Points of sale | Use of our products |
| --- | --- | --- | --- |
| Raw milk | Mengniu Group<br>Yili Group<br>Want Want | N/A | Production of end products |
| Liquid milk products | Distributors | Supermarket chains, department stores, convenience store chains and specialty channels[1] | Sale to sub-distributors or points of sale |
| | Consumers | VIP card membership, corporate wholesale | Consumption |

(1) Our specialty channels include restaurants, gas stations, fitness centers and e-commerce platforms.

## Suppliers and Procurement

The principal raw materials that we use are dairy cow feed, primarily including forages (such as corn silage, alfalfa and guinea grass) and concentrated feed. Currently we source feed for organic dairy cows primarily from Shengmu Forage, and purchase various feed for non-organic dairy cows from multiple third-party suppliers. The packaging materials for our liquid milk products are primarily purchased from Tetra Pak. We have historically grown our herd size primarily through purchases of dairy cows from local farmers in China and organic growth. We source frozen semen from suppliers in North America.

## Relationship with Shengmu Forage

### *Shareholding history*

Shengmu Forage was established in April 2010, with Shengmu Holding (our onshore holding company) and Mr. WU Jianye (our president and executive Director) among the founding shareholders. Since its establishment, Shengmu Forage has required significant capital to expand. As our dairy farming business was also in its early development stage and required significant capital and other resources, we chose to allocate our resources to our dairy farming business and helped obtain funding for Shengmu Forage from third-party investors.

Shengmu Holding owned 65.02% equity interests in Shengmu Forage at the beginning of 2011. By December 26, 2011, among certain other investors, Mr. WU and Ms. GAO Lingfeng (our vice president and executive Director) had contributed additional capital to Shengmu Forage, as a result of which Mr. WU and Ms. GAO held 20.32% and 15.49%, respectively, and Shengmu Holding held 23.77%. As a result, we consolidated the statement of profit or loss and other comprehensive income of Shengmu Forage for the period from January 1, 2011 to December 26, 2011, but did not consolidate its statement of financial position as of December 31, 2011, as our equity interest and voting right in Shengmu Forage decreased to 23.77% due to such capital contributions. For accounting purposes, Shengmu Forage has been accounted for as an associate of our Group since the end of 2011 as we have had more than 20% effective voting power. In 2012 and 2013, Shengmu Forage obtained additional capital injections from third party investors, and our shareholding in Shengmu Forage further decreased to 8.60%. Nonetheless, Shengmu Forage remained as an associate of our Group as Shengmu Holding, Mr. WU and Ms. GAO, who are two of our Ultimate Controlling Shareholders, entered into an acting-in-concert arrangement which became effective on June 25, 2012 after the completion of further capital investments in Shengmu Forage by other investors. As a result of the foregoing, Shengmu Holding, Mr. WU and Ms. GAO held an aggregate of 48.35% equity interests in Shengmu Forage. For details, see "Relationship with Controlling Shareholders — Major Retained Businesses of Our Ultimate Controlling Shareholders — Shengmu Forage." See "Relationship with Controlling Shareholders" for further details about our relationship with Shengmu Forage. For more details on Shengmu Forage's history, see "History, Reorganization and Group Structure — History and Development — Shengmu Forage."

***Agreements with Shengmu Forage***

Shengmu Forage currently supplies organic forage exclusively to our organic dairy farms. In March 2014, we entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage for a term of 20 years, under which Shengmu Forage undertakes to continue its exclusive supply arrangement for organic forages with us and support our future expansion plans. In addition, Shengmu Forage and its shareholders (except Shengmu Holding) entered into letters of undertaking in April 2014 and agree not to issue, sell, transfer or otherwise dispose of any equity interests in Shengmu Forage to any third party (other than to existing shareholders) without our prior written consent for a term of 20 years unless all the equity interests in Shengmu Forage have been transferred to us prior to the expiration of the 20-year term.

Furthermore, in order to carry out the purchase of organic forage from Shengmu Forage based on the principles under the Long-term Strategic Cooperation Agreement and in accordance with the relevant requirements under the Listing Rules, In April 2014, we entered into the Forage Supply Framework Agreement with Shengmu Forage to further set out certain specific terms for the purchase of forage by our Group from Shengmu Forage and its subsidiaries for a three-year term from January 1, 2014 to December 31, 2016. For further details of the Forage Supply Framework Agreement, see "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Forage — Purchase of Forage." Our purchase of organic forage from Shengmu Forage under the Long-term Strategic Cooperation Agreement and the Forage Supply Framework Agreement constitutes a continuing connected transaction of our Group.

Upon expiration of the Forage Supply Framework Agreement, we will enter into new framework agreements for the remaining term of the Long-term Strategic Cooperation Agreement based on the principles under the Long-term Strategic Cooperation Agreement and in accordance with the relevant requirements under the Listing Rules then in effect.

The principal terms under both the Long-term Strategic Cooperation Agreement and the Forage Supply Framework Agreement include the exclusive supply arrangement as set out above and the terms relating to the determination of our purchase price. Our purchase price of organic forage from Shengmu Forage shall be determined with reference to (a) the prevailing market prices for organic forage if there is a readily available market price, or (b) the prevailing market prices of imported premium non-organic forage (excluding transportation cost) or domestic premium non-organic forage plus a mark-up rate which will be not more than the lower of (i) the percentage difference in the average selling prices between our organic raw milk and premium non-organic raw milk, and (ii) the percentage difference in the average selling prices between organic raw milk and premium non-organic raw milk in the comparable segments of PRC market (if available), in the 12 months before the determination of the prices for the relevant forage crops.

**Relationship with Mengniu Group**

Our founders, Mr. YAO Tongshan together with 21 other parties, founded Shengmu Holding, our PRC holding company, in October 2009. Before our establishment, Mr. YAO had spent eight years with Mengniu Group, a leading PRC dairy company, and served as its chief financial officer before he left. A majority of our founders, like Mr. YAO, had become acquainted with each other through employment, investment or business dealings related to Mengniu Group. Our business relationship with Mengniu Group continued after we were founded, and included the following aspects:

- *Business partnership*. In March 2010, we entered into a framework cooperation agreement with Mengniu Group, pursuant to which Mengniu Group agreed to lease dairy-farming facilities and equipment to our dairy farms located in Hohhot and Bayannur as well as their established dairy farms in Hohhot. As of December 31, 2013, four of our 12 non-organic dairy farms in Hohhot were leased from Mengniu Group. Mengniu Group agreed to purchase on a priority basis and we agreed to meet certain milk supply volume requirements and supply all of our raw milk outputs that meet its quality standards from the leased dairy farms. Mengniu Group also provided guarantees on certain of our bank loans in 2011 and 2012 to assist the early development of our dairy farming business, which had been fully repaid as of December 31, 2013.

- *Early investment*. In May 2011, Mengniu Investment, an investment company wholly owned by Mengniu Group, subscribed for a 5.44% equity interest in Shengmu Holding for a consideration of RMB104.4 million. Following the completion of the Global Offering and assuming none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised, Mengniu Group will own 4.25% of the then issued share capital of our Company, which is subject to a six-month lock-up period from the date of Listing.

- *Major customer*. Mengniu Group was our largest customer during the Track Record Period, accounting for RMB340.4 million, RMB662.8 million and RMB666.6 million in revenue in 2011, 2012 and 2013, respectively, or 87.4%, 94.6%, and 58.3% of our total revenue, respectively. We also sold raw milk to Mengniu Group through two individuals in 2011, which accounted for RMB46.8 million in revenue, or 12.0% of our total revenue in 2011. The material decrease of percentage revenue contribution from Mengniu Group from 2012 to 2013 was mainly due to the major increase in sales from our organic liquid milk products and the introduction of another industrial customer in 2013, which diversified our revenue sources.

- *Competition*. We sell a portion of our organic raw milk to industrial customers such as Mengniu Group who process it into liquid milk products and market and distribute these products under their own brands. In addition, we sell organic liquid milk products produced from our organic raw milk under our "Shengmu 圣牧" brand. As such, industrial customers of our organic raw milk such as Mengniu Group are also our competitors in the liquid milk product markets. As we expand our organic liquid milk business, we expect competition with our organic raw milk industrial customers to intensify in terms of both their organic liquid milk products and premium non-organic liquid milk products.

For more information, see "Relationship with Mengniu Group."

**Continuing Connected Transactions**

We expect to continue certain transactions with certain connected persons after the Listing, which will therefore constitute continuing connected transactions of our Group under Chapter 14A of the Listing Rules. Such transactions are (a) purchase of forage from Shengmu Forage (our associate); (b) purchase of organic raw milk from Shengmu Pangu and Shengmu Xiwang (our non-wholly owned subsidiaries); (c) sales of pregnant heifers to Shengmu Pangu and Shengmu Xiwang; (d) purchase of calves and heifers from Shengmu Pangu and Shengmu Xiwang; and (e) provision of financial assistance (in the form of guarantee) to Shengmu Pangu and Shengmu Xiwang. As our business continues to expand in the near future, we expect to incur significant amounts of transactions with the aforementioned connected parties. Based on the respective size of such transactions, we expect that they will be subject to announcement, reporting, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules. We have received from the Stock Exchange a waiver from strict compliance with the relevant requirement set out in Chapter 14A of the Listing Rules for such continuing connected transactions.

For more information, see "Continuing Connected Transactions."

**Financial Track Record**

We have experienced significant growth during the Track Record Period. The following table sets forth selected combined statements of profit or loss and other comprehensive income items for the period indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | (RMB in thousands, except percentages) | | | | | |
| Revenue | 389,417 | 100.0% | 700,763 | 100.0% | 1,143,709 | 100.0% |
| Gross profit | 114,601 | 29.4% | 234,059 | 33.4% | 490,425 | 42.9% |
| Gain/(loss) arising from changes in fair value less costs to sell of biological assets | 117,139 | 30.1% | 4,406 | 0.6% | 9,484 | 0.8% |
| Profit before tax | 223,241 | 57.3% | 198,903 | 28.4% | 375,350 | 32.8% |
| Profit and total comprehensive income for the year | 223,241 | 57.3% | 198,903 | 28.4% | 374,498 | 32.7% |
| Attributable to: | | | | | | |
| Owners of parent | 223,268 | 57.3% | 195,782 | 27.9% | 327,309 | 28.6% |
| Other financial data: | | | | | | |
| Adjusted EBITDA[(1)]/Adjusted EBITDA margin[(2)] | 113,669 | 29.2% | 218,458 | 31.2% | 427,590 | 37.4% |
| Profit and total comprehensive income for the year before biological asset fair value adjustments[(3)] | 106,102 | 27.2% | 194,497 | 27.8% | 365,014 | 31.9% |

(1) Adjusted EBITDA refers to our profit and total comprehensive income for the year before income tax expense, finance costs, depreciation of items of property, plant and equipment, amortisation of prepaid land lease payments, amortisation of other intangible assets and gain arising from changes in fair value less costs to sell of biological assets. Adjusted EBITDA is not a standard measure under IFRS. Adjusted EBITDA is a widely used financial indicator of a company's ability to service and incur debt. Adjusted EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating adjusted EBITDA, we believe that investors should consider, among other things, the components of adjusted EBITDA such as selling and distribution expenses and administrative expenses and the amount by which adjusted EBITDA exceeds capital expenditures and other charges. We have included adjusted EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our adjusted EBITDA to adjusted EBITDA presented by other companies because not all companies use the same definition. See "Financial Information — Principal Statements of Profit or Loss and Other Comprehensive Income Components" for a reconciliation of our profit and other comprehensive income for the year under IFRS to our definition of adjusted EDITDA.

(2) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenue.

(3) Represents profit and total comprehensive income for the year minus gain/(loss) arising from changes in the fair value less costs to sell of biological assets, which is not a standard measure under IFRS.

The following table sets forth selected combined statements of financial position items as of the date indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Non-current assets | 952,579 | 1,515,310 | 2,477,454 |
| Current assets | 228,591 | 301,418 | 635,154 |
| Current liabilities | 256,904 | 598,259 | 1,404,716 |
| Net current liabilities | (28,313) | (296,841) | (769,562) |
| Total assets less current liabilities | 924,266 | 1,218,469 | 1,707,892 |
| Total non-current liabilities | 49,000 | — | — |
| Net assets | 875,266 | 1,218,469 | 1,707,892 |

The following table sets forth selected combined statements of cash flows items for the period indicated.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Net cash generated from operating activities | 141,204 | 177,942 | 363,630 |
| Net cash used in investing activities | (408,376) | (535,215) | (934,299) |
| Net cash generated from financing activities | 269,550 | 317,427 | 667,890 |
| Net (decrease)/increase in cash and cash equivalents | 2,378 | (39,846) | 97,221 |
| Cash and cash equivalents at the beginning of the year | 67,980 | 69,550 | 29,838 |
| Effect of foreign exchange rate changes | (808) | 134 | — |
| Cash and cash equivalents at the end of the year | 69,550 | 29,838 | 127,059 |

**Biological Assets**

Our biological assets represent our dairy cows, which were independently valued by Jones Lang LaSalle, a firm of independent qualified professional valuers not connected with us, which has appropriate qualifications and experiences in valuation of biological assets. The following table sets forth the fair value of our dairy cow herd as of the date indicated.

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB in thousands, except percentages) | | | | | |
| Calves and heifers | 185,125 | 25.9% | 353,443 | 34.3% | 424,699 | 28.1% |
| Milkable cows | 528,701 | 74.1% | 676,098 | 65.7% | 1,085,461 | 71.9% |
| **Total** | 713,826 | 100.0% | 1,029,541 | 100.0% | 1,510,160 | 100.0% |

The fair value of our biological assets accounted for 81.6%, 84.5% and 88.4% of our net assets as of December 31, 2011, 2012 and 2013, respectively. We recorded gain arising from changes in fair value less costs to sell of biological assets in the amount of RMB117.1 million, RMB4.4 million and RMB9.5 million in 2011, 2012 and 2013, respectively, representing 52.5%, 2.2% and 2.5% of our profit for the year during the same periods, respectively. Our net profit margin of 57.3%, 28.4% and 32.7% in 2011, 2012 and 2013, respectively, would have been 27.2%, 27.8% and 31.9%, respectively, if the impact of biological asset fair value adjustments were excluded from the corresponding period.

See "Financial Information — Valuation of Biological Assets" for more information about key assumptions and inputs used for valuation of our biological assets. See "Financial Information — Valuation of Biological Assets — Sensitive Analysis" for more information about the sensitivity analysis on the estimated value of milkable cows.

## RECENT DEVELOPMENTS

For the three months ended March 31, 2014, our revenue increased by 98.8% from RMB208.7 million for the three months ended March 31, 2013 to RMB414.9 million during the same period in 2014. Our gross profit increased by 172.7% from RMB73.3 million for the three months ended March 31, 2013 to RMB199.9 million during the same period in 2014. Our gross margin increased from 35.1% for the three months ended March 31, 2013 to 48.2% for the same period in 2014.

## Revenue

***Dairy farming business***

Revenue of our dairy farming business increased by 91.3% from RMB157.0 million for the three months ended March 31, 2013 to RMB300.3 million for the same period in 2014, primarily reflecting the following:

- *Organic raw milk.* Total revenue from sales of organic raw milk increased from RMB80.3 million for the three months ended March 31, 2013 to RMB195.8 million for the same period in 2014, consisting of (i) a 155.0% increase in external sales from RMB55.8 million to RMB142.3 million; and (ii) a 118.4% increase in inter-segment sales to our liquid milk business from RMB24.5 million to RMB53.5 million. The increase in our revenue was primarily due to an increase in sales volume as a result of an increase in herd size. In addition, the average selling price of organic raw milk increased from RMB4,850 for the three months ended March 31, 2013 to RMB5,610 for the same period in 2014.

- *Premium non-organic raw milk.* Revenue of premium non-organic raw milk increased by 56.1% from RMB101.2 million for the three months ended March 31, 2013 to RMB158.0 million during the same period in 2014. The increase was primarily due to a combination of (i) an increase in sales volume as a result of an increase in herd size; and (ii) an increase in average selling price of premium non-organic raw milk which increased from RMB3,920 for the three months ended March 31, 2013 to RMB4,820 for the same period in 2014.

***Liquid milk business***

Revenue of our liquid milk business increased by 121.7% from RMB51.7 million for the three months ended March 31, 2013 to RMB114.6 million during the same period in 2014. The increase primarily reflected a combination of (i) our expanding distribution network and (ii) rising market demand. In addition, the average selling price of our liquid milk products increased from RMB14,300 for the three months ended March 31, 2013 to RMB14,960 for the same period in 2014.

## Gross Profit and Gross Margin

***Dairy farming business***

Gross profit (before elimination of internal profit from inter-segment) and gross profit (after elimination of internal profit from inter-segment sales) of our dairy farming business increased by 183.7% and 192.0%, respectively, from RMB56.5 million and RMB46.0 million for the three months ended March 31, 2013 to RMB160.3 million and RMB134.3 million for the same period in 2014.

- *Organic raw milk.* Gross profit (before elimination of internal profit from inter-segment sales) and gross profit (after elimination of internal profit from inter-segment sales) increased by 232.0% and 281.6%, respectively, from RMB28.4 million and RMB17.9 million for the three months ended March 31, 2013 to RMB94.3 million and RMB68.3 million during the same period in 2014. For the three months ended March 31, 2014, the gross margin (before elimination of internal profit from inter-segment sales) and gross margin (after elimination of internal profit from inter-segment sales) was 48.2% and 48.0%, respectively, as compared to 35.4% and 32.0%, respectively, during the same period in 2013. The increase in our gross margin was also primarily due to (i) increased production scale and efficiency and (ii) increased average selling price.

- *Premium non-organic raw milk.* Gross profit of premium non-organic raw milk increased by 134.5% from RMB28.1 million for the three months ended March 31, 2013 to RMB65.9 million during the same period in 2014. The gross margin increased from 27.8% for the three months ended March 31, 2013 to 41.7% during the same period in 2014. The increase in our gross margin was also primarily due to (i) increased production scale and efficiency and (ii) increased average selling price.

***Liquid milk business***

Gross profit of our liquid milk business (before elimination of internal profit from inter-segment sales) increased significantly from RMB16.8 million for the three months ended March 31, 2013 to RMB39.6 million during the same period in 2014. By comparison, after elimination of internal profit from inter-segment sales, our gross profit of liquid milk business increased by 140.3% from RMB27.3 million for the three months ended March 31, 2013 to RMB65.6 million during the same period in 2014. The gross margin of our liquid milk business (before elimination of internal profit from inter-segment sales) was 32.5% and 34.6% for the three months ended March 31, 2013 and 2014, respectively. By comparison, after elimination of internal profit from inter-segment sales, our gross margin was 52.8% and 57.2% during the same periods. The increase in our gross margin was primarily due to increased average selling price of our liquid milk products.

The financial information as mentioned above was extracted from the unaudited condensed consolidated financial statements for the three months ended March 31, 2014 prepared by our Directors in accordance with International Accounting Standard 34 "Interim Financial Reporting" (the "IAS 34") issued by the International Accounting Standards Board (the "IASB"), and reviewed by Ernst & Young, our reporting accountant in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and from the unaudited condensed consolidated financial statements for the three months ended March 31, 2013 prepared by our Directors in accordance with IAS 34 issued by the IASB.

As of the Latest Practicable Date, we had credit facilities of an aggregate amount of RMB1,317.0 million, for RMB1,272.0 million of which we have obtained pre-approval letters from the relevant banks (stating that the banks will grant new facilities to us upon expiration of the current term and repayment of existing facilities), and of which RMB428.0 million have not been utilized. In addition, we were approved in March 2014 to issue short-term notes of up to RMB200 million and we have not issued any such notes as of the Latest Practicable Date.

Our Directors confirm that since our most recent audited financial statements dated December 31, 2013, the movements in our revenue and gross profits are in line with our expectations. Our Directors confirm that there has been no material adverse change in the financial trading position, indebtedness or prospects of our Group since December 31, 2013 up to the date of this prospectus. To our knowledge, there has been no material change in the general regulatory, economic and market conditions in China or the industry in which we operate that materially and adversely affected our business, results of operations or financial condition since December 31, 2013 up to the date of this prospectus.

## STRENGTHS AND STRATEGY

Our most important achievements to date and the factors that we believe distinguish us from our competitors include: (i) our market leadership well-positioned to benefit from China's fast-growing organic dairy market; (ii) our unique vertically integrated "grass-to-glass" organic production model ensuring product safety and quality; (iii) our strategic desert location providing the ideal environment to raise organic dairy cows; (iv) our farm management system and commitment to promoting cattle welfare contributing to industry leading milk quality; (v) the premium and trusted brand of "Shengmu 圣牧" recognized for its quality and safety; (vi) our vertically integrated model and portfolio of premium non-organic and organic milk products offering flexibility that allow us to achieve attractive returns; and (vii) our visionary management team with a proven track record of successful execution.

Our long-term objective is to become a leading organic dairy company in the world. To achieve this goal, we plan to implement a business strategy with the following components: (i) expanding our organic dairy farming operation and ensure our product safety and quality; (ii) increasing our liquid milk processing capacity; and (iii) expanding our premium organic product portfolio; and (iv) building an extensive nationwide distribution network and strengthen brand recognition.

## RISK FACTORS

We face a number of risks and uncertainties in our business and industry as set out in "Risk Factors." In particular, we have a limited operating history and may be unable to adequately manage our future expansion of operations and growth or achieve our growth plan within our desired timeframe or at all. We also rely on a limited number of industrial customers, and in particular Mengniu Group, for the sale of our raw milk. Furthermore, we do not have direct control over our associate, Shengmu Forage, our primary organic feed supplier, and certain operating risks applicable to us also apply to Shengmu Forage. We had net current liabilities as of December 31, 2011, 2012 and 2013 and may not be able to have net current assets in the future. In addition, we may lose or be unable to obtain or renew our organic certifications, which could materially and adversely affect our business.

## OUR SHAREHOLDERS

We trace our history back to the establishment of Shengmu Holding, our PRC holding company, in Inner Mongolia in October 2009. Our lead founder, Mr. YAO Tongshan (姚同山), together with 21 other parties, were the initial shareholders of Shengmu Holding. Twelve of the founding shareholders, as well as Mr. WU Jianye (our president) and Mr. CUI Ruicheng (our chief financial officer), who subsequently joined Shengmu Holding, entered into an acting-in-concert agreement on October 18, 2010 and a supplemental agreement on March 24, 2014 to extend the acting-in-concert arrangement to our Group upon completion of the Reorganization. These are our ultimate Controlling Shareholders, who will control, through World Shining 56.56% of our issued and outstanding share capital immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

As part of our Reorganization, we have introduced a number of pre-IPO investors, including Goldman Sachs, Baring, BOCI, Sequoia and King Capital. These investors collectively will own approximately 24.10% of our issued and outstanding share capital immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme) and their Shares are subject to a six-month lock-up period.

## SHARE OPTION SCHEMES

Pursuant to the resolutions of our Shareholders passed on April 30, 2014 and June 18, 2014, we have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme, respectively.

The principal terms of these share option schemes are set out in the sections headed ''Pre-IPO Share Option Scheme'' and ''Share Option Scheme'' respectively in Appendix IV to this prospectus. As of the Latest Practicable Date, options to subscribe for an aggregate of 504,480,000 Shares have been conditionally granted under the Pre-IPO Share Option Scheme by our Company, and remained outstanding as of the Latest Practicable Date. The subscription price in respect of each option granted under the Pre-IPO Share Option Scheme is HK$1.56.

The Shares subject to the options granted under the Pre-IPO Share Option Scheme represent (i) approximately 7.94% of our issued share capital immediately after completion of the Global Offering (excluding all Shares which may be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme or the exercise of the Over-allotment Option); and (ii) approximately 7.36% of our issued share capital immediately after completion of the Global Offering, assuming that all options granted under the Pre-IPO Share Option Scheme are exercised, but 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 Over-allotment Option.

Further, assuming that (i) our Company had been listed on the Stock Exchange since January 1, 2013 with 6,354,400,000 Shares in issue; and (ii) all the options granted under the Pre-IPO Share Option Scheme in respect of 504,480,000 Shares were exercised in full on January 1, 2013, the earnings per Share on a pro forma diluted basis would have been diluted from approximately RMB0.052 (unaudited) to approximately RMB0.044 (unaudited) for the year ended December 31, 2013.

## LISTING EXPENSES

We incurred listing expenses (excluding underwriting commissions) of RMB2.1 million during the Track Record Period, of which RMB1.8 million was recognized as administrative expenses and RMB0.3 million was capitalized as deferred listing expenses that are expected to be charged against equity upon successful listing under the relevant accounting standards. We expect to incur further listing expenses (excluding underwriting commissions) of approximately RMB28.3 million, of which RMB22.8 million will be recognized as administrative expenses and RMB5.5 million will be charged against equity. We do not believe the remaining expenses will have a material impact on our results of operations for 2014.

## OFFERING STATISTICS

| | |
|---|---|
| Offering size: | 444,800,000 Shares, representing 7.0% of the enlarged share capital of the Company (subject to the Over-allotment Option) |
| Offering structure: | 44,480,000 Shares, representing approximately 10% Hong Kong Public Offering (subject to adjustment) and 400,320,000 Shares, representing approximately 90% International Offering (subject to adjustment and Over-allotment Option) |
| Over-allotment Option: | Up to 15% of the number of Offer Shares initially available under the Global Offering |
| Offer Price per Share: | HK$2.39 to HK$2.95 per Offer Share |
| Market capitalization upon completion of the Global Offering (assuming the Over-allotment Option, the options that may be granted under the Pre-IPO Share Option Scheme and Share Option Scheme are not exercised) | HK$15,187 million based on the Offer Price of HK$2.39 per Share, or HK$18,745 million based on the Offer Price of HK$2.95 per Share |

| | |
|---|---|
| Unaudited pro forma adjusted net tangible assets per Share (assuming the Over-allotment Option and the options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme are not exercised): | HK$0.452 based on the Offer Price of HK$2.39 per Share, or HK$0.490 based on the Offer Price of HK$2.95 per Share |
| Use of proceeds (assuming an Offer Price of HK$2.67 per Share, being the mid-point of the indicative Offer Price range): | Net proceeds to our Company from the offer of new Shares — HK$1,121 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering:<br>• approximately 25% of the net proceeds, or HK$281 million, for constructing 6 new dairy farms from 2014 to 2015;<br>• approximately 30% of the net proceeds, or HK$336 million, for acquiring no less than 15,000 dairy cows from 2014 to 2015;<br>• approximately 5% of the net proceeds, or HK$56 million, for sales and marketing activities and expansion of our distribution network from 2014 to 2015;<br>• approximately 15% of the net proceeds, or HK$168 million, for expanding our liquid milk production capacity;<br>• approximately 15% of the net proceeds, or HK$168 million, for the repayment of loans; and<br>• approximately 10% of the net proceeds, or HK$112 million, for additional working capital and other general corporate purposes.<br><br>See “Future Plans and Use of Proceeds” for more details. |

**DIVIDENDS**

We did not declare any dividends during the Track Record Period. Our Board at its discretion may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. The payment of any dividends will also be subject to our articles of association, the Companies Law, applicable laws and other relevant factors.

*Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed "Glossary" in this prospectus.*

| | |
|---|---|
| "Alxa Forage" | Alxa Shengmu High-tech Ecological Forage Co., Ltd. (阿拉善盟聖牧高科生態草業有限公司), a company with limited liability established under the laws of the PRC on November 6, 2012 and a wholly-owned subsidiary of Shengmu Forage |
| "Anhui Meilichen" | Anhui Meilichen Trading Co., Ltd. (安徽美粒晨貿易有限公司), a company with limited liability established under the laws of the PRC on March 12, 2012, which is owned as to 40% by Shengmu Dairy and as to 60% by Independent Third Parties |
| "Application Form(s)" | **WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), individually or collectively, as the context may require |
| "Articles of Association" or "Articles" | our articles of association, as adopted on June 18, 2014, and as amended from time to time, a summary of which is contained in Appendix III to this prospectus |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules; save for in the context of accounting treatment, referring to those entities of which we control voting power of 20% to 50%, including Shengmu Forage, Beijing Shengmu, Shanghai Saihan, Anhui Meilichen and Tianjin Mengmu |
| "Baring" | collectively, Greenbelt Global and/or its shareholders, as the context indicates; Baring is an Independent Third Party |
| "Beijing Shengmu" | Shengmu High-tech (Beijing) Trading Co., Ltd. (聖牧高科(北京)貿易有限公司), a company with limited liability established under the PRC laws on September 2, 2013, which is owned as to 30% by Shengmu Dairy and as to 70% by Independent Third Parties |
| "Board of Directors" or "Board" | our board of Directors |
| "BOCI" | collectively, BOCI Investment, BOCIFP, and/or their respective shareholders, as the context indicates; BOCI is an Independent Third Party |

| | |
|---|---|
| "BOCIFP" | BOCI Financial Products Limited, a company incorporated under BVI laws on June 15, 2000 and wholly owned by BOC International Holdings Limited; BOCIFP became an equity investor in our Group as a result of a share-swap transaction during the Reorganization |
| "BOCI Investment" | BOCI Investment Limited (中銀國際投資有限公司), a company limited by shares established under the Hong Kong laws on July 10, 1998 and wholly owned by BOC International Holdings Limited; BOCI Investment transferred its investment in our Group to BOCIFP in a share-swap transaction during the Reorganization |
| "Broad Street" | Broad Street (Cayman) Investment Center LP, an exempted limited partnership registered in the Cayman Islands. Its general partner is Broad Street (Cayman) GP Limited, a wholly-owned subsidiary of The Goldman Sachs Group, Inc., a company listed on the New York Stock Exchange (ticker symbol: GS). Its limited partner is Shanghai Broad Street Investment Center, whose limited partner is Broad Street (Beijing) 2011 Investment Center (Limited Partnership), an investment fund managed and controlled by affiliates of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc. is an Independent Third Party |
| "Business Day" | a day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business |
| "BVI" | the British Virgin Islands |
| "Capitalization Issue" | the issue of a total of 5,765,760,980 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company as described in "Appendix IV — Statutory and General Information" to this prospectus |
| "Cayman" | the Cayman Islands |
| "Cayman Companies Law" or "Companies Law" | the Companies Law (2013 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "CCASS Clearing Participant" | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant |

| | |
|---|---|
| "CCASS Custodian Participant" | a person admitted to participate in CCASS as a custodian participant |
| "CCASS Investor Participant" | a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation |
| "CCASS Participant" | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| "China" or "PRC" | the People's Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau and Taiwan |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as the same may be amended, supplemented or otherwise modified from time to time |
| "Companies (Winding up and Miscellaneous Provisions) Ordinance" | the Companies (Winding up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time |
| "Company," "our Company," "Shengmu," "Group," "our Group," "we" or "us" | China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on December 11, 2013 and except where the context indicated otherwise (i) our subsidiaries and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors |
| "connected person(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Controlling Shareholder(s)" | has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, refers to our Ultimate Controlling Shareholders and World Shining through which they hold equity interest in our Company |
| "Credence Global" | Credence Global Investments Limited, a company incorporated under BVI laws on November 15, 2013, which became a wholly-owned subsidiary of our Group as a result of the Reorganization |
| "CSRC" | China Securities Regulatory Commission (中國證券監督管理委員會) |
| "Director(s)" | the director(s) of our Company or any one of them |

| | |
|---|---|
| "Elite Noble" | Elite Noble Investments Limited, a company incorporated under BVI laws on January 2, 2014, which became a wholly-owned subsidiary of our Company as a result of the Reorganization |
| "Financial Assistance Framework Agreement" | the financial assistance framework agreement dated June 25, 2014, entered into among Shengmu Pangu, Shengmu Xiwang and Shengmu Holding in relation to the provision of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Pangu and Shengmu Xiwang — Financial Assistance" |
| "Flourish Treasure" | Flourish Treasure Holdings Limited, a company incorporated under the Hong Kong laws on December 3, 2013 and wholly owned by Credence Global; Flourish Treasure became an indirectly wholly-owned subsidiary of our Company as a result of the Reorganization |
| "Forage Supply Framework Agreement" | the forage supply framework agreement dated June 25, 2014, entered into between Shengmu Holding and Shengmu Forage which sets out certain specific terms for the purchase of forage by our Group from Shengmu Forage and its subsidiaries for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Forage — Purchase of Forage" |
| "Fortune Globe" | Fortune Globe Limited, a company incorporated under BVI laws on January 8, 2014 and wholly owned by Mengniu Dairy; Fortune Globe became a wholly-owned subsidiary of our Company as a result of the Reorganization |

| | |
|---|---|
| "Framework Agreement for Sale and Purchase of Cows" | the framework agreement for sale and purchase of cows dated June 25, 2014, entered into among Shengmu Pangu, Shengmu Xiwang and Shengmu Holding in relation to the sale and purchase of cows between our Group (excluding Shengmu Pangu and Shengmu Xiwang) and Shengmu Pangu and Shengmu Xiwang for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Pangu and Shengmu Xiwang — Sale and Purchase of Cows" |
| "Global Offering" | the Hong Kong Public Offering and the International Offering |
| "Goldman Sachs" | collectively, Saint Investment (Mauritius), Broad Street, Goldman Sachs (Beijing) and/or their respective shareholders or partners, as the context indicates; Goldman Sachs is an Independent Third Party |
| "Goldman Sachs (Beijing)" | Beijing Goldman Sachs Investment Center (Limited Partnership) (北京高盛投資中心(有限合夥)), a limited partnership organized under the PRC laws on September 15, 2011, whose general partner is Broad Street (Beijing) Investment Management Center (Limited Partnership) (北京寬街博華投資管理中心(有限合夥)) and limited partner is Broad Street (Beijing) 2011 Investment Center (Limited Partnership) (北京寬街博華貳零壹壹投資中心(有限合夥)) |
| "Greater Honour" | Greater Honour International Limited, a company incorporated under BVI laws on January 3, 2014 and wholly owned by Mr. JIANG Jinzhi (蔣錦志), our Shareholder |
| "Greenbelt Global" | Greenbelt Global Limited, a company incorporated under BVI laws on December 6, 2013 and owned as to 99.4% by The Baring Asia Private Equity Fund V, L.P.; Greenbelt Global is an equity investor in our Group |
| "GREEN Application Form(s)" | the application form(s) to be completed by the **HK eIPO White Form** Service Provider |
| "HK$" or "Hong Kong dollars" | Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong |
| "HK eIPO White Form" | the application for Hong Kong Public Offer Shares to be issued in the applicant's own name by submitting application online through the designated website of **HK eIPO White Form** at *www.hkeipo.hk* |

| | |
|---|---|
| "HK eIPO White Form Service Provider" | the **HK eIPO White Form service provider** designated by our Company, as specified on the designated website of the **HK eIPO White Form** at *www.hkeipo.hk* |
| "HKFRS" | Hong Kong Financial Reporting Standards |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "HKSCC Nominees" | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Public Offer Shares" | the Shares offered for subscription pursuant to the Hong Kong Public Offering (subject to adjustment as described in "Structure and Conditions of the Global Offering") |
| "Hong Kong Public Offering" | the offer by our Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong as described in "Structure and Conditions of the Global Offering" at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto |
| "Hong Kong Share Registrar" | Tricor Investor Services Limited, the Hong Kong share registrar of our Company |
| "Hong Kong Underwriter(s)" | the underwriter(s) of the Hong Kong Public Offering named in "Underwriting — Hong Kong Underwriters" of this prospectus |
| "Hong Kong Underwriting Agreement" | the conditional Hong Kong underwriting agreement dated June 27, 2014 relating to the Hong Kong Public Offering entered into by, among others, our Company, the Joint Global Coordinators and the Hong Kong Underwriters |
| "Horizon King" | Horizon King Investments Limited, a company limited by shares established under the Hong Kong laws on November 26, 2013 and wholly owned by Elite Noble; Horizon King became an indirectly wholly-owned subsidiary of our Company as a result of the Reorganization |
| "IFRS" | International Financial Reporting Standards |

| | |
|---|---|
| "IMU-Shengmu Dairy" | Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司), a company with limited liability established under the laws of the PRC on July 5, 2011, owned as to 70% by Shengmu Holding and as to 30% by Independent Third Parties |
| "Independent Third Party(ies)" | an entity or person who is not a connected person within the meaning ascribed under the Listing Rules |
| "Initial Controlling Shareholders" | Mr. YAO Tongshan (姚同山), Mr. WANG Fuzhu (王福柱), Ms. SHI Jianhong (史建宏), Mr. WANG Zhenxi (王振喜), Ms. YANG Yaping (楊亞萍), Ms. YANG Yali (楊亞利) (sister of Ms. YANG Yaping (楊亞萍)), Mr. LU Shunyi (蘆順義), Ms. GUO Yunfeng (郭運鳳), Mr. YUN Jindong (雲金東), Ms. GAO Lingfeng (高凌鳳), Mr. ZHANG Junke (張俊科) and Mr. WANG Zhen (王鎮) (formerly known as WANG Yanjin (王燕京)) |
| "Inner Mongolia" | the Inner Mongolia Autonomous Region of the PRC |
| "International Offer Shares" | the 400,320,000 new Shares initially being offered by our Company for subscription at the Offer Price under the International Offering (subject to adjustment as described in "Structure and Conditions of the Global Offering") together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option |
| "International Offering" | the conditional placing by the International Underwriters of the International Offer Shares outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S and to QIBs in the United States for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in the section headed "Structure and Conditions of the Global Offering" on and subject to the terms and conditions stated herein and in the International Underwriting Agreement |
| "International Underwriters" | the group of underwriters led by the Joint Global Coordinators, who are expected to enter into the International Underwriting Agreement |
| "International Underwriting Agreement" | the conditional placing and purchase agreement relating to the International Offering and expected to be entered into by, among others, the Company and the Joint Global Coordinators on behalf of the International Underwriters on or about the Price Determination Date |

| | |
|---|---|
| "Jinqiao Investment" | Inner Mongolia Jinqiao Investment Fund Management Center (Limited Partnership) (內蒙古金橋創業投資基金管理中心(有限合夥)), a limited partnership organized under the PRC laws on August 17, 2010, and an Independent Third Party |
| "Joint Bookrunners" and "Joint Lead Managers" | BOCI Asia Limited, Goldman Sachs (Asia) L.L.C., ABCI Capital Limited (in the capacity as a Joint Bookrunner only), ABCI Securities Company Limited (in the capacity as a Joint Lead Manager only), BOCOM International Securities Limited and China International Capital Corporation Hong Kong Securities Limited |
| "Joint Global Coordinators" and "Joint Sponsors" | BOCI Asia Limited and Goldman Sachs (Asia) L.L.C. |
| "Latest Practicable Date" | June 23, 2014, being the latest practicable date prior to the publication of this prospectus for the purpose of ascertaining certain information contained in this prospectus |
| "Listing" | listing of the Shares on the Main Board of the Stock Exchange |
| "Listing Date" | the date expected to be on or about July 15, 2014 on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time) |
| "Long-term Strategic Cooperation Agreement" | the long-term strategic cooperation agreement dated March 26, 2014 entered into between Shengmu Holding and Shengmu Forage, which was subsequently supplemented by a supplementary long-term strategic cooperation agreement dated June 25, 2014, the details of which are set out in the section headed "Business — Suppliers and Procurement — Organic Feed — Shengmu Forage" |
| "King Capital" | King Capital Holdings Limited, a company incorporated under BVI laws on August 18, 2003 and wholly owned by Mr. HAN Jingyuan (韓敬遠), a private investor and an Independent Third Party; King Capital is an equity investor in our Group |
| "Memorandum of Association" or "Memorandum" | the amended and restated memorandum of our Company, as adopted on June 18, 2014, a summary of certain provisions of which is set out in Appendix III to this prospectus, and as amended from time to time |

| | |
|---|---|
| "Mengniu Dairy" | China Mengniu Dairy Company Limited, a company incorporated under Cayman laws on February 16, 2004, whose shares are listed and traded on the Stock Exchange (stock code: 2319); Mengniu Dairy transferred its investment in our Group to Start Great in a share-swap transaction during the Reorganization |
| "Mengniu Group" | Mengniu Dairy and/or its subsidiaries, as the context indicates; Mengniu Group is an Independent Third Party |
| "Mengniu Investment" | China Mengniu Investment Company Limited (中國蒙牛投資有限公司), a company incorporated under the Hong Kong laws on April 16, 2011 and wholly owned by Fortune Globe; Mengniu Investment became an indirectly wholly-owned subsidiary of our Company as a result of the Reorganization |
| "Milk Supply Framework Agreement" | the milk supply framework agreement dated June 25, 2014, entered into among Shengmu Pangu, Shengmu Xiwang and Shengmu Holding, in relation to the purchase of organic raw milk by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Pangu and Shengmu Xiwang — Purchase of Organic Raw Milk" |
| "MOFCOM" | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| "NDRC" | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |
| "Offer Price" | the final Hong Kong dollar price per Offer Share (before brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which Shares are to be subscribed or purchased pursuant to the Global Offering, which will be not more than HK$2.95 and is expected to be not less than HK$2.39, to be determined as described in the section headed "Structure and Conditions of the Global Offering — Pricing of the Global Offering" |
| "Offer Shares" | the Hong Kong Public Offer Shares and the International Offer Shares |

| | |
|---|---|
| "Over-allotment Option" | the option to be granted by our Company to the International Underwriters under the International Underwriting Agreement pursuant to which our Company may be required by the Joint Global Coordinators (on behalf of the International Underwriters), to allot and issue up to 66,720,000 additional new Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any |
| "Over-allotment Shares" | up to 66,720,000 Shares which the Company may be required to issue at the Offer Price pursuant to the Over-allotment Option |
| "Pangu Group" | Inner Mongolia Pangu Group Co., Ltd. (內蒙古盤古集團有限責任公司), a company with limited liability established under the laws of the PRC on June 25, 2001, and held as to 33.3% by Ms. QIN Yuan (秦源), wife of Mr. WU Jianye (武建鄴), as to 33.3% by Mr. QIN Guoqing (秦國慶), father-in-law of Mr. WU Jianye, and as to 33.3% by Inner Mongolia Yuangu Biotechnology Co., Ltd. (內蒙古遠古生物工程有限公司), respectively, and a connected person of our Group |
| "PBOC" | the People's Bank of China (中國人民銀行), the central bank of the PRC |
| "Pre-IPO Share Option(s)" | Options granted pursuant to the Pre-IPO Share Option Scheme |
| "Pre-IPO Share Option Scheme" | the Pre-IPO Share Option Scheme adopted by the Company with effect from April 30, 2014, the principal terms of which are summarized in "Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme" |
| "Price Determination Date" | the date, expected to be on or about July 7, 2014 (Hong Kong time), when the Offer Price is determined and, in any event, no later than July 11, 2014 |
| "QIBs" | qualified institutional buyers within the meaning of Rule 144A |
| "Regulation S" | Regulation S under the U.S. Securities Act |
| "related parties" | has the meaning as set out in the paragraph headed "Related parties" under note 2.4 to the accountants' report set out in Appendix I to this prospectus |

| | |
|---|---|
| "Reorganization" | the reorganization of our Group in anticipation of the Listing, the details of which are set out in the section headed "History, Reorganization and Group Structure" in this prospectus |
| "RMB" or "Renminbi" | the lawful currency of the PRC |
| "Rule 144A" | Rule 144A under the U.S. Securities Act |
| "SAFE" | the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |
| "Saint Investment" | Saint Investment HK Limited, a company incorporated under the Hong Kong laws on December 17, 2013 and wholly owned by Saint Investment (Cayman); Saint Investment became an indirectly wholly-owned subsidiary of our Company as a result of the Reorganization |
| "Saint Investment (Cayman)" | Saint Investment (Cayman) Limited, a company incorporated under Cayman laws on December 16, 2013, which became a wholly-owned subsidiary of our Company as a result of the Reorganization |
| "Saint Investment (Mauritius)" | Saint Investment Holdings, a GBL1 (Global Business License Category 1) entity registered in Mauritius. Saint Investment (Mauritius)'s capital derives from funds and monies managed and/or controlled by subsidiaries of The Goldman Sachs Group, Inc., an Independent Third Party |
| "SAT" | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| "Sequoia" | collectively, Sequoia Capital and/or its shareholders, as the context indicates; Sequoia is an Independent Third Party |
| "Sequoia Capital" | Sequoia Capital 2010 CGF Holdco, Ltd., a company incorporated under Cayman laws on April 30, 2010 and owned as to 85.53% by Sequoia Capital China Growth 2010 Fund, L.P., as to 7.37% by Sequoia Capital China Growth 2010 Principals Fund, L.P. and as to 7.10% by Sequoia Capital China Growth 2010 Partners Fund, L.P.; Sequoia Capital is an equity investor in our Group |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |

| | |
|---|---|
| "Shanghai Saihan" | Saihan (Shanghai) Industrial Co., Ltd. (賽罕(上海)實業有限公司), a company with limited liability established under the laws of the PRC on September 24, 2012, which is owned as to 41.67% by Shengmu Dairy and as to 58.33% by Independent Third Parties |
| "Share(s)" | ordinary share(s) of par value HK$0.00001 each in the issued share capital of our Company |
| "Shareholder(s)" | holder(s) of our Shares |
| "Share Option Scheme" | the share option scheme conditionally adopted by our Company on June 18, 2014, the principal terms of which are summarized in "Appendix IV — Statutory and General Information — E. Share Option Scheme" |
| "Shengmu Agriculture" | Inner Mongolia Shengmu Agriculture Technology Co., Ltd. (內蒙古聖牧農牧業科技有限公司), a company with limited liability established under the laws of the PRC on March 20, 2012 and an indirectly wholly-owned subsidiary of our Company |
| "Shengmu Beidou" | Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司), a company with limited liability established under the laws of the PRC on September 9, 2013, owned as to 65% by Shengmu Holding and 35% by YANG Bin (楊斌), who is the director of Shengmu Dairy and Shengmu Agriculture, respectively |
| "Shengmu Dairy" | Inner Mongolia Shengmu High-tech Dairy Co., Ltd. (內蒙古聖牧高科奶業有限公司), a company with limited liability established under the laws of the PRC on July 29, 2011 and an indirectly wholly-owned subsidiary of our Company |
| "Shengmu Farming" | Bayannur Shengmu High-tech Farming Co., Ltd. (巴彥淖爾市聖牧高科牧業有限公司), a company with limited liability established under the laws of the PRC on January 21, 2010 and an indirectly wholly-owned subsidiary of our Company |

| | |
|---|---|
| "Shengmu Forage" | Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司), a company with limited liability established under the laws of the PRC on April 28, 2010; accounted for as our associate, which is owned as to 8.60% by Shengmu Holding, as to 33.82% by certain of our Ultimate Controlling Shareholders and their associates (including Mr. WU Jianye (武建鄴) (as to 4.68%) and Ms. GAO Lingfeng (高凌鳳) (as to 9.75%)), as to 2.96% by CHEN Qingjun (陳慶軍), a connected person, and as to 54.62% by Independent Third Parties; including its subsidiary/(ies) from time to time to the extent applicable |
| "Shengmu Hateng" | Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司), a company with limited liability established under the laws of the PRC on April 16, 2013, and owned as to 65% by Shengmu Holding and 35% by CHEN Qingjun (陳慶軍), respectively |
| "Shengmu Holding" | Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司), a company with limited liability established under the laws of the PRC on October 18, 2009, which became our indirect wholly-owned subsidiary as a result of the Reorganization |
| "Shengmu Liuhe" | Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司), a company with limited liability established under the laws of the PRC on June 26, 2013 and owned as to 65% by Shengmu Holding and 35% by LI Yundong (李運動), a member of our senior management, respectively |
| "Shengmu Pangu" | Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司), a company with limited liability established under the laws of the PRC on June 15, 2012 and owned as to 55% by Shengmu Holding and 45% by Mr. WU Jianye (武建鄴), one of our Ultimate Controlling Shareholders, respectively, and a connected person to our Company |
| "Shengmu Qixing" | Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司), a company with limited liability established under the laws of the PRC on November 28, 2013, and owned as to 65% by Shengmu Holding and 35% by LI Ruijun (李瑞軍), respectively |

| | |
|---|---|
| "Shengmu Sanli" | Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司), a company with limited liability established under the laws of the PRC on April 2, 2014, owned as to 65% by Shengmu Holding and 35% by REN Junming (任俊明), respectively |
| "Shengmu Shajin" | Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司), a company with limited liability established under the laws of the PRC on May 26, 2014 and owned as to 65% by Shengmu Holding and 35% by HAO Kaiyun (郝凱雲) respectively |
| "Shengmu Taohai" | Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司), a company with limited liability established under the laws of the PRC on January 29, 2013 and owned as to 55% by Shengmu Holding and 45% by LI Yongqiang (李永強), respectively |
| "Shengmu Weiye" | Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司), a company with limited liability established under the laws of the PRC on March 31, 2014, owned as to 65% by Shengmu Holding and 35% by HOU Liubin (侯留斌), respectively |
| "Shengmu Wuxing" | Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司), a company with limited liability established under the laws of the PRC on June 20, 2013 and owned as to 65% by Shengmu Holding and 35% by WANG Qiang (王強), who is the director of Shengmu Wuxing, respectively |
| "Shengmu Xinhe" | Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司), a company with limited liability established under the laws of the PRC on June 7, 2013 and owned as to 65% by Shengmu Holding and 35% by WANG Lixin (汪立新), respectively |
| "Shengmu Xintai" | Otog Shengmu Xintai Farming Co., Ltd. (鄂托克旗聖牧欣泰牧業有限公司), a company with limited liability established under the laws of the PRC on August 24, 2012, and owned as to 55% by Shengmu Holding and 45% by WANG Jinliang (王金良), respectively |
| "Shengmu Xiwang" | Bayannur Shengmu Xiwang Farming Co., Ltd. (巴彥淖爾市聖牧希望牧業有限責任公司), a company with limited liability established under the laws of the PRC on August 23, 2013 and owned as to 65% by Shengmu Holding, 17.5% by WANG Zhen (王鎮), one of our Ultimate Controlling Shareholders, and 17.5% by SUN Xiyao (孫喜耀), respectively |

| | |
|---|---|
| "Shengmu Zhaofeng" | Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司), a company with limited liability established under the laws of the PRC on May 5, 2014 and owned as to 65% by Shengmu Holding and 35% by GUO Yongfeng (郭永豐), respectively |
| "Shengmu Zhenghe" | Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司), a company with limited liability established under the laws of the PRC on August 23, 2013 and owned as to 65% by Shengmu Holding and 35% by CHANG Zhiba (常志拔), respectively |
| "Shining Investment" | Shining Investment Industry Limited, a company incorporated under the Hong Kong laws on January 20, 2014 and wholly owned by our Company |
| "Stabilizing Manager" | Goldman Sachs (Asia) L.L.C. |
| "Start Great" | Start Great Holdings Limited, a company incorporated under BVI laws on February 5, 2014 and wholly owned by Mengniu Dairy; Start Great became an equity investor in our Group as a result of a share-swap transaction during the Reorganization |
| "State Council" | the State Council of the PRC (中華人民共和國國務院) |
| "Stock Exchange" or "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiary" | has the meaning ascribed to it in the Listing Rules |
| "Tianjin Mengmu" | Tianjin Mengmu Food Co., Ltd. (天津蒙牧食品銷售有限公司), a company with limited liability established under the laws of the PRC on September 10, 2012, which is owned as to 30% by Shengmu Dairy and as to 70% by Independent Third Parties |
| "Track Record Period" | the period consisting of the three years ended December 31, 2013 |
| "Ultimate Controlling Shareholders" | Mr. YAO Tongshan (姚同山), Mr. WANG Fuzhu (王福柱), Ms. SHI Jianhong (史建宏), Mr. WANG Zhenxi (王振喜), Ms. YANG Yaping (楊亞萍), Ms. YANG Yali (楊亞利) (sister of Ms. YANG Yaping (楊亞萍)), Mr. LU Shunyi (蘆順義), Ms. GUO Yunfeng (郭運鳳), Mr. YUN Jindong (雲金東), Ms. GAO Lingfeng (高凌鳳), Mr. ZHANG Junke (張俊科), Mr. WANG Zhen (王鎮) (formerly known as WANG Yanjin (王燕京)), Mr. CUI Ruicheng (崔瑞成) and Mr. WU Jianye (武建鄴) |

| | |
|---|---|
| "Underwriters" | the Hong Kong Underwriters and the International Underwriters |
| "Underwriting Agreements" | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| "United States" or "U.S." | the United States, as defined in Regulation S |
| "U.S. Person" | has the meaning given to it in Regulation S |
| "U.S. Securities Act" | the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| "US$" or "U.S. dollars" | United States dollars, the lawful currency of the United States |
| "Want Want" | Want Want China Holdings Limited (中國旺旺控股有限公司), a company incorporated under Cayman laws on October 3, 2007, whose shares are listed and traded on the Stock Exchange (stock code: 151), an Independent Third Party, and/or any of its subsidiaries, as the context indicates |
| "WHITE Application Form(s)" | the application form(s) for use by the public who require such Hong Kong Public Offer Shares to be issued in the applicants' own names |
| "World Shining" | World Shining Investment Limited, a company incorporated under BVI laws on December 11, 2013 and owned as to 87.44% by 14 persons acting in concert as our Ultimate Controlling Shareholders and as to 12.56% by seven other individual shareholders |
| "YELLOW Application Form(s)" | the application form(s) for use by the public who require such Hong Kong Public Offer Shares to be deposited directly in CCASS |
| "Yili Group" | Inner Mongolia Yili Industrial Group Company Limited (內蒙古伊利實業集團股份有限公司), a company established under the PRC laws on June 14, 1993, whose shares are listed and traded on the Shanghai Stock Exchange (stock code: 600887), an Independent Third Party, and/or any of its subsidiaries, as the context indicates |
| "%" | per cent. |

*Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-Allotment Option.*

*All times refer to Hong Kong time.*

*If there is any inconsistency between the Chinese name of the PRC laws and regulations or PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail.*

*Unless otherwise specified, amounts denominated in RMB and US$ have been converted into Hong Kong dollars in this prospectus for the purpose of illustration only and at the respective rates set forth below:*

| | | |
|---|---|---|
| *RMB0.79* | *:* | *HK$1* |
| *US$1* | *:* | *HK$7.76* |

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

*Unless otherwise specified, references to years in this prospectus are to calendar years.*

*Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only.*

*This glossary contains certain technical terms used in this prospectus in connection with our Company. Such terms and their meanings may not correspond to standard industry definitions or usage.*

| | |
|---|---|
| "aerobic plate count" | the count of microbes and bacteria in raw milk, an important safety indicator of raw milk |
| "alfalfa" | a perennial flowering plant cultivated as an important forage crop in many countries around the world |
| "average annual milk yield" | The annual milk production volume divided by monthly average number of cows that are producing milk |
| "brucellosis" | brucellosis in cattle is a highly contagious disease that is spread by infected material at time of calving or abortion which can result in infertility, morbidity and reduced milk yield |
| "bull" | a male bovine animal |
| "CAGR" | compound annual growth rate |
| "calf" or "calves" | a young female cow up to six months of age from birth |
| "COFCC" | China Organic Food Certification Center (中綠華夏有機食品認證中心), an organic certification and management organization based in the PRC, which is the first organic food certification organization approved by Certification and Accreditation Administration of the PRC (中國國家認證認可監督管理委員會) |
| "concentrated feed" | feed for dairy cows that are made by blending various crops, including corn, soybean meals and cottonseed meals |
| "dairy cows" | calves, heifers and milkable cows |
| "DHA" | 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 |
| "dry cow(s)" | milkable cow(s) that are in the dry period of a lactation cycle, during which they do not produce any raw milk |

| | |
|---|---|
| "ECOCERT S.A." | an organic certification organization based in Europe, which primarily certifies food and food products; ECOCERT S.A. conducts inspections in many countries outside of Europe, making it one of the largest organic certification organizations in the world |
| "E.U." | the European Union |
| "forage" | plant material eaten by grazing livestock |
| "free stall" | a type of facility to house dairy cows that provides the animals with a clean, dry, comfortable resting area and easy access to food and water. In free-stall farms, cows are not restrained and are free to enter, lie down, rise and leave the barn as they desire |
| "fructose" | a simple sugar that occurs naturally in foods. It gives fruits their sweet taste |
| "GDP" | gross domestic product |
| "heifer(s)" | a female cow older than six months that has not given birth to a calf or bull |
| "Holsteins" | a breed of dairy cows having high milk yield |
| "husbandry" | the management and practice of farming, breeding and raising livestock with the application of scientific principles, especially to animal breeding |
| "liquid milk" | drinking milk, including white milk, flavored milk drinks and yogurt |
| "mastitis" | inflammation of the mammary gland that, when infected, can significantly reduce milk production and, in some circumstances, fertility, as well as delay the onset of heat cycles in cattle |
| "milkable cow(s)" | female bovine animal(s) that have given birth to a calf, including dry cows and cows that are producing milk |
| "mu" | an area unit used in China, equals to approximately 667 square meters |
| "silage" | succulent, moist feed made by storing a green crop in a silo; the crop most used for silage is corn; others are sorghum, sunflowers, legumes, and grass; corn silage is old corn that has been fermented; it is used to feed livestock or to make biofuel |

| | |
|---|---|
| "somatic cell count" | an indicator of the quality of milk |
| "tonne" | metric ton, representing 1,000 kilograms |
| "UHT" | ultra high temperature |

*We have included in this prospectus 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.*

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. Forward-looking statements can be identified by words such as "may," "will," "should," "would," "could," "believe," "expect," "anticipate," "intend," "plan," "continue," "seek," "estimate" or the negative of these terms or other similar terms. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political economic, business, competitive, market and regulatory conditions and the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- uncertainties relating to our ability to expand our organic dairy farms and distribution network;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- uncertainties relating to our ability to comply with all relevant environmental, health and safety laws and regulations;
- changes in our planned use of proceeds;
- uncertainties relating to our future prospects, business development, results of operations and financial condition;

- changes in our future capital needs and capital expenditure plans;
- the actions and developments of our competitors; and
- fluctuations in general economic and business conditions in China.

Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

*You should carefully read and consider all of the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result you may lose part or all of your investment.*

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorized as (i) risks relating to our business; (ii) risks relating to the PRC dairy industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering.

## RISKS RELATING TO OUR BUSINESS

### We have a limited operating history, which may make it difficult for evaluating the viability and sustainability of our business and growth.

We began operations in 2010 as a raw milk producer, and expanded to offering liquid milk products made from our organic raw milk in June 2012. Accordingly, we have a limited operating history for evaluating the viability and sustainability of our business and growth. Certain risks associated with companies with relatively short operating histories include, among others, the ability to effectively manage a rapidly growing business, diversify revenue sources, respond effectively to regulatory changes and raise sufficient capital for the expansion and ongoing business operations.

We intend to expand into additional geographic markets in China not currently covered by our distribution network. We also intend to broaden our liquid milk product portfolio by adding yogurt products in the third quarter of 2014 and milk beverages products by 2016. As we expand our business to new regions or with new product lines, we may encounter regulatory, personnel, technological and other difficulties that may increase our expenses or delay or disrupt our plan to expand our operations and our distribution network. In addition, our expansion into the downstream business of organic liquid milk products during the Track Record Period has also changed our risk profile. The intensive competition in the liquid milk products market may result in downward pricing pressure, thereby negatively affecting our profitability. Our results of operations may also be more volatile due to the rapidly changing market and industry conditions. There is also a substantial risk that any new markets, to which we introduce our organic liquid milk products and/or new products, may not accept, or be as receptive to, our products as our success depends on our ability to anticipate the tastes and dietary habits of consumers and market our products in ways that would appeal to the consumers in these new markets. This may affect our relationship with consumers and could have a material adverse effect on our business.

### We may be unable to adequately manage our future expansion of operations and growth or achieve our growth plan within our desired timeframe or at all.

We grew rapidly during the Track Record Period. Our revenue totalled RMB389.4 million, RMB700.8 million, and RMB1,143.7 million, respectively, in 2011, 2012 and 2013, representing a CAGR of 71.4% over the three years. Our future growth depends on our ability to expand our operations and place our products in different geographic markets in China. Our expansion plans are subject to business, industry, economic, and competitive contingencies and uncertainties, including the occurrence of labor disputes, economic downturns and implementation of applicable laws and regulations, any of which could result in a decline in our production efficiency, the sales volume of our products and delay of the introduction of new products. In the occurrence of any events that could have a material adverse effect on our business, we may not be able to continue our growth, expand within our existing markets, enter into additional geographic markets, expand our feed resources, expand our dairy farms, herd of dairy cows, processing facilities and production capacity of current products, or introduce new product lines.

Furthermore, expanding our dairy farms and processing facilities requires construction lead time and significant investment. Our managerial, operational and financial resources may be strained in the execution of our plans for expansion. We may need to integrate additional operations for the manufacturing of different product lines, and our management may also find it challenging to procure and allocate sufficient resources to support our expansion, including raw materials, adequate production, warehousing and transportation infrastructure, and increased distribution and marketing channels, for which we may need to obtain third-party financing. In addition, expanding our farming and processing capacities may also require the corresponding expansion of our distribution network. We cannot assure you that our personnel, systems, procedures and control measures will be adequate to support our future growth, or that we will be able to find adequate third-party financing in a timely manner and on acceptable terms, or at all. As a result, we may not be able to successfully expand our production capacity and implement our expansion plans in an effective manner within our desired timeframe, or at all. Delays in the growth of our operations could result in loss of revenue, increase in financing costs, restrain on working capital or failure to meet profit and earnings projections, any of which could adversely affect our cash flow, business and results of operations.

**We rely on a major customer for the sale of our raw milk, which may adversely affect our operating results if it terminates its relationship with us or reduces its purchases.**

Since we began our operations, a substantial portion of our raw milk produced have been sold to Mengniu Group, which accounted for an aggregate of 87.4%, 94.6% and 58.3% of our total revenue in 2011, 2012 and 2013, respectively. We also sold raw milk to Mengniu Group through two individuals in 2011, which accounted for 12.0% of our total revenue for the same period. We expect that sales to Mengniu Group will continue to represent a significant portion of our sales of raw milk in the foreseeable future. We entered into a framework cooperation agreement with Mengniu Group in March 2010, pursuant to which Mengniu Group agreed to lease dairy-farming facilities and equipment and dairy farms to us and purchase all of our raw milk outputs from the leased dairy farms that meet its quality standards on a priority basis.

If for any reason Mengniu Group breaches its contractual obligations to purchase our raw milk, we may be unable to find an alternative buyer for our raw milk within a reasonable period of time, which could result in a significant decrease in our sales volume and could materially and adversely affect our results of operations and financial condition. If Mengniu Group were to become unwilling or unable to make payments, we may be unable to recover significant amounts of trade receivables and our cash flows and financial position could be adversely affected. Therefore, we are indirectly subject to operating risks of Mengniu Group to the extent that those risks could cause it to breach its contractual obligations with us or discontinue purchasing our raw milk.

Mengniu Group sells branded organic dairy products made from our raw milk and we sell organic liquid milk products under our "Shengmu 圣牧" brand, and therefore, it is also our competitor in the liquid milk product markets. As we expand our liquid milk business, we expect competition with Mengniu Group, as well as our other organic raw milk industrial customers, to intensify in terms of both their organic liquid milk products and premium non-organic liquid milk products.

In addition, Mengniu Group is also an equity investor in our Group. Start Great, a subsidiary of Mengniu Dairy, will beneficially own 4.25% of our Shares immediately upon completion of the Global Offering, assuming that none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised. For details of its investment in our Group, see "History, Reorganization and Group Structure — History and Development — Early Investors and Shareholders — Investment by Mengniu Group." Any material disposition by Mengniu Dairy of the Shares held by it may adversely affect its relationship with us.

**We do not have direct control over our associate, Shengmu Forage, our primary organic feed supplier, and certain operating risks applicable to us also apply to Shengmu Forage.**

We currently source our organic forages substantially from and are the exclusive customer of our associate, Shengmu Forage. Pursuant to the Long-term Strategic Cooperation agreement between us and Shengmu Forage, Shengmu Forage has undertaken to allow our supervision over its forage growing operations under the relevant organic standards; however, we do not directly manage the day-to-day operations of Shengmu Forage. Certain operating risks applicable to us also apply to Shengmu Forage, and we may not be able to effectively respond to the occurrence of any operating risks to Shengmu Forage by deploying our own management or financial resources. If Shengmu Forage breaches the long-term exclusive supply arrangements with us due to the occurrence of any operating risks or otherwise, we may be unable to find alternative third-party suppliers of organic feed other than Shengmu Forage and obtain sufficient quantities of organic feed in a timely manner and on acceptable terms, or at all, which in turn could have a material adverse effect on our business, financial condition and results of operations.

**We may encounter difficulty in sustaining the operations of our organic dairy farms and the growing fields operated by Shengmu Forage if the water resources in the Ulan Buh desert were depleted or otherwise became unsuitable for organic dairy farming.**

Our organic dairy farms and the growing fields operated by our associate, Shengmu Forage, are located in the Ulan Buh desert, Inner Mongolia. The Ulan Buh desert is the product of alluviation of the upper reaches of the Yellow River, and the lateral seepage from the Yellow River provides the water resources suitable for organic dairy farming. The water is naturally clean because it is purified as it percolates through layers of rock, fine sand and gravel to form shallow underground water and desert lakes. If the water resources in the Ulan Buh desert were depleted due to exploitation or geological changes, or became unsuitable for organic dairy farming due to pollution from industrial activities, we may not be able to find alternative water resources in the Ulan Buh desert in a timely and cost-effective manner, or at all, which in turn may materially and adversely affect our business operations and growth prospects.

**Our results of operations are subject to biological asset fair value adjustments, which can be highly volatile and are subject to a number of assumptions.**

Our historical results of operations, particularly our operating profit and profit of the year, have been affected by biological asset fair value adjustments on our dairy cows. We expect that our results of operations will continue to be affected by these biological asset fair value adjustments. For details on the biological asset fair value adjustments, see "Financial Information — Factors Affecting Our Results of Operations and Financial Condition — Change in fair value of biological assets," "— Critical Accounting Policies and Estimates," "— Principal Statements of Profit or Loss and Other Comprehensive Income Components — Cost of Sales and Gross Margin" and "— Gain Arising from Changes in Fair Value Less Costs to Sell of Biological Assets."

The fair value of our biological assets at the end of each reporting period indicated above was determined by independent professional valuers. In applying these valuation methods, the independent professional valuers have relied on a number of assumptions. The assumptions used for determining the fair value of our milkable cows as of each valuation date include:

- an average raw milk price of RMB3.88 per kilogram, RMB4.50 per kilogram and RMB5.00 per kilogram as of December 31, 2011, 2012 and 2013, respectively;

- feed costs for dairy farming of RMB2.22 per kilogram, RMB2.48 per kilogram and RMB2.49 per kilogram as of December 31, 2011, 2012 and 2013, respectively;

- culling rate for dairy cows of 20.5%, 20.0% and 20.5% as of December 31, 2011, 2012 and 2013, respectively;

- six lactation periods for dairy cows throughout the Track Record Period;

- milk yield per head per lactation period of six to eight tonnes, six to eight tonnes and seven to nine tonnes as of December 31, 2011, 2012 and 2013, respectively; and

- discount rate for dairy farming of 15.34%, 14.00% and 14.50% as of December 31, 2011, 2012 and 2013, respectively.

The assumptions used for the fair value of our calves and heifers include:

- per head market price for 14 months old heifers of RMB16,195, RMB17,306 and RMB18,315 as of December 31, 2011, 2012 and 2013, respectively.

The fair value of the biological assets could be affected by, among others, the accuracy of those assumptions, as well as the quality of our herd and changes in the dairy industry. Therefore, the resulting adjustments can be highly volatile. These assumptions may be more favorable than the actual historical rates. In addition, while these assumptions as adopted in the valuation process have been in line with the actual results, we cannot assure you that there will be no significant deviation in the future. For details on the valuation and the application of various assumptions, see "Financial

Information — Valuation of Biological Assets." In particular, upward adjustments and gains so recognized do not generate any cash inflow for our operations. As a result, when evaluating our results of operations and profitability, you should consider our profits and margins without taking into account the effects of these biological asset fair value adjustments.

**Actual or perceived contamination in our products could result in reduced sales, product liability, damage to our reputation, and subject us to liability claims and regulatory action.**

Our results of operations and financial condition could be materially and adversely affected by product contamination or our association with any contamination incidents. During the Track Record Period, our products were not found to have contaminants or reported to be associated with any contamination incidents, and we were not subject to any product liability claims. However, we cannot assure you that contamination will not occur during the production or transportation of our products. Furthermore, the mere publication of information alleging that our products contain or have contained any contaminants, or adverse publicity about the quality of our products, could damage our reputation and have a material adverse effect on us, regardless of whether such publication or publicity has any factual basis.

As part of the raw milk sales process, when our raw milk is delivered to our customers, it undergoes standard quality and safety inspections. If our raw milk is found to be contaminated during the inspection process, we could be subject to sales returns or the delivery of our raw milk could be rejected, which could reduce our sales and damage our relationships with our customers. Following the delivery of our raw milk to our customers, our raw milk is used in our customers' downstream products. If those downstream products are contaminated, and if the contamination can ultimately be traced back to our raw milk, we could be subject to product liability claims by our customers and end consumers for damages, including without limitation, medical expenses, disability and wrongful death. In addition, the contamination of our products may result in product recalls, serious damage to our reputation and brand name and consumer confidence in our products as well as loss of revenues.

In addition to product liability claims, if our products are found to be contaminated, we may be subject to regulatory action. If we are found to be in violation of the Food Safety Law of the PRC (《中華人民共和國食品安全法》), we could be subject to penalties, including monetary fines, confiscation of equipment and/or the revocation of licenses needed to conduct our business, which could materially and adversely affect our results of operations and financial condition.

**Loss of or failure to obtain or renew certifications for organic dairy farming and liquid milk processing and forage growing could materially and adversely affect our business**.

We and Shengmu Forage have been granted certifications for organic dairy farming and liquid milk processing and forage growing from ECOCERT S.A. under the E.U. standards and/or COFCC under the PRC standards, as applicable, which permit us to use their labels on our liquid milk products as an indication of organic quality. In addition, Shengmu Forage is currently undergoing conversion periods under E.U. organic standards which is a pre-requisite for obtaining the relevant certification. For further details, see "Business — Permits, Approval and Product Certificates." We consider these certifications critical to our core business. These certifications are renewed annually. During the examination process for the application and renewal of these certifications, inspectors from

ECOCERT S.A. and/or COFCC will audit our farming and production facilities and processes as well as Shengmu Forage's plantation operations to ensure strict compliance with the respective organic standards, as applicable. We and Shengmu Forage may not be able to continue to pass such audits without incurrence of material expenses to maintain or upgrade the organic practices and procedures, or in a timely manner, or at all. If we or Shengmu Forage fails to obtain or renew such certifications in a timely manner or at all, our ability to market our products may be adversely affected and our sales volume may be reduced.

**The outbreak of any major diseases in our dairy farms or Shengmu Forage's growing fields could materially and adversely affect our business.**

Our business relies heavily on our dairy farming operations as well as the organic feed we source from the growing fields operated by Shengmu Forage. Major outbreaks of illness or disease on any of these premises could have a material adverse impact on our milk production capacity, quality and volume. Although we carry insurance against losses related to cow disease, and we may also be entitled to receive government compensation in the event of an outbreak of a disease eligible for such government compensation, we cannot assure you that these will be sufficient to cover all of our losses in the event of an outbreak. During the Track Record Period, we or Shengmu Forage did not experience any major outbreak of disease at our dairy farms or Shengmu Forage's growing fields. However, we cannot assure you that such incidents will not occur in the future. Any major outbreak of disease, such as foot and mouth disease as well as bovine tuberculosis (for our dairy cows), or any other serious disease at our dairy farms or Shengmu Forage's growing fields, may lead to disruption of our operations or a significant decline in our milk production volume, which could materially and adversely affect our results of operations and financial condition.

In addition, the dairy industry is highly sensitive to consumers' perception of the safety and quality of dairy products. Any major outbreak of illness or diseases among cows in China or other safety concerns of the dairy products in China could lead to a significant loss of consumer confidence in, and demand for, dairy products. Adverse publicity about such concerns, whether valid or not, may discourage consumers from purchasing dairy products. Therefore, any outbreak among dairy cows in China or elsewhere could negatively affect our business, results of operations and financial condition.

**Increases in feed prices and disruptions of our feed supply could adversely affect our business and results.**

We source organic feed primarily from our associate, Shengmu Forage, for the production of organic raw milk in our dairy farms located in Bayannur, Inner Mongolia, and non-organic feed from third-party farmers and producers for the production of premium non-organic raw milk at our dairy farms located in Hohhot, Inner Mongolia. For organic feed, we have entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage, pursuant to which Shengmu Forage has undertaken to continue to supply organic feed exclusively to us. In addition, we have entered into annual feed supply agreements with suppliers of non-organic feed. We did not experience any major disruptions or feed shortages during the Track Record Period. We plan to continuously improve our feed formulae for our dairy cows to receive better nutrition which will lead to an increase in our average feed costs and may negatively affect our profit margins if the improved feed formulae fail, or prove to be less effective than we expected, to increase our milk yield or enhance the nutrition contents of our raw milk and increase its sales price, and we are unable to pass such increased cost onto our customers. Our feed costs accounted for 78.4%, 76.3% and 78.4% of the cost of sales of our dairy farming business, in 2011, 2012 and 2013, respectively. We may be unable to find alternative third-party suppliers of organic feed other than Shengmu Forage and obtain sufficient quantities of organic feed on acceptable terms or at all in the future. We also may not be able to find substitute suppliers of non-organic feed in a timely manner and on acceptable terms, or at all. Any inability to procure sufficient quantities of feed or to pass on increased costs to our customers could have a material adverse effect on our business, results of operations and financial condition.

**Disruption of operations at our dairy farms and production facilities or Shengmu Forage's growing fields could materially and adversely affect our business.**

Our ability to efficiently produce dairy products is critical to our success. In particular, we rely entirely on our centralized production facilities operated by Shengmu Dairy for the production of liquid milk products, and in turn the production of our liquid milk products relies heavily on the outsourced feed and our dairy farming operations. Our ability to procure and process feed, manage our dairy farms, produce raw milk, process and deliver raw milk and produce and deliver organic liquid milk products to our customers are critical to our business. Damage or disruption to our dairy farms and production facilities or Shengmu Forage's growing fields can result from the following factors, among others:

- utility supply disruptions, terrorism, strikes or other *force majeure* events;
- forced closing or suspension of our dairy farms or production facilities or Shengmu Forage's growing fields;
- inclement weather conditions;
- major disease outbreaks at our dairy farms or Shengmu Forage's growing fields;
- pollution of underground water resources;
- failure to comply with applicable regulations and quality assurance guidelines;
- interruption of the information technology systems that facilitate the management of our dairy farms and production facilities or Shengmu Forage's growing fields;
- accidents in the production facilities, including major equipment failures or fires, which may result in suspension of operations, property damage, severe personal injuries or even fatalities; and
- other production or distribution problems, including limitations to production capacity due to regulatory requirements, changes in the types of products produced or physical limitations that could impact continuous supply.

We or Shengmu Forage did not experience any material disruptions to our dairy farms and production facilities or Shengmu Forage's growing fields during the Track Record Period. However, we cannot assure you that the events and factors mentioned above will not occur and result in a material disruption to the operations at our dairy farms and production facilities or Shengmu Forage's growing fields in the future. If we fail to or Shengmu Forage fails to take adequate steps to mitigate the likelihood or potential impact of such events or factors, or to effectively respond to such events or factors if they occur or materialize, our business, results of operations and financial condition could be materially and adversely affected.

**Failure to implement our contingency plans and source organic feed sufficient to meet our needs of forage supply for our organic dairy farming business on a timely basis could adversely affect our results of operations, financial position and prospects.**

We source organic feed primarily from our associate, Shengmu Forage, for our organic dairy farming business. We did not experience any major disruptions of or shortages in the supply of organic feed during the Track Record Period. If, however, we are required to seek alternative sources of organic forages for any reason, we have contingency plans in place to satisfy our needs of organic dairy farming including developing our own forage business as well as other back-up supply plans. See "Relationship with Controlling Shareholders — Independence from the Companies Controlled by Our Controlling Shareholders — Operational Independence" for further details. Our contingency plans may not succeed or prove to be as effective as we anticipated. For example, we may fail on a timely and cost-effective basis to produce organic forages from our own organic growing fields sufficient to meet the needs of forage supply for our organic dairy farming operation, to identify sufficient immediate alternative source of organic feed supply at a reasonable cost or at all , or to locate other suitable sites for growing organic forages outside the Ulan Buh desert, which may become unsuitable, in part or in whole, for organic plantation due to pollution, mass contamination, natural disasters or any other reason. If our contingency plans fail or prove to be less effective than we anticipated and we are unable to source organic feed sufficient to meet the needs of forage supply of our organic dairy farming business in a timely and cost-effective manner, we may be forced to reduce or even temporarily cease the production of organic raw milk and liquid milk products and sell the raw milk produced by our organic dairy farms during such temporary cessation period as premium non-organic raw milk that has a relatively lower price, which may in turn adversely affect our results of operations, financial position and prospects.

**We may face demand decline due to changes in consumer preferences, which may materially and adversely affect our operating results.**

Our success depends on our ability to anticipate, identify, interpret and respond to the evolving tastes, dietary and nutritional needs of consumers and offer products that appeal to them. Sales of our products could be affected by nutritional and health-related concerns, such as fat, cholesterol, calorie, sodium, lactose, fructose, bacteria and other ingredients contained in our products. Consumer trends in the dairy industry change from time to time and our failure to anticipate, identify, interpret and respond to these changes, or our failure to generate consumer acceptance or recognition of our new products, could lead to, among others, reduced demand for and/or price reductions of our products, which in turn could materially and adversely affect our business, financial condition and results of operations.

Even if we do correctly anticipate, identify, interpret and respond to these changes by offering new products, we cannot assure you that we will be able to successfully compete in these new product lines, that demand for these new products will grow to the extent that we expect, or that these new product lines and products will provide the returns that we expect. If we are unable to respond to rapid changes in consumer preferences in a timely manner, or at all, or if our competitors are able to address these concerns more effectively or efficiently, our business, financial condition and results of operations could be materially and adversely affected.

**As the dairy industry is highly competitive, we might lose our market share or may not be able to maintain our pricing.**

The dairy industry is highly competitive, especially the markets for liquid milk products, which are experiencing rapid development and increasing competition. Set forth below are certain aspects of such development and competition.

- *Brand recognition*. We compete with large multinational companies as well as regional and local companies in each of the regions in which we operate. In most product categories, we compete not only with other widely advertised branded products, but also with private labels, stores and economy brand products that are generally sold at lower prices. Many of our competitors have been in this business longer than we have, may have substantially greater financial and other resources than we have, and/or may have been better established with more solid brand recognition in the business than we have.

- *Certifications*. We and Shengmu Forage have been granted certifications for organic dairy farming and processing and forage growing from ECOCERT S.A. under the E.U. standards and/or COFCC under the PRC standards, as applicable. In response to the growing public awareness of food safety and natural health, an increasing number of other dairy or dairy farming companies are expected to seek to obtain organic certifications, which will strengthen the competition in the organic dairy industry.

- *Aggressive marketing*. Some of our competitors may use greater amounts of incentive and subsidies for distributors and retailers. In addition, our competitors' significant increase in their advertising expenditures and promotional activities might induce us to engage in irrational or predatory price reductions, which could dilute our margins and materially and adversely affect our business, financial condition and results of operations.

- *Industry consolidation*. Consolidation among industry participants in China may result in stronger domestic competitors that are more capable of competing as end-to-end suppliers as well as competitors who are more specialized in particular areas and geographic markets.

If we are unable to effectively compete, we could lose market share and our pricing may suffer, which would have a material and adverse effect on our business, results of operations, financial condition and prospects.

**The quality of our milk and our milk yield are affected by a number of factors, some of which are beyond our control. If the quality of our milk or our milk yield declines, our sales, reputation and prospects may be adversely affected.**

The quality of our milk and our average annual milk yield are affected by a number of factors that are beyond our control, including without limitation, the following:

- climatic factors, with dairy cows generally producing more milk in temperate weather as opposed to cold or hot weather, meaning that extended unseasonally cold or hot weather could potentially lead to lower-than-expected raw milk production. For example, milk yield and quality are typically lower in summer months due to higher temperature;
- feed supply factors, with the volume and quality of milk produced by dairy cows being linked closely to the nutritional quality of the feed consumed; and
- outbreaks of diseases among our dairy cows.

Adverse developments in any of the above factors or other factors that could influence milk production could result in a decline in the production volume or quality of our raw milk and liquid milk products, and our sales, reputation and prospects could suffer as a result.

**We rely on a limited number of product types. Our growth and operating results may be adversely affected if the demand for our products declines.**

We produce and sell raw milk, including organic and premium non-organic types, as well as a limited number of liquid milk products made from our organic raw milk under our "Shengmu 圣牧" brand. A substantial portion of our revenue during the Track Record Period was derived from the sales of raw milk, which accounted for 100.0%, 95.2% and 73.5% of our revenue in 2011, 2012 and 2013, respectively. We began sales of liquid milk products made from our organic raw milk under "Shengmu 圣牧" brand in June 2012. The primary source of our revenue has been, and we anticipate in the near future will continue to be, raw milk, and to an increasing extent, liquid milk products, which use our organic raw milk as the base ingredient. Our sales volume is highly dependent on and sensitive to fluctuations in the production volume of demand for and pricing of our raw milk and liquid milk products. If for any reason the production volume, quality or selling prices of our products decline, our results of operations would be materially and adversely affected.

**Adverse publicity regarding our products, erosion of the reputation of our brand name or failure to protect our trademarks from counterfeiting or imitation could adversely impact our sales and results of operations.**

Our business is highly sensitive to consumers' perception of the safety and quality of our dairy products. The brand name and trademarks under which our products are marketed and sold are crucial to our business. Any actual or perceived contamination, spoilage or other adulteration, product misbranding or tampering, or any publicity or news making accusations of the occurrence of any of these incidents may lead to the loss of consumer's confidence in our products and/or the erosion of our brand name, regardless of its merits. Adverse publicity and news about the safety and quality of domestically produced dairy products, and counterfeiting and imitation of well-known dairy products are widespread practices in China. Although we have not experienced counterfeiting or imitation of our products or trademarks in the past, we cannot assure you that this will not occur in the future. Our failure to detect counterfeiting and imitation of our products and trademarks and to mitigate the adverse impact from such activities could result in a decrease in our sales volume or market share as well as an increase in our administrative costs in respects of detection and protective measures. In addition, some of our distributors operate under our brand. If these distributors fail to comply with the law or our company policy, our reputation may be adversely affected.

Furthermore, we cannot assure you that the use of our brand name and trademarks will not infringe upon the intellectual property rights of any third party or otherwise violate any applicable laws. Any liability claim in relation to our use of such brand name or trademarks made or threatened to be made against us in the future, regardless of its merits, could result in costly litigation and strain on our administrative and financial resources as well as diversion of our management attention. If we fail to effectively protect our brand name and trademarks, our reputation could be damaged, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Any adverse publicity making accusations or casting doubts on the quality of our products, the authenticity of the organic nature of our products or the PRC dairy industry in general, or any negative consumer perception thereof could damage consumer's confidence in our products and accordingly result in a substantial drop in the demand for our products. For example, there has been some press on the internet claiming that our dairy farming activities did not meet the relevant organic standards. Despite that ECOCERT S.A. and the COFCC, having conducted onsite verification of our organic dairy farms after the release of such news, have not discovered any matter that would affect the certifications of our organic dairy farms and products, the reputation of our products and our brand among consumers may be adversely affected. We cannot assure you that there will not be other negative publicity in the future concerning our products and/or brands, which may have a material adverse effect on our business, financial conditions and results of operations.

**Our insurance coverage and government compensation may not be sufficient to cover all of our potential losses.**

We have obtained insurance policies for all of our eligible dairy cows and heifers against losses caused by diseases, accidents and natural disasters. Generally, cows and heifers are only eligible for coverage when they are at or over 12 months old in China. For further information, see "Business — Insurance." In addition, in the event that we incur certain types of losses, we may be entitled to government compensation. Pursuant to the Animal Epidemic Prevention Law of PRC (《中華人民共和國動物防疫法》), when animals are slaughtered and animal products and relevant goods destroyed through governmental mandatory measures taken to prevent, control or eliminate epidemics, or animals die due to stress caused by mandatory vaccinations, the government at or above the county level must provide compensation. However, the amounts of such compensation would be determined by the PRC government, and may be insufficient to cover all related losses. In addition, even if we do receive compensation from insurance companies or the PRC government for the replacement of lost dairy cows, we cannot assure you that any replacement dairy cows would be of the same genetic quality as the lost dairy cows, which could lower our average annual milk yield.

We do not currently maintain insurance for our products or production facilities and machinery units. As a result, we may be required to use our own resources to cover financial and other losses, damages and liabilities, including those caused by fire, inclement weather, disease, civil strife, strikes, natural disasters, terrorist incidents, industrial accidents, product contamination or other causes. Also, any product liability claims may subject us to compensations to be made to the claimants if we are held liable. Losses incurred or payments we may be required to make may have a material adverse effect on our business, financial condition and results of operations.

**We had net current liabilities as of December 31, 2011, 2012 and 2013. We cannot assure you that we will have net current assets in the future.**

We had net current liabilities of RMB28.3 million, RMB296.8 million and RMB769.6 million as of December 31, 2011, 2012 and 2013, respectively. See "Financial Information — Working Capital" for detailed analysis of our net current liabilities position. We cannot assure you that we will be able to improve our liquidity and record net current assets. If we continue to have net current liabilities, we may face a shortfall of working capital and may not be able to fully service our short term bank loans. Any of these events could have a material adverse impact on our financial condition and results of operations.

**Some of our owned or leased properties have title defects or non-compliance, which may adversely affect our business operations.**

We have a number of title defects or incidents of non-compliance with respect to certain properties that we own or lease. In respect of certain of our buildings under construction, we had not obtained the land use right certificates and/or construction or environment-related permits as of the Latest Practicable Date. In respect of certain of our owned or leased dairy farms, we or the lessor had not completed certain required approval and/or filing procedures for the operation of these farms as of the Latest Practicable Date. We may be ordered by government authorities to relocate, pay a fine or cease the on-going operations or construction, as applicable. If any of the foregoing occurs, our business, financial condition and results of operations may be adversely affected. See "Business — Properties."

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

We depend on certain key qualified personnel, key senior management and other employees in our business, including those personnel set out in "Directors and Senior Management." In particular, we depend on the services of Mr. YAO Tongshan, our chairman and chief executive officer, and Mr. WU Jianye, our president, to further our growth and expansion. The expertise, industry experience and contributions of our senior management are crucial to our success. We cannot assure you that such persons will continue to provide services to us or will honor the agreed-upon terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain personnel for our future operations and development may have a material adverse effect on our business.

**Our results of operations may be adversely affected if there are failures in our information systems.**

We rely on information systems for the management of our dairy farms. We maintain an individual profile for each dairy cow, recording its birth date, milk yields and medical history. These measures allow us to enhance our operating efficiency. We did not experience any major information system failure during the Track Record Period. However, we cannot assure you that we will not incur any damage or interruption caused by power outages, computer viruses, hardware and software failures, telecommunications failures, fires and other similar events relating to our information technology system in the future. If serious damage or significant interruption occurs, our operations may be disrupted and as a result our revenue and profitability may be adversely affected.

**Any material disputes between us and local dairy farmers with whom we form our dairy-farm companies may adversely affect the operations of the relevant dairy-farm company and, if unresolved, could potentially lead to termination of that company.**

The majority of our dairy-farm companies are operated through collaborative business arrangements between us and the local dairy farmers who were the previous owners of family-run dairy farms. We control the general management of dairy farms and the local dairy farmers attend to their day-to-day operations. If there is a material dispute between us and the local dairy farmers in connection with the dairy farming operations, we cannot assure you that we will be able to resolve such dispute in an amicable manner. In the event that any of the above events occurs, our financial condition and results of operations may be adversely affected. The local dairy farmers may also terminate their arrangements with us for financial, family or other reasons. If that occurs, we may be required to seek replacement of these local dairy farmers, which may not be as experienced or capable as our previous partners, and the process of such a search may also divert our management's attention and resources.

**Delivery delays or poor handling by transport operators and distributors may reduce our sales and profitability and damage our reputation.**

Similar to other dairy and consumer product manufacturers in China, we generally rely on third-party transport operators and wholesale distributors for the delivery of products. Delivery disruptions for various reasons beyond our control, including without limitation, weather conditions, political turmoil, social unrest and strikes could lead to delayed or lost deliveries. The perishable nature of dairy products may also mean that poor handling by transport operators and distributors could result in contamination of and/or damage to our products, which may in turn lead to loss of our revenues, and increase in our compensation payments to customers and damage to our reputation.

**Our operations may be disrupted by natural disasters, severe weather conditions, acts of war, terrorism or other factors beyond our control, resulting in lower revenues and unbudgeted costs for remedying any damages.**

Our dairy farms and production facilities, as well as the growing fields operated by Shengmu Forage, are located in Inner Mongolia, which has historically experienced earthquakes, droughts, dust storms, as well as other natural disasters and severe weather conditions. Natural disasters and severe weather conditions may result in disruptions to our operations, which may lead to loss of revenues. Similarly, war, terrorist activity, threats of war or terrorist activity, social unrest as well as geopolitical uncertainty and international conflict and tension could affect international or regional economic development, which could in turn materially and adversely affect our business, financial condition and results of operations. In addition, we may not be adequately prepared in terms of contingency planning or may not have recovery capabilities in place to deal with a major incident or crisis. As a result, our operational continuity may be adversely and materially affected.

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

Our Ultimate Controlling Shareholders, acting in concert, have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of directors and other significant corporate actions. Immediately following the completion of the Global Offering and assuming that none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised, our Ultimate Controlling Shareholders, acting in concert, will control, through World Shining, 56.56% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our ultimate Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Ultimate Controlling Shareholders, acting in concert, may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders. For our Ultimate Controlling Shareholders' influence over our associate, Shengmu Forage, see "Relationship with Controlling Shareholders — Major Retained Businesses of Our Ultimate Controlling Shareholders."

## RISKS RELATING TO THE PRC DAIRY INDUSTRY

**The existence of tainted or contaminated milk produced in China could negatively affect the image of China's dairy industry.**

China's dairy industry has been subject to product recalls due to product contamination in the past. For example, in 2008, sales of formula milk powder contaminated with melamine caused the death of a number of infants as well as illness in hundreds of thousands others. In addition, in 2009 and 2010, further incidents of substandard formula milk powder contaminated with melamine were also uncovered. We do not produce formula milk powder and none of our raw milk products was involved in these incidents. In 2008, the PRC Administration of Quality Supervision, Inspection and Quarantine found that the products of at least 22 Chinese formula milk powder producers were contaminated with melamine, which caused significant negative publicity for the entire dairy industry in China. In addition, in August 2010 there was further negative publicity concerning the dairy industry when three infants in China were reported to have experienced pubescent development, which was allegedly caused by estrogen hormones found in a particular local brand of formula milk powder.

Although we do not currently make formula milk powder, the mere publication of information asserting that our raw milk or liquid milk products contain or might have contained melamine or other contaminants, whether valid or not, could damage our reputation and have a material adverse effect on us. In addition, reports of contaminated or tainted dairy products produced by other manufacturers in China could negatively affect our industry as a whole and our business, even if there is no association with our products. Such adverse publicity could negatively affect our sales, increase government oversight of our industry, and have a material adverse effect on our business, results of operations and financial condition.

In addition, raw milk produced in China is used to make a variety of dairy products. Consumers' perception of the safety and quality of raw milk could significantly affect the sales volume and demand of the dairy products produced from raw milk. Any concern with the safety and quality of the raw milk produced in China, or illegal tampering with the content of raw milk, such as the addition of unknown or unauthorized elements by third-party agents or suppliers, may render dairy products susceptible to suspicions of contamination from use of adulterated raw milk. This may negatively affect consumer perception of our industry and demand for dairy products made in China, including our products. Furthermore, any adverse publicity about quality concerns relating to domestic sources of raw milk, whether valid or not, may discourage consumers from purchasing dairy products made in China and negatively affect our business.

**The dairy industry in China could face slower market growth.**

China's dairy industry has experienced significant growth. This growth has been, in part, due to increasing demand for dairy products in China. The prices at which we sell our products and the demand for our planned new products could be influenced by the level of consumer demand for dairy products in China. We cannot assure you that China's dairy industry will continue to grow in the future. China's dairy industry may experience slower growth due to market saturation or competition from alternative products, such as soy-based beverages and products, which may have an impact upon the size and growth of the markets for dairy products. If the demand for dairy products in China declines for any reason, including changing consumer preferences, our results of operations and expansion plans could be materially and adversely affected.

**We may be subject to higher compliance costs if PRC environmental protection laws become more onerous.**

We conduct business in an industry that is subject to stringent PRC environmental protection laws and regulations. These laws and regulations require enterprises engaged in manufacturing and construction that may produce environmental waste to adopt measures to effectively control and properly dispose of waste gases, waste water, industrial waste, dust and other environmental waste materials, as well as requiring fee payments from producers discharging waste substances. If failure to comply with such laws or regulations results in environmental pollution, the environmental protection authorities can levy fines. If the circumstances of the breach are serious, it is at the discretion of the PRC government to suspend or close any operation failing to comply with such laws or regulations. We cannot assure you that the PRC government will not change the existing laws or regulations or impose additional or more stringent laws or regulations, compliance with which may cause us to incur significant additional expenditures, which we may be unable to pass on to our customers by increasing the prices of our products.

We were not involved in any material environmental claims or in violation of any applicable PRC environmental protection laws and regulations that we believe could have a material adverse effect on our operating results and financial condition during the Track Record Period. However, we cannot assure you that we will not be involved in such claims or accused of such violation in the future, which could subject us to civil remedies or administrative penalties, including fines, injunctions, product recalls or seizure, as well as potential criminal sanctions. If we are involved in litigation or legal proceedings due to our involvement in any environmental claims or accusation of any violation of environmental protection laws and regulations in the future, the outcome of such proceedings could be uncertain and could result in settlements or results which could adversely affect our financial condition. Furthermore, any such proceedings could entail substantial legal expenses as well as significant diversion of our management's time and attention.

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

Various aspects of our operations are subject to extensive laws and regulations promulgated by the PRC State Council, the PRC General Administration of Quality Supervision, Inspection and Quarantine, the PRC Ministry of Agriculture, and other national or local PRC regulatory authorities. We cannot assure you that we are able to fully comply with future laws and regulations. Any failure to comply with relevant laws and regulations may have a material adverse effect on our business and results of operations.

We cannot assure you that the PRC government will not change the existing laws or regulations, or adopt additional or more stringent laws or regulations applicable to us and our business operations. We may fail to comply with such laws and regulations if they become more stringent or wider in scope in the future. Even if we can comply with such laws and regulations in the future, our production and distribution costs may increase. On September 16, 2010, State Council promulgated the Notice regarding the Further Strengthening of Measures regarding the Quality and Safety of Dairy Products (關於進一步加強乳品質量安全工作的通知), requiring the strengthening of measures regarding the quality and safety of dairy products, imposing rigorous regulations on the quality and safety of dairy products, and raising the standard of quality and safety of dairy products. We cannot predict the nature of any such future laws and regulations, or the impact on our business operations if and when such future laws and regulations are promulgated. Such future laws and regulations may require the reconfiguration or upgrading of methods and procedures for sourcing raw materials, production, processing and transportation, including without limitation, more onerous food safety, labeling and packaging requirements, and more stringent compliance requirements for waste management, which may result in increased transportation costs and greater uncertainty in production and sourcing estimates. The costs of compliance with current or future legal or regulatory requirements and obtaining and maintaining regulatory approvals may be significant, and could force us to curtail our operations or otherwise have a material adverse effect on our cash flow, financial condition and results of operations. Failure to comply with any such current and future laws and regulations could subject us to civil remedies or administrative penalties, including fines, injunctions, product recalls or seizure, as well as potential criminal sanctions, which could have a material adverse effect on our business, financial condition and results of operations.

**We may not continue to benefit from favorable government policies, particularly, preferential tax treatment.**

Our results of operations have been positively affected by PRC government policies that benefit China's dairy farming industry and promote the development of western China in general. The policies that assist the PRC dairy industry aim to promote, among others, improved industrialization and specialization levels of the dairy farming industry, accelerate the breeding and promotion of fine breeds of livestock and increase milk yield of dairy cows. We have received preferential tax treatment and subsidies as a result of these government policies. If these government policies change, our results of operations could be materially and adversely affected.

## RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

Substantially all of our business assets are located in the PRC and all of our sales are derived from the PRC. Accordingly, our results of operations, financial position and prospects are subject, to a significant degree, to the economic, political and legal developments of the PRC. Political and economic policies of the PRC government could affect our business and financial performance and may result in our being unable to sustain our growth. The Chinese economy differs from the economies of most developed countries in many respects, including that it:

- has a high level of government involvement;
- is in a relatively early stage of development of a market-oriented economy;
- has experienced rapid growth; and
- has a tightly controlled foreign exchange policy.

In recent years, the PRC government implemented a series of new laws, regulations and policies which imposed more stringent standards with respect to, among others, quality and safety control and supervision and inspection of enterprises engaged in animal husbandry and breeding, and the production and sale of raw milk. See "Regulatory Overview — Industry Policies and Regulations." If the PRC government continues to impose stricter regulations on the dairy industry, we could face higher costs in order to comply with those regulations, which could impact our profitability.

The financial market in China could also be unpredictable. The PBOC's statutory deposit ratio and lending guideline imposed on commercial banks may restrain loan market and materially affect our liquidity and access to capital. Our business, results of operations and financial condition could also be adversely affected by governmental control over capital investment or changes in environmental protection, health, labor and tax regulations applicable to us.

**The PRC legal system is continuously evolving and has inherent uncertainties that could limit the legal protection available to us.**

Our business and operations are primarily conducted in the PRC and are governed by the PRC laws and regulations, rules and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as references. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a significant degree of uncertainty, and may not be as consistent and predictable as in other jurisdictions. 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 violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

**Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and our ability to pay dividends.**

All of our revenue is denominated and settled in Renminbi. The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE or its local branch, provided that we satisfy certain procedural requirements. However, capital account transactions must be approved by or registered with SAFE or its local branch. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Since all of our future cash inflows from operations will be denominated in Renminbi, any fluctuation in exchange rate between RMB and other currencies may limit our ability to purchase goods and services outside China or otherwise fund our business activities that are conducted in foreign currencies. In addition, if the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders, which would adversely affect the value of your investment.

**We may be deemed to be a PRC tax resident under the EIT Law, and as a result, our PRC-sourced income, dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to PRC withholding tax.**

We are a holding company incorporated under the laws of the Cayman Islands and indirectly hold interests in our PRC operating subsidiaries. Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, which took effect on January 1, 2008, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10.0% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement.

The EIT Law provides that if an enterprise incorporated outside the PRC has its ''de facto management bodies'' within the PRC, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25.0% on its global income. "De facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the SAT promulgated a circular to clarify the certain criteria for the determination of the "de facto management bodies" for Chinese-invested companies registered abroad. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (iv) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

Meanwhile, the measure of "de facto management bodies" shall apply based on the principle of substance over form. The SAT further issues administrative rules in July 2011 and January 2014 regarding administrative procedures for recognizing PRC resident enterprise status of a Chinese-invested company registered abroad. According to the aforesaid SAT circulars, a Chinese-invested company registered abroad could either apply for PRC resident enterprise status with the in-charge PRC tax authority in the place where its major Chinese investor is located and the application will be subject to approval of competent PRC tax authorities, or be recognized as a PRC resident enterprise by competent PRC tax authorities. In this regard, there are uncertainties that whether a Chinese-invested company registered abroad would be treated as a PRC resident enterprise before obtaining the relevant approval from competent PRC tax authorities. However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. We cannot assure you that we will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25.0% enterprise income tax on our global incomes. However, there have been no official implementation rules regarding the determination of the ''de facto management bodies'' for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. We cannot assure you that we will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25.0% enterprise income tax on our global incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempt from enterprise income tax, due to the relatively short history of the EIT Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC-incorporated subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

Furthermore, the EIT Law provides that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how "domicile" may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our overseas corporate shareholders who are not deemed a PRC resident enterprise as well as gains realized by such shareholders from the transfer of our Shares may be regarded as PRC-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10.0%.

**We face uncertainty with respect to PRC tax liabilities in connection with direct and indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.**

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》), or SAT Circular 698, issued by the SAT on December 10, 2009 with retroactive effect from January 1, 2008, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an indirect transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5%; or (ii) does not tax foreign income of its residents, the foreign investor must report this indirect transfer to the competent tax authority of the PRC resident enterprise. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate of up to 10.0%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is practical uncertainty as to the application of SAT Circular 698. For example, while the term "Indirect Transfer" is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, to date there have not been any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax. We underwent the Reorganization to prepare for the Listing, and certain offshore companies now wholly owned by us were transferred by certain investors to us. Such reorganization steps taken by us may fall into the type of transactions subject to SAT Circular

698's regulations. Therefore, we may be liable to assist PRC tax authorities for collecting such tax from the transferor if the transfer of shares in such companies is deemed to be reported according to SAT Circular 698. However, it is currently unclear how the relevant PRC tax authorities will implement or enforce SAT Circular 698 and whether such tax on capital gains will be subject to any further change resulting in material adverse impact on us.

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

SAFE regulations require PRC residents to register with the local SAFE branch before establishing or controlling any company outside China, referred to in the notice as an ''offshore special purpose company,'' for the purpose of capital financing with assets or equities of PRC companies. Any PRC resident that is a shareholder of an offshore special purpose company is required to amend its SAFE registration within 30 days after any major capital matters of the offshore special purpose company without any round-trip 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.

Our PRC legal advisers have advised us that our Shareholders who are PRC residents have duly completed such registrations as required under SAFE regulations. However, a failure of these PRC resident individuals to amend their SAFE registrations in a timely manner in the future pursuant to SAFE regulations or a failure of our future shareholders and beneficial owners who are PRC residents to comply with the registration procedures set forth in SAFE regulations may subject such shareholders and beneficial owners to fines and legal sanctions and may also result in restrictions on our PRC subsidiaries' ability to distribute profits to us or otherwise materially and adversely affect our financial position.

**Our Company is a holding company that relies on dividend payments from our PRC subsidiaries for funding, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.**

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

**You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.**

Our Company was incorporated in the Cayman Islands. Almost all of our assets and some of the assets of our Directors are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Under such arrangement, where any designated people's court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the PRC or Hong Kong court for recognition and enforcement of the judgment. The arrangement came into effect on August 1, 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain. In addition, China is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other Western countries or Japan, and therefore enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult or impossible.

**PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our PRC subsidiaries.**

Any capital contributions or loans that our Company, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds from the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment our PRC subsidiaries are approved to make under relevant PRC laws and the registered capital of these PRC subsidiaries (if applicable), and such loans must be registered with a local branch of SAFE. In addition, our capital contributions to our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our ability to use the net proceeds from the Global Offering as planned, our PRC subsidiaries' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments and would have a material adverse effect on our overall business, financial condition and results.

**An outbreak of any widespread public health problem, if uncontrolled, could have a negative impact on our production, sales and distribution operations, as well as affect consumer demand for dairy products.**

An outbreak of any widespread public health problem in China, such as severe acute respiratory syndrome (also known as SARS), avian influenza or H5N1 influenza, if protracted and uncontrolled, may result in the contraction of such 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 any widespread public health problem, we cannot assure you that the World Health Organization or the PRC government will not recommend, or even impose, travel restrictions and/or restrictions on the flow of goods to and from areas affected by the virus. For these reasons, an outbreak of any widespread public health problem could cause significant interruption to our business and have a significant impact upon our sales and profitability. Furthermore, adverse publicity about any widespread public health problem, whether or not valid, may discourage consumers from purchasing dairy products or cause production and delivery disruptions. If consumers generally were to avoid dairy products, our sales would decline substantially and we could suffer serious losses.

## RISKS RELATING TO THE GLOBAL OFFERING

**There has been no prior market for our Shares, and the liquidity and market price of our Shares following the Global Offering may be volatile.**

Prior to the Global Offering, there has been no public market for our Shares. The initial price range disclosed to the public for our Shares was the result of negotiations among us and the Joint Bookrunners on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied to list and deal in the Shares on the Hong Kong Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for our Shares. In addition, the price and trading volumes of our Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments relating to our Company may affect the volume and price at which our Shares will be traded.

**Investors will experience immediate dilution to their attributable net tangible book value as the Offer Price of our Shares is higher than our net tangible book value per Share.**

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

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

**Any future sales, or perceived sale, of a substantial amount of our Shares in the public market could have an adverse effect on the prevailing market price of our Shares and our ability to raise capital in the future.**

Future sales of a substantial amount of our Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the market price of our Shares from time to time. See "Underwriting — Undertakings" for a more detailed discussion of restrictions that may apply to future sales of our Shares. After these restrictions lapse, the market price of our Shares may decline as a result of future sales of a substantial amount of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could negatively affect the market price of our Shares and our ability to raise equity capital in the future.

**You may face difficulties in protecting your interests under Cayman Islands laws.**

Our corporate affairs are governed by, among others, the Articles of Association, the Cayman Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us are to a large extent governed by the common law of the Cayman Islands and the Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority shareholders may be limited compared to the laws of other jurisdictions. See "Summary of the Constitution of Our Company and Cayman Islands Companies Law" in Appendix III to this prospectus.

**We may not be able to pay any dividends on our Shares.**

We cannot guarantee when and in what form dividends will be paid on our Shares following the Global Offering. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our IFRS financial statements indicate that our operations have been profitable. For further details on our dividend policy, see "Financial Information — Dividend Policy."

**Certain facts and statistics in this prospectus relating to the PRC, the Chinese economy and the dairy industry derived from official government publications may not be reliable.**

Facts and other statistics in this prospectus relating to PRC, the Chinese economy and the dairy industry have been derived from various official government publications we generally believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by our Company, the Underwriters or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China.

We have, however, taken reasonable care in the reproduction or extraction of the official government publications for the purpose of disclosure in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

In preparation for the Listing, our Company has sought the following waivers from strict compliance with the relevant provision of the Listing Rules:

## MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. As of the Latest Practicable Date, none of our executive Directors is ordinarily resident in Hong Kong. Furthermore, the business operations of our Group are located in China. Due to the business requirements of our Group, none of our Directors has been, is or will be based in Hong Kong.

We have applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules on the following grounds:

(a) our Group's principal business operations are located in the PRC;

(b) members of our Group's senior management are, and expect to continue to be, based primarily in the PRC; and

(c) for the purposes of the management and operations of our Group, the appointment of additional executive Directors who are ordinarily resident in Hong Kong would not only increase the administrative expenses of our Group, but would also reduce the effectiveness and responsiveness of the Board in making decisions for our Group, especially when business decisions are required to be made within a short period of time. In addition, by appointing new executive Directors, who may not be familiar with the operations of our Group, to the Board for the sole purpose of satisfying the requirement of Rule 8.12 of the Listing Rules may not be in the best interest of our Company and our shareholders as a whole.

We have received from the Stock Exchange a waiver from strict compliance with rule 8.12 of the Listing Rules subject to the following conditions:

(a) We will appoint two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that we comply with the Listing Rules at all times. The two authorized representatives are Mr. CUI Ruicheng (崔瑞成), our executive Director and chief financial officer, and Mr. AU Wai Keung (區偉強), a joint company secretary. Mr. AU Wai Keung (區偉強) is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile or e-mail;

(b) Each of the authorized representatives has means to contact all members of the Board (including the independent non-executive Directors) promptly at all times and as when the Stock Exchange wishes to contact the members of the Board for any matter. In addition, we have provided all of our Directors' mobile phone numbers, office phone numbers, e-mail addresses and fax numbers to the Stock Exchange;

(c) Each Director who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel documents to visit Hong Kong for business purpose and will be able to meet with the relevant members of the Stock Exchange in Hong Kong within reasonable notice; and

(d) In compliance with Rule 3A.19 of the Listing Rules, we retained TC Capital Asia Limited as our compliance adviser, they will act as an additional channel of communication with the Stock Exchange.

## QUALIFICATION OF JOINT COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the secretary of our Company must be a person who has the requisite academic or professional qualifications or relevant experience to discharge the functions of a company secretary.

We have appointed Mr. LI Yundong (李運動) as one of our joint company secretaries. Mr. LI Yundong (李運動) does not possess a qualification as stipulated in Rule 3.28 of the Listing Rules, and therefore he does not meet all the requirements under Rules 3.28 and 8.17 of the Listing Rules. We have appointed Mr. AU Wai Keung (區偉強), who possesses the qualification required under Rule 3.28, to act as another joint company secretary to provide assistance to Mr. LI Yundong (李運動) for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Mr. AU Wai Keung (區偉強) will work closely with Mr. LI Yundong (李運動) to jointly discharge duties and responsibilities as joint company secretaries and assist Mr. LI Yundong (李運動) to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, we will ensure Mr. LI Yundong (李運動) has access to relevant training and support to familiarize himself with the Listing Rules and the duties required for a company secretary of a company listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under and in respect of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the Listing Date. Upon the expiry of such three year period, the Stock Exchange will reevaluate the experience of Mr. LI Yundong (李運動) to consider whether he will then have acquired the relevant experience within the meaning of Rules 3.28 and 8.17 of the Listing Rules and decide whether a further waiver will be necessary.

## CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions under the Listing Rules upon Listing. We have received from the Stock Exchange a waiver from strict compliance with the relevant requirement set out in Chapter 14A of the Listing Rules for such continuing connected transactions. Please refer to the section headed "Continuing Connected Transactions" for details of such continuing connected transactions.

## WAIVER AND EXEMPTION IN RELATION TO THE PRE-IPO SHARE OPTION SCHEME

Pursuant to paragraph 10 of Part I of the Third Schedule to Companies (Winding Up and Miscellaneous Provisions) Ordinance, this prospectus is required to include details of the number, description and amount of any Shares which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for the Shares subscribed for under it, the consideration (if any) given or to be given for it and the name and address of the person to whom it was given.

Further, pursuant to Rule 17.02(1)(b) of the Listing Rules, a new listing applicant must disclose in the prospectus full details of all outstanding options. Paragraph 27 of Part A of Appendix 1 to the Listing Rules also requires the disclosure of particulars of any capital of any member of our Group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantees.

Pursuant to the Pre-IPO Share Option Scheme, an offer of the grant of an option shall be deemed to have been accepted and such option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of such offer duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for each tranche of grant thereof is received by the Company. The subscription price per Share of the options granted under the Pre-IPO Share Option Scheme is HK$1.56.

As of the Latest Practicable Date, the Company has granted options to a total of 189 grantees ("Grantees") under the Pre-IPO Share Option Scheme, including Directors, directors of the subsidiaries of the Company, senior management of the Company and other employees of the Group and Shengmu Forage to subscribe for a total of 504,480,000 Shares, representing (i) approximately 7.94% of the issued share capital of the Company immediately upon completion of the Global Offering (assuming there will be no further allotment or issuance of Shares whether pursuant to the exercise of the Over-Allotment Option or any option granted under the Pre-IPO Share Option Scheme or any option that may be granted under the Share Option Scheme), and (ii) approximately 7.36% of the issued share capital of the Company immediately upon completion of the Global Offering, assuming that all options granted under the Pre-IPO Share Option Scheme are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-Allotment Option or the exercise of any options which may be granted under the Share Option Scheme.

We have applied for (i) a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules and (ii) an exemption from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance regarding certain of the options granted under the Pre-IPO Share Option Scheme on the following grounds:

(i) in light of the large number of Grantees involved, strict compliance with such disclosure requirements in setting out full details of all grantees under the Pre-IPO Share Option Scheme would be unduly burdensome for us;

(ii) the grant and exercise in full of the options granted under the Pre-IPO Share Option Scheme would not cause any material adverse impact on our financial position;

(iii) non-compliance with the disclosure requirements would not prevent us from providing our potential investors with an informed assessment of our activities, assets, liabilities, financial position, management and prospects;

(iv) the information contained herein regarding the Pre-IPO Share Option Scheme, including the dilution effect and impact on earnings per Share upon full exercise of the options granted under the Pre-IPO Share Option Scheme, provides potential investors with sufficient information to make a relevant assessment of us in their investment decision making process; and

(v) the exemption will not prejudice the interest of the investing public.

We have received a waiver from the Stock Exchange from strict compliance with the requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules regarding certain of the options granted under the Pre-IPO Share Option Scheme, subject to the following conditions:

(i) a certificate of exemption from strict compliance with the relevant Companies (Winding Up and Miscellaneous Provisions) Ordinance requirements be granted by the SFC and the particulars of the exemption be disclosed in this prospectus; and

(ii) the following information will be clearly disclosed in the Prospectus:

(a) full details of all options granted by the Company under the Pre-IPO Share Option Scheme to grantees being Directors, directors of the subsidiaries of the Company, senior management of the Company and all the Grantees who are entitled to subscribe for not less than 1,636,800 Shares upon full exercise of his option under the Pre-IPO Share Option Scheme, such details to include all the particulars required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules;

(b) in respect of the options granted by the Company under the Pre-IPO Share Option Scheme other than those referred to in sub-paragraph (ii)(a) above, (1) the aggregate number of the grantees and the number of Shares subject to the Pre-IPO Share Options; (2) the consideration paid for the grant of such Pre-IPO Share Options; and (3) the exercise period and the exercise price for such Pre-IPO Share Options;

(c) the aggregate number of Shares subject to the outstanding Pre-IPO Share Options and the percentage to the Company's total issued share capital represented by such number of Shares; and

(d) the dilutive effect upon full exercise of the Pre-IPO Share Options, and

(iii) a list of all the grantees (including those persons whose details have already been disclosed in the Prospectus) who have been granted options under the Pre-IPO Share Option Scheme (including the persons referred to in sub-paragraph (ii)(a) above) containing all the particulars as required under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A of the Listing Rules be made available for public inspection in accordance with the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to the Prospectus.

We have received from the SFC a certificate of exemption from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance regarding certain of the options granted under the Pre-IPO Share Option Scheme subject to the following conditions:

(i) full details of all options granted by us under the Pre-IPO Share Option Scheme to grantees being Directors, directors of the subsidiaries of the Company, senior management of our Company and all the Grantees who are entitled to subscribe for not less than 1,636,800 Shares upon full exercise of his option under the Pre-IPO Share Option Scheme, are disclosed in this prospectus, such details to include all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

(ii) in respect of the options granted by us under the Pre-IPO Share Option Scheme other than those referred to in paragraph (i) above, (a) the aggregate number of grantees and the number of Shares subject to the options, (b) the consideration paid for the grant of the Pre-IPO Share Options and (c) the exercise period and the exercise price for the Pre-IPO Share Options will be clearly disclosed in this prospectus;

(iii) a list of all the grantees (including those persons whose details have already been disclosed in the Prospectus) who have been granted options under the Pre-IPO Share Option Scheme (including the persons referred to in paragraph (i) above) containing all the particulars as required under paragraph 10 of Part 1 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus; and

(iv) the particulars of such exemption be disclosed in this prospectus.

Further details of the Pre-IPO Share Option Scheme are set forth in the section headed "Appendix IV — Statutory and General Information — Pre-IPO Share Option Scheme."

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Cap. 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable inquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

## UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter on a conditional basis, with one of the conditions that the Offer Price is agreed between the Joint Bookrunners (on behalf of the Underwriters) and us. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters) and us. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (on behalf of the Underwriters) and us, the Global Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in "Underwriting" in this prospectus.

## DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us on or around July 7, 2014, and in any event no later than July 11, 2014.

**If the Joint Global Coordinators (on behalf of the Underwriters) and we are unable to reach an agreement on the Offer Price, the Global Offering will not become unconditional and will lapse.**

## RESTRICTIONS ON OFFER AND SALE OF SHARES

No action has been taken to permit a public offer of the Offer Shares other than in Hong Kong or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of Hong Kong Public Offer Shares to confirm, that he or she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and related Application Forms, and on the terms and subject to the conditions set out in this prospectus and the Application Forms. No person is authorized in connection with the Global Offering to give any information or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Company, the Underwriters, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, any of their respective directors, agents, employees or advisers or any other persons or parties involved in the Global Offering.

## APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the Listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Global Offering including any Shares which may fall to be issued upon the exercise of any options that has been and/or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. Dealings in the Shares on the Stock Exchange are expected to commence on July 15, 2014.

No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

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

## REGISTER OF MEMBERS AND STAMP DUTY

All Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our Company's share register of members to be maintained in Hong Kong by the Hong Kong Share Registrar, Tricor Investor Services Limited. Our Company's principal register of members will be maintained by our Company's principal share registrar in Cayman Islands by Maples Fund Services (Cayman) Limited.

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

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Main Board and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

## PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasized that none of our Company, the Underwriters, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, any of their respective directors, agents, employees or advisers or any other persons or parties involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

## PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Hong Kong Public Offer Shares are set out in "How to Apply for Hong Kong Public Offer Shares" in this prospectus and on the relevant Application Forms.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure and conditions of the Global Offering, including its conditions, are set out in "Structure and Conditions of the Global Offering" in this prospectus.

## ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

## DIRECTORS

| Name | Address | Nationality |
|---|---|---|
| **Executive Directors** | | |
| Mr. YAO Tongshan (姚同山) | 2-4-1 Jian She Ting Su She<br>Xincheng District<br>Yishuting Nanjie Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | Chinese |
| Mr. WU Jianye (武建鄴) | Flat 7 of Unit 1<br>Tower 7 of Fangting Garden<br>Dongfeng Road<br>Xincheng District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | Chinese |
| Ms. GAO Lingfeng (高凌鳳) | Flat 3 of Unit 1<br>Tower 6 of Public Security Bureau<br>Hailaerdong Road<br>Xincheng District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | Chinese |
| Mr. CUI Ruicheng (崔瑞成) | Flat 4 of Unit 5<br>Tower 4 of Caoyuanmingzhu<br>Hailaerxi Road<br>Huimin District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | Chinese |
| **Non-executive Directors** | | |
| Mr. WU Jingshui (吳景水) | Flat 10 of Unit 4<br>Inner Mongolia Art Dormitory<br>Zhaowuda Road<br>Saihan District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | Chinese |

| Name | Address | Nationality |
|---|---|---|
| Mr. FAN Xiang (范翔) | Flat 10 of Unit 1<br>19 Floor, Fuxing Road No.83 Jia<br>Haidian District<br>Beijing<br>PRC | Chinese |
| Mr. CUI Guiyong (崔桂勇) | 1133A Yosemite Villa<br>Shunyi District<br>Beijing<br>PRC | Chinese |
| Mr. SUN Qian (孫謙) | 67 Beili Road<br>Luohu District<br>Shenzhen<br>Guangdong<br>PRC | Chinese |
| **Independent Non-executive Directors** | | |
| Mr. WONG Kun Kau (黃灌球) | 1/F, House A22<br>88 Wong Ma Kok Road<br>Regalia Bay<br>Stanley<br>Hong Kong | Chinese |
| Mr. LI Changqing (李長青) | Flat 510 of Unit 1<br>Tower 25 of Engineering Department<br>Aimin Road<br>Xincheng District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | Chinese |
| Ms. GE Xiaoping (葛曉萍) | Flat 603<br>No.14 of Haixiaquoji Community Phase 2<br>Huizhanbei Lane<br>Siming District<br>Xiamen City<br>Fujian Province<br>PRC | Chinese |

| Name | Address | Nationality |
|---|---|---|
| Mr. YUAN Qing (袁清) | Flat 1 of Unit 2<br>Tower 7 of Caoyuansuo Dormitory<br>Wulanchabudong Road<br>Saihan District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | Chinese |
| **Senior Management (other than Directors)** | | |
| Mr. LI Yundong (李運動) | Flat 3 of Unit 1<br>Tower 2 of Dianlier Company Dormitory<br>Yinxindong Road<br>Yinxin District<br>Hohhot City<br>Inner Monolia Autonomous Region<br>PRC | Chinese |

## PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|---|---|
| **Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers** | BOCI Asia Limited<br>26/F, Bank of China Tower<br>1 Garden Road<br>Central<br>Hong Kong |
| | Goldman Sachs (Asia) L.L.C.<br>68th Floor, Cheung Kong Centre<br>2 Queen's Road Central<br>Hong Kong |
| **Joint Bookrunners and Joint Lead Managers (in alphabetical order)** | ABCI Capital Limited<br>(in the capacity as a Joint Bookrunner only)<br>Room 701, 7/F, One Pacific Place<br>88 Queensway<br>Hong Kong |
| | ABCI Securities Company Limited<br>(in the capacity as a Joint Lead Manager only)<br>Room 701, 7/F, One Pacific Place<br>88 Queensway<br>Hong Kong |
| | BOCOM International Securities Limited<br>9th Floor, Man Yee Building<br>68 Des Voeux Road Central<br>Hong Kong |
| | China International Capital Corporation Hong Kong Securities Limited<br>29th Floor, One International Finance Centre<br>1 Harbour View Street<br>Central<br>Hong Kong |
| **Legal Advisers to our Company** | *as to Hong Kong law:*<br>Chen & Associates (in association with Wilson Sonsini Goodrich & Rosati, Professional Corporation)<br>Unit 1001, 10/F, Henley Building<br>5 Queen's Road Central<br>Hong Kong |

| | |
|---|---|
| | *as to U.S. law:*<br>Wilson Sonsini Goodrich & Rosati, Professional Corporation (in association with Chen & Associates)<br>Unit 1001, 10/F, Henley Building<br>5 Queen's Road Central<br>Hong Kong |
| | *as to PRC law:*<br>Jingtian & Gongcheng<br>34/F, Tower 3, China Central Place<br>77 Jianguo Road<br>Chaoyang District<br>Beijing 100025, PRC |
| | *as to Cayman Islands law:*<br>Maples and Calder<br>53rd Floor, The Center<br>99 Queen's Road Central<br>Hong Kong |
| **Legal Advisers to the Underwriters** | *as to Hong Kong and U.S. law:*<br>Clifford Chance<br>27/F, Jardine House<br>One Connaught Place Central<br>Hong Kong |
| | *as to PRC law:*<br>Commerce & Finance Law Offices<br>6/F NCI Tower<br>A12 Jianguomenwai Avenue<br>Chaoyang District<br>Beijing, PRC |
| **Reporting Accountant** | Ernst & Young<br>22/F, CITIC Tower<br>1 Tim Mei Avenue<br>Central, Hong Kong |
| **Independent Biological Asset Valuer and Consultant** | Jones Lang LaSalle Corporate Appraisal and Advisory Limited<br>6/F, Three Pacific Place<br>1 Queen's Road East<br>Hong Kong |
| **Independent Industry Consultant** | Frost & Sullivan<br>Suite 2802-2803, Tower A, Dawning Center<br>500 Hongbaoshi Road<br>Shanghai, PRC |

| | |
|---|---|
| **Receiving Banks** | Bank of China (Hong Kong) Limited<br>1 Garden Road<br>Hong Kong |
| | Bank of Communications Co., Ltd. Hong Kong Branch<br>20 Pedder Street<br>Central<br>Hong Kong |
| | Wing Lung Bank, Limited<br>45 Des Voeux Road Central<br>Hong Kong |

| | |
|---|---|
| **Registered office** | PO Box 309<br>Ugland House<br>Grand Cayman, KY1-1104<br>Cayman Islands |
| **Principal place of business in Hong Kong** | Room 606-607<br>6/F, China Merchants Building<br>152-155 Connaught Road<br>Central, Hong Kong |
| **Headquarters and principal place of business in China** | Food Industry Park, Deng Kou County<br>Bayannur City<br>Inner Mongolia Autonomous Region<br>PRC |
| **Joint company secretaries** | Mr. LI Yundong (李運動)<br>Flat 3 of Unit 1<br>Tower 2 of Dianlier Company Dormitory<br>Yinxindong Road<br>Yinxin District, Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC<br><br>Mr. AU Wai Keung (區偉強) (HKICPA)<br>Flat C, 4/F, Blk 6<br>Pokfulam Gardens<br>Pokfulam, Hong Kong |
| **Authorized representative(s)** | Mr. CUI Ruicheng (崔瑞成)<br>Flat 4 of Unit 5<br>Tower 4 of Caoyuanmingzhu<br>Hailaerxi Road<br>Huimin District, Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC<br><br>Mr. AU Wai Keung (區偉強)<br>Flat C, 4/F, Blk 6<br>Pokfulam Gardens<br>Pokfulam, Hong Kong |
| **Audit committee** | Ms. GE Xiaoping (葛曉萍) *(Chairman)*<br>Mr. LI Changqing (李長青)<br>Mr. CUI Guiyong (崔桂勇) |
| **Remuneration committee** | Mr. WONG Kun Kau (黃灌球) (*Chairman*)<br>Mr. LI Changqing (李長青)<br>Mr. SUN Qian (孫謙) |

| | |
|---|---|
| **Nomination committee** | Mr. YAO Tongshan (姚同山) (*Chairman*)<br>Mr. YUAN Qing (袁清)<br>Mr. WONG Kun Kau (黃灌球) |
| **Compliance adviser** | TC Capital Asia Limited<br>Suite 1904, 19/F, Tower 6<br>The Gateway Harbour City, Tsimshatsui<br>Kowloon, Hong Kong |
| **Principal share registrar and transfer office** | Maples Fund Services (Cayman) Limited<br>PO Box 1093, Boundary Hall<br>Cricket Square<br>Grand Cayman KY1-1112<br>Cayman Islands |
| **Hong Kong Share Registrar** | Tricor Investor Services Limited<br>Level 22, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Principal banker(s)** | Bank of China Limited<br>Hohhot Zhongshan Branch<br>No. 28 Guangming Street<br>Humin District, Hohhot<br>Inner Mongolia, PRC |
| | China Merchants Bank Co., Ltd<br>Hohhot Branch<br>No. 9, Chilechuan Street<br>Saihan District, Hohhot<br>Inner Mongolia, PRC |
| | Bank of Communications Co., Ltd.<br>Hohhot, Ulan Branch<br>Building 2, No. 106 Wulanchabu East Street A<br>Saihan District, Xingan Lijing Area, Hohhot<br>Inner Mongolia, PRC |
| | Agricultural Bank of China<br>Tumotezuoqi Branch<br>No. 24 Renmin Road<br>Chasuqi Tower, Tumotezuoqi<br>Inner Mongolia, PRC |
| **Company website address** | http://www.youjimilk.com<br>(the information on the website does not form part of this prospectus) |

A summary of the main PRC laws, rules and regulations applicable to our current business and operations is set out below.

## INDUSTRY POLICIES AND REGULATIONS

### Foreign Investment in Dairy Farming and Production of Dairy Products

Guidance on foreign investment in different industries in the PRC can be found in the Foreign Investment Industrial Guidance Catalogue (《外商投資產業指導目錄》), or the Catalogue, jointly issued by NDRC and MOFCOM and such Catalogue will be amended and re-promulgated from time to time by these two government authorities. Industries generally fall into four categories for the purposes of guiding foreign investment, namely, encouraged, permitted, restricted and prohibited. The Catalogue only lists out specific industries falling under the encouraged, restricted and prohibited categories and what is not listed there would fall into the permitted category. The current effective version of the Catalogue was issued on December 24, 2011 and became effective on January 30, 2012. According to the 2011 Catalogue, dairy farming and production of dairy products should both belong to the permitted category.

### Modern Husbandry and Dairy Industry

Since 2006, the State Council, the Ministry of Agriculture of the PRC (中華人民共和國農業部), or MOA, and NDRC have promulgated a series of policies aiming at promoting the development of modern husbandry and the healthy and sustainable development of the dairy industry. These policies include the Several Opinions of the State Council Concerning the Promotion of Sustainable and Healthy Development of Husbandry (《國務院關於促進畜牧業持續健康發展的意見》), promulgated by the State Council in January 2007, the Several Opinions of the State Council Concerning the Promotion of Sustainable and Healthy Development of the Dairy Industry (《國務院關於促進奶業持續健康發展的意見》), promulgated by the State Council in September 2007, the Circular of the General Office of the State Council Regarding the Transmittal of the Outlines of the Restructuring and Revitalization Plan for the Dairy Industry issued by NDRC and Other Ministries (《國務院辦公廳關於轉發發展改革委等部門奶業整頓和振興規則綱要的通知》), issued by the General Office of the State Council in November 2008, the Development Plan of Major Dairy Cow Farming Regions (2008-2015) (《全國奶牛優勢區域布局規劃 (2008-2015)》), promulgated by MOA in January 2009 and the Several Opinions of MOA Concerning the Acceleration of the Work of Promoting Standardized Large Scale Raising and Breeding of Livestock and Poultry (《農業部關於加快推進畜禽標準化規模養殖的意見》), issued by MOA in January 2010.

On June 26, 2009, 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 NDRC released Dairy Product Industrial Policies (2009 Version) (《乳製品工業產業政策(2009年修訂)》). Investment in dairy products must comply with certain admission conditions. For example, to engage in dairy products processing and manufacturing, investors shall have stable and controllable bases of raw milk supply; for new dairy product processing projects, the supply of raw milk for no lower than 40% of its process capacity shall come from stable and controllable supply bases; for rebuilt dairy product processing projects, the proportion should be no lower than 75%; all raw fresh milk used by liquid milk production enterprises must come from stable and controllable supply bases; and for formula milk powder production enterprises, the proportion shall be no lower than 50%.

**Large-Scale Animal Raising and Breeding Industry**

***Recordal of Animal Breeding Farms***

The Husbandry Law of the PRC (《中華人民共和國畜牧法》), or the Husbandry Law, which was promulgated by the Standing Committee of the National People's Congress of the PRC (全國人民代表大會常務委員會), or the Standing Committee of the NPC, on December 29, 2005 and became effective on July 1, 2006, stipulates the conditions an animal breeding farm must meet, and requires the owner of a breeding farm to submit the name of the farm, address, strains of livestock and poultry as well as scale of breeding for recordal with the administrative department for animal husbandry and veterinary medicine under the people's government at the county level where the farm is located, and to obtain labels and codes for the livestock and poultry.

***Disease Prevention***

The Law on Animal Epidemic Prevention of the PRC (《中華人民共和國動物防疫法》), or the Law on Animal Epidemic Prevention, which was amended by the Standing Committee of the NPC on June 29, 2013, and the Measures for the Examination of Animal Epidemic Prevention Conditions (《動物防疫條件審查辦法》), which was promulgated by MOA on January 21, 2010 and became effective on May 1, 2010, stipulate the conditions for prevention of animal epidemics that an animal breading farm shall meet and require the operator of an animal breeding farm to apply to the administrative departments for veterinary medicine under the people's government at the county level for a certificate for meeting animal epidemic prevention conditions.

According to the Law on Animal Epidemic Prevention, animal epidemic prevention institutions shall monitor the arising and spreading of animal epidemic; any entities and individuals engaged in animal raising, slaughtering, isolation, transportation or operation must report to the local administrative departments for veterinary medicine, animal health supervision institutions or animal epidemic prevention and control institutions immediately once they find the animals have got epidemics or suspect epidemics, and shall take measures to prevent the spread of such epidemics.

Where animals are eradicated and animal products and relevant goods are destroyed through mandatory measures taken in the course of prevention, control and elimination of animal epidemics, people's governments at or above the county level shall provide compensation. The specific rates and measures for compensation shall be determined and adopted by the department of finance under the State Council together with the departments concerned.

***Water Resource***

Pursuant to the requirements of the "Water Law of the People's Republic of China" (《中華人民共和國水法》) (promulgated on August 29, 2002 and effective as of October 1, 2002), "Regulation on the Administration of the License for Water Drawing and the Levy of Water Resource Fees" ) (《取水許可和水資源費徵收管理條例》)(promulgated on February 21, 2006 and effective as of April 15, 2006), "Measures for the Administration of Water Abstraction Licensing" ) (《取水許可管理辦法》) (promulgated and effective as of April 9, 2008) and "Implementation Measures for the Administration of the License for Water Drawing and the Levy of Water Resource Fees in Inner Mongolia" (《內蒙古自治區取水許可和水資源費徵收管理實施辦法》) (promulgated on January 7, 2008 and effective as of March 1, 2008), any entity or individual that draws water resources must, except for certain circumstances, apply for a permit for water drawing, and pay water resource fees. The permit for water drawing should include the term for water drawing, the volume of water for drawing, the purpose of water drawing, the type of the water source, the location of water drawing and water withdrawal and the volume of water withdraw. An applicant may not build water drawing engineering structures or facilities until its application for water drawing has been approved by the approval authority. After the construction of water drawing engineering structures or facilities is completed and upon satisfactory inspection, the approval authority will issue the permit for water drawing. For any water drawing by an entity or individual that exceeds the planned volume, water resource fees shall be charged progressively on the excessive part. The amount of payment of water resource fees will be determined according to the levy standard of water resource fee at the locality of the water intake and the actual volume of water for drawing.

**Quality of Dairy Products**

According to the Regulation on the Supervision and Administration of the Quality Safety of Dairy Products (《乳品質量安全監督管理條例》), which was promulgated by the State Council and became effective on October 9, 2008, dairy animal breeders, raw milk purchasers, dairy products production enterprises and sellers are the first responsible persons who shall assume responsibility for the quality safety of the dairy products which they produce, purchase, transport and sell. Fresh milk and dairy products must comply with the national safety standards governing the quality of dairy products, which are developed by the competent 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.

According to the Administrative Measures for Fresh Milk Production and Procurement (《生鮮乳生產收購管理辦法》), which was promulgated by MOA and became effective on November 7, 2008, provides that dairy animal breeders, purchasers of raw fresh milk and transporters of raw fresh milk are the first responsible persons who shall assume responsibility for the quality safety of the raw fresh milk that they produce, purchase, transport or sell. Raw fresh milk produced, purchased, stored, transported or sold shall comply with the national quality safety standards for dairy products. No substance is permitted to be added in during the processes of production, procurement, storage, transportation and sale of raw fresh milk. Dairy products producers, dairy animal breeders, production cooperatives for farmers of dairy animals who wishes to open raw fresh milk purchase stations shall apply to the administrative department for animal husbandry and veterinary medicine under the people's government at the county level where they are located for a raw fresh milk purchase permit. Such raw fresh milk purchase permits are valid for a period of two years.

The owners of vehicles transporting raw fresh milk must obtain for such vehicles permits for transportation of raw fresh milk issued by the administrative department for animal husbandry and veterinary medicine under the people's government at the county level where they are located.

**Prevention and Control of Pollution**

The Regulations on the Prevention and Control of Pollution Caused by Large-scale Breeding of Livestock and Poultry (《畜禽規模養殖污染防治條例》), issued by the State Council on November 11, 2013 and implemented since January 1, 2014, provide that, livestock and poultry farms and breeding districts shall be built, reconstructed and expanded to meet the requirements of animal epidemic prevention and in compliance with the development plan of animal husbandry and pollution prevention and control plan of livestock and poultry breeding, and such farms and districts must undergo environmental impact assessment. In the livestock and poultry farms and breeding districts there must be relevant facilities for feces of livestock and poultry, shunting sewage and rains, storage of feces and sewage, and comprehensive utilization and harmless treatment facilities for anaerobic digestion and stack retting of feces, organic fertilizer processing, methane producing, separation and delivery of dregs and fluid of methane, sewage treatment and corpse treatment. China encourages and supports comprehensive use of wastes of breeding of livestock and poultry by way of rebuilding farms with manure, production methane and organic fertilizer, and the like; and China encourages and supports the disposal and containment of wastes of breeding of livestock and poultry by way of combining planting and breeding to utilize wastes such as manure of livestock and poultry and sewage nearby; and China encourages and supports comprehensive utilization such as methane and organic fertilizer production and construction of facilities for delivery and utilization of dregs and fluid of methane and methane electricity generation and the like.

**Food Industry in General**

***Food Safety***

The Food Safety Law of the PRC (《中華人民共和國食品安全法》), or the Food Safety Law, which was adopted by the Standing Committee of the NPC on February 28, 2009 and became effective on June 1, 2009, and its implementation regulation (《中華人民共和國食品安全法實施條例》), which was promulgated by the State Council and became effective on July 20, 2009, adopt measures and requirements in the following aspects to improve food safety and prevent large scale food safety accidents:

- strengthen the role of local government in the supervision and coordination of food safety regulation work;

- strengthen food safety risk monitoring, assessment; early intervention and quick control over food safety accidents;

- revise the standards for the use of food additives and strengthen regulation of use of food additives;

- establish a food recall system;

- abolish food safety inspection exemption system; and

- clarify the fundamental principles in formulating food safety standards.

***Food Production***

In accordance with the Food Safety Law, China implements a licensing system on food production.

According to the Measures for the Administration of Food Production Licenses (《食品生產許可管理辦法》), which was issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局), or AQSIQ, on April 7, 2010 and became effective on June 1, 2010, food production enterprises must meet the required production conditions stipulated therein and must obtain food production licenses. An enterprise intending to produce food shall apply to the local quality and technical supervision department where food will be produced. The effective period for a food production license is three years.

According to the Inspection and Regulation Rules for Quality and Safety of Dairy Products (《乳品質量安全監督管理條例》), a food production license shall be obtained from the local quality supervision governmental department for entering into the dairy products production industry, and any individual or entity shall not produce any dairy products without such a license.

***Food Inspection***

In accordance with the Food Safety Law, China has implemented an inspection system relating to food production and operations. The state and local food safety supervision and administrative departments are required to carry out food inspection and may not exempt any food from inspection. The quality and technical supervision departments, industry and commerce administrative departments and food and drug supervision and administration departments at and above the county level shall carry out food inspections by taking samples on a regular or irregular basis. An enterprise engaging in the production or operations of food may itself inspect the food it produces, or entrust a qualified food inspection institution to undertake the inspection.

## Product Quality

### *The Product Quality Law of the PRC*

Products that we manufacture are subject to the laws, rules and regulations in relation to the product quality in the PRC. The Product Quality Law of the PRC (《中華人民共和國產品質量法》), or the Product Quality Law, which was promulgated by the Standing Committee of the NPC on February 22, 1993 and became effective on September 1, 1993 and amended on July 8, 2000, is the principal law governing the supervision and administration of product quality.

According to the Product Quality Law, manufacturers are liable for the quality of products they produce and sellers must take reasonable actions to ensure the quality of the products they sell.

The manufacturer shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products of the manufacturer unless the manufacturer is able to prove that:

- it has not circulated the product;
- the defect did not exist at the time when the product was circulated; or
- the state of scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered.

The seller will be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products it sold if such defect is attributable to the seller. A person who is harmed or whose property is damaged by the defective product may claim such loss against the manufacturer or the seller.

### *Agricultural Products Safety*

The Agricultural Products Safety Law of the PRC (《中華人民共和國農產品質量安全法》), or the Agricultural Products Safety Law, which was promulgated by the Standing Committee of the NPC on April 29, 2006 and became effective on November 1, 2006, governs the supervision and administration of the quality and safety of primary agricultural products, namely plants, animals, microorganisms and other products obtained in the course of agricultural activities. The Agricultural Products Safety Law regulates the agricultural products in the following aspects to ensure that they meet the requirements necessary to protect people's health and safety, including:

- the quality and safety standards of agricultural products;
- the production places of agricultural products;
- the production of agricultural products; and
- the packaging and labeling of agricultural products.

According to the Agricultural Products Safety Law, producers of agricultural products shall reasonably use chemical products in order to avoid contaminating production places of agricultural products. The agricultural producers shall also ensure that the preservatives, additives and other chemicals used in the process of production, packaging, preservation, storage and transportation of agricultural products shall be in conformity with the relevant compulsory technical specifications set by the State.

**Organic Product Certification**

According to Measures for the Administration of Organic Product Certification (《有機產品認證管理辦法》), which was promulgated by General Administration of Quality Supervision, Inspection and Quarantine of the PRC on November 5, 2004, became effective on April 1, 2005 and amended on November 15, 2013, producers of organic products may apply to authorized certification bodies for organic product certification. The certification bodies shall arrange for inspectors to carry out on-site inspection of the production or processing facilities of organic products in accordance with the Implementation Rules for Organic Product Certification (《有機產品認證實施規則》). The certification bodies will authorize testing agencies with statutory qualifications to test the products for which certification is applied. Where the requirements of organic product certification are met, the certification bodies shall issue organic product certification to the applicant. In addition, the certification bodies shall implement effective tracking and inspection of the certified products as well as their production and processing processes in accordance with the Implementation Rules for Organic Product Certification so as to ensure the ongoing compliance of the certificate holders. Without organic product certification, no products may be labeled or identified as organic or organically produced which would mislead the public that the said products are organic products.

**Product Liabilities**

Pursuant to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which was promulgated by the National People's Congress of the PRC on April 12, 1986 and became effective on January 1, 1987, and the Law on the Protection of Consumers' Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》), which was promulgated by the Standing Committee of the NPC on October 31, 1993 and became effective on January 1, 1994, and further amended by the Standing Committee of the NPC on August 27, 2009 and October 25, 2013, both manufacturers and distributors shall be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture or distribute.

The Tort Liability Law (《中華人民共和國侵權責任法》), which was promulgated by the Standing Committee of the NPC on December 26, 2009 and became effective on July 1, 2010, provides that where a product endangers personal life or property due to its defect, the manufacturers and the distributors shall bear liability in tort.

## IMPORT RESTRICTIONS TO PREVENT MAD COW DISEASE

MOA and AQSIQ promulgated an announcement regarding Bovine Spongiform Encephalopathy, or BSE (also known as Mad Cow Disease) on March 1, 2001, which forbids the imports of any cows and heifers directly or indirectly from countries which had found BSE cases within their territories. The announcement also provides a list to show the countries which had found BSE cases till then, and any country which finds BSE cases from then on will be added into the list automatically. Since 2001, MOA and AQSIQ have promulgated announcements from time to time to forbid imports of cows and relevant products from the countries which found BSE cases, such as Canada (in 2003) and Brazil (in 2012).

### Land Used for Agricultural Facilities

According to the Circular of Ministry of Land and Resources and MOA on Relevant Issues Concerning Improving the Administration of Land Used for Agricultural Facilities (《國土資源部、農業部關於完善設施農用地管理有關問題的通知》), which was promulgated and became effective on September 30, 2010, land used for agricultural facilities is divided into two categories, land for production facilities and land for ancillary facilities, which in nature are different from land used for non-agricultural construction project and are treated and administered as agricultural land.

## TAXATION

### Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, which was promulgated by the National People's Congress of the PRC on March 16, 2007 and became effective on January 1, 2008, and the Implementation Rules to the EIT Law (《中華人民共和國企業所得稅法實施條例》), or the Implementation Rules, which was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise must pay enterprise income tax on its income deriving from both inside and outside China at the rate of enterprise income tax of 25.0%. A non-resident enterprise that has an establishment or place of business in the PRC shall pay enterprise income tax on its income deriving from inside China and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business, at the rate of enterprise income tax of 25.0%. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10.0%.

According to the EIT Law and the Implementation Rules, income of an enterprise generated from farming cattle and poultry or primary process of agricultural products will be exempted from enterprise income tax.

**Value-Added Tax**

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), or VAT Regulations, which was amended by the State Council on November 5, 2008 and became effective on January 1, 2009, and its implementation rules (《中華人民共和國增值稅暫行條例實施細則》), which was amended by the Ministry of Finance of the PRC (中華人民共和國財政部) on October 28, 2011, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax. Unless provided otherwise, the rate of value-added tax for general value-added tax payers is 17.0%. Self-produced agricultural products sold by agricultural producers shall be exempt from value-added tax.

## DIVIDEND DISTRIBUTION

Under the Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), which was amended by the Standing Committee of the NPC on October 31, 2001, and the Law of the PRC on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), which was amended by the Standing Committee of the NPC on March 15, 2001, foreign-invested enterprises may not distribute after-tax profits unless they have contributed to the funds as required by PRC laws and regulations and have set off financial losses of previous accounting years.

According to the EIT Law and the Implementation Rules, dividends paid to its foreign investors are subject to a withholding tax rate of 10.0%, unless relevant tax agreements entered into by the PRC Government provide otherwise.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》), or the Arrangement on August 21, 2006. According to the Arrangement, the withholding tax rate on dividends paid by a PRC company to a Hong Kong resident is 5.0%, provided that such Hong Kong resident directly holds at least 25.0% of the equity interests in the PRC company, and 10.0% if the Hong Kong resident holds less than 25.0% of the equity interests in a PRC company. In order to claim for the beneficial treatment on the withholding tax rate for dividends at 5% under the Arrangement on August 21, 2006, a Hong Kong resident is required to be the beneficial owner of dividends received, which will be subject to the assessment and approval of the competent PRC tax authorities based on relevant parameters in determining beneficial ownership status under prevailing PRC tax regulations.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by SAT and became effective on February 2, 2009, all of the following requirements are satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company:

- such a fiscal resident who obtains dividends should be a company as provided in the tax agreement;
- owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and
- the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (《非居民享受稅收協定待遇管理辦法(試行)》), or the Administrative Measures, which became effective on October 1, 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax agreements.

## ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), or the Environmental Protection Law, which was promulgated by the Standing Committee of the NPC and became effective on December 26, 1989, establishes the legal framework for environmental protection in the PRC. The environmental protection department of the State Council supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions.

### Prevention and Control of Pollution

The Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was amended by the Standing Committee of the NPC on February 28, 2008, the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), which was amended by the Standing Committee of the NPC on April 29, 2000, and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), which was promulgated by the Standing Committee of the NPC on October 29, 1996 and became effective on March 1, 1997, as well as the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), which was amended by the Standing Committee of the NPC December 29, 2004, prescribe the details for the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution.

### Environmental Protection on Construction Projects

The Environmental Impact Appraisal Law (《中華人民共和國環境影響評價法》), which was promulgated by the Standing Committee of the NPC on October 28, 2002 and became effective on September 1, 2003, the Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which was promulgated by the State Council and became effective on November 29, 1998, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by the State Environmental Protection Administration of the PRC (中華人民共和國國家環境保護總局) on December 27, 2001 and became effective on February 1,2002, require enterprises planning construction projects to engage qualified professional institution to provide assessment reports on the environmental impact of such projects. The assessment report must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises must file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

## LABOR

### Employment Contracts

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), or the Labor Contract Law, which was promulgated by the Standing Committee of the NPC on June 29, 2007 and became effective on January 1, 2008 and as amended on December 28, 2012, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employment contract. The Labor Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

### Social Security

Under applicable PRC laws and regulations, including the Social Insurance Law of The PRC (《中華人民共和國社會保險法》), which was promulgated by the Standing Committee of the NPC on October 28, 2010 and became effective on July 1, 2011, and the Regulations on the Administration of Housing Accumulation Fund (《住房公積金管理條例》), which was amended by the State Council on March 24, 2002, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and employers who fail to contribute may be fined and ordered to rectify within a stipulated time limit.

## PRODUCTION SAFETY

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》), or the Production Safety Law, which was promulgated by the Standing Committee of the NPC on June 29, 2002 and became effective on November 1, 2002, is the principal law governing the supervision and administration of production safety in the PRC. This law requires production entities to meet the relevant legal requirements, such as providing its staff with training and a handbook on production safety and providing safe working conditions in compliance with relevant laws, rules and regulations. Any production entities unable to provide the required safe working conditions may not engage in production activities. Violation of the Production Safety Law may result in the imposition of fines and penalties, the suspension of operations, an order to cease operations, or even criminal liability in severe cases.

Pursuant to the Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》), which was promulgated by the State Council on March 11, 2003 and became effective on June 1, 2003 and amended on January 24, 2009, special equipment, including boilers, pressure vehicles (including gas cylinders), pressure pipelines, elevators, lifting alliances, passenger ropeways, and large amusement devices, which relate to safety of human lives or having high risks, shall be registered with competent departments for safety supervision and administration of special equipment. The operators of special equipment shall not engage in operation or management of the special equipment until they have passed the examination organized by the departments for safety supervision and administration of special equipment.

## FOREIGN EXCHANGE REGISTRATION

Pursuant to Circular on Foreign Exchange Issues Related to Equity Finance and Round-Trip Investments by Domestic Residents through Offshore Special Purpose Vehicles (《國家外匯管理局關於境內企業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 Circular 75, which was promulgated by SAFE on October 21, 2005 and became effective on November 1, 2005, (i) a domestic resident, including a domestic resident natural person or a PRC company, must register with the local SAFE branch before it establishes or controls a special purpose vehicle, or an SPV for the purpose of conducting overseas equity financing; (ii) when a domestic resident contributes assets or equity interests to an overseas SPV, such domestic resident must register its interests in the overseas SPV or any change to its interest in the overseas SPV with the local SAFE branch; and (iii) when the overseas SPV undergoes a material change in capital outside the PRC, such as a change in share capital or merger and acquisition, the domestic resident must register such change with the local SAFE branch.

## MERGERS AND ACQUISITIONS BY FOREIGN INVESTORS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Regulation, was promulgated by MOFCOM, the State Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), SAT, SAIC, CSRC and SAFE on August 8, 2006 and became effective on September 8, 2006 as amended on June 22, 2009 by MOFCOM. Under the M&A Regulation, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor:

- a foreign investor purchases by agreement the equity interests of a domestic enterprise without foreign investment or subscribes for the increased capital of a domestic enterprise without foreign investment, and thus converts the domestic enterprise without foreign investment into a foreign-invested enterprise;

- a foreign investor establishes a foreign-invested enterprise and use such foreign-invested enterprise to purchase by agreement the assets of a domestic enterprise and operates such assets; or

- a foreign investor purchases by agreement the assets of a domestic enterprise and then contribute such assets as capital to establish a foreign-invested enterprise and operates such assets.

## SECURITY REVIEW

Pursuant to the Circular of the General Office of the State Council on the Establishment the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》), which was promulgated on February 3, 2011 and became effective on March 3, 2011, and the Provisions of MOFCOM on the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》), which was promulgated on August 25, 2011 and became effective on September 1, 2011, where foreign investors initiate mergers and acquisitions of domestic military industrial enterprises and supportive military industrial enterprises, enterprises surrounding major and sensitive military facilities, and other entities relating to the national defense security; mergers and acquisitions of domestic enterprises relating to important agricultural products, important energies and resources, important infrastructural facilities, important transportation services, key technologies, manufacturing of major equipment and other business related to the national security, which may result in the actual controlling power of foreign investors over those acquired domestic enterprises, the foreign investors shall apply to MOFCOM for the security review of the concerned mergers and acquisitions. Whether a foreign investor' mergers and acquisitions of a domestic enterprise falls under the scope of mergers and acquisitions security review or not shall be determined in terms of the substance and actual influence of the mergers and acquisitions transaction. No foreign investors may substantially evade mergers and acquisitions security review under any circumstances, including but not limited to by way of holding on behalf of others, trust, multi-level reinvestment, leasing, loans, variable interest entities, or overseas transactions.

## INTELLECTUAL PROPERTY

China has adopted legislations related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory party to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement on the International Registration of Marks and Madrid Protocol, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

### Regulations on Patents

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated on March 12, 1984 and amended on September 4, 1992, August 25, 2000 and December 27, 2008, with the last amendment effective on October 1, 2009, patent protection is divided into three categories, namely, invention patent, utility patent and design patent. Invention patents are valid for twenty years from the date of application, while design patents and utility patents are valid for ten years from the date of application. Once an invention patent, utility patent or a design patent is granted, unless otherwise permitted by law, no individual or entities are permitted to engage in the manufacture, use, sale, or import of the product protected by such patent or otherwise engage in the manufacture, use, sale, or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder. The patent application system in China is different in many ways from that in other countries. The patent system in China uses the "first to file" principle, which means when more than one person files for a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Although patent rights are national rights, the Patent Cooperation Treaty allows an applicant in one country to seek patent protection for an invention in multiple member countries at the same time by filing an international patent application. However, the fact that a patent application is pending is not a guarantee that a patent will be granted. Furthermore, even if a patent application is granted, the scope of a patent may not be as broad as the applicant requested in the initial application.

**Regulations on Trademarks**

The Trademark Law of the PRC (《中華人民共和國商標法》), or the Trademark Law, was promulgated in August 1982, subsequently amended on February 22, 1993 and October 27, 2001, and Implementation Regulations on the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) was promulgated on August 3, 2002 by the State Council. These laws and regulations provide the basic legal framework for the regulations of trademarks in China. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks. The Trademark Office under SAIC is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of ten years. Six months prior to the expiration of the ten-year term, an applicant can renewed the application and reapply for trademark protection.

Under the Trademark Law, any of the following acts may be regarded as an infringement of the exclusive right to use of a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark on the same or similar kind of commodities of the trademark registrant's without the authorization of the trademark registrant;
- sale of commodities infringing upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorization, representations of a registered trademark, or sale of such representation of a registered trademark; and
- otherwise infringing upon other person's exclusive right to use a registered trademark and cause damages.

Violation of the Trademark Law may result in the imposition of fines, confiscation and destruction of the infringing commodities. Trademark license agreements must be filed with the Trademark Office under SAIC or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

**Regulations on Domain Names**

The Measures for the Administration of Domain Names for the Chinese Internet (《中國互聯網絡域名管理辦法》) were promulgated by the Ministry of Information Industry on November 5, 2004 and became effective on December 20, 2004. These measures regulate the registration of domain names in Chinese with the Internet country code of ".cn." The Measures on Domain Names Dispute Resolution (《中國互聯網信息中心域名爭議解決辦法(2006年修訂)》) were promulgated by the Chinese Internet Network Infrastructure Center on February 14, 2006 and became effective on March 17, 2006. These measures require domain name disputes to be submitted to institutions authorized by the Chinese Internet Network Information Center for resolution.

*Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in the prospectus contains information extracted from a report commissioned by us, or the F&S Report, prepared by Frost & Sullivan for purposes of this prospectus.[(1)] We believe that the sources of the information in this "Industry Overview" section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the F&S Report which may qualify, contradict or have an adverse impact on the quality of information in this section. However, the information has not been independently verified by us, the Joint Sponsors, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Except as otherwise noted, all the data and forecast in this section are derived from the F&S Report.*

## ORGANIC FOOD

### Why Organic?

During the past decades, the use of synthetic chemicals in agricultural production was promoted to farmers as a way of enhancing productivity and increasing yield. Today, much uncertainty remains

(1) This "Industry Overview" section contains information extracted from a commissioned report, or the F&S Report, prepared by Frost & Sullivan for purposes of this prospectus. The contract sum to Frost & Sullivan is RMB1.09 million for the preparation and use of the F&S Report, and we believe that such fees reflect the market rate.

**Research Methodologies**

In compiling and preparing the F&S Report, Frost & Sullivan has also adopted the following methodologies:

- A detailed primary research which involves discussing the status of the industry with leading industry participants and industry experts.
- The consumer survey on liquid milk was based on 1,200 respondents from 4 cities. Through this consumer survey, Frost & Sullivan has obtained the information in relation to consumer behavior and attitude towards liquid milk products as well as organic liquid milk products in these cities.
- A secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.
- Projected data was obtained from historical data analysis plotted against macroeconomic data as well as specific industry-related drivers.

**Forecasting Bases and Assumptions**

Frost & Sullivan based the F&S Report on the following bases and assumptions:

- Chinese economy is expected to maintain steady growth in the next decade;
- Chinese social, economic, and political environment is expected to remain stable in the forecast period;
- Key market drivers such as increase in per capita disposable income, rapid urbanization, low per capita consumption compared to developed countries, rising health awareness, increasing demand for high-end production, and improved distribution network are expected to boost the development of the Chinese dairy market;
- Key drivers including increasing disposable income of Chinese residents, rising health awareness among consumers and expanding consuming groups of liquid milk is likely to drive the future growth of China liquid milk market;
- The market research was completed in June 2014.

**About Frost & Sullivan**

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom, and financial services.

regarding the safety of such chemicals currently used. The use of antibiotics, synthetic hormones, and genetically modified organisms, or GMO, to intensify production in modern conventional agriculture practices also presents concerns for human and animal health. In particular, food safety has been a growing concern of Chinese consumers as result of a series of food contamination incidents in China. The organic certification standards in E.U., the United States and China primarily adopt the common principles of prohibiting the use of synthetic pesticides or fertilizers, synthetic hormones, antibiotics, GMOs and promoting animal welfare. See "— Raw Milk Production in China — Organic Raw Milk — Organic Dairy Certification" for more details about organic standards in E.U., the United States and China. These common principles also, to a certain extent, reflect the philosophy of organic production to minimize any potential harm to the environment, animals and humans and follow the natural laws of living organisms with emphasis on the interdependence of all life and the value of sustainability.

The following definitions briefly describe the concept of organic food as known today.

- "Organic agriculture"— a whole-system approach based upon a set of processes resulting in a sustainable ecosystem, safe food, good nutrition and animal welfare. It is based on minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony.
- "Organic food"— food that is produced using methods of organic dairy farming, with limited modern synthetic inputs such as synthetic pesticides and fertilizers. Organic food is not processed using irradiation, industrial solvents, or transgenic technology. Antibiotics, synthetic hormones and other chemical food additives are also prohibited in the process of making organic food.

**China's Organic Food Market**

As the organic concept emerged relatively late in China, organic food is not well penetrated in the Chinese market. Per capita expenditure on organic food in China was only US$4 in 2013. In contrast, organic food is more widely accepted by consumers in western countries. In 2013, the per capita expenditure on organic food was US$118, US$102 and US$88 in Germany, the United States and France, respectively.

The global organic food retail market increased from US$55.0 billion in 2009 to US$81.7 billion in 2013, with a CAGR of 10.4%. Organic food was consumed in over 160 countries in 2013. The United States and European countries such as Germany, France and the United Kingdom were the main consumption countries of organic food. With the consumers' increasing awareness of organic food globally, the global organic food retail market is likely to grow at a CAGR of 14.9% from 2013 and reach US$163.4 billion in 2018. Organic food is expected to be more popular and become increasingly available to general consumers at that time. China's organic food market is experiencing rapid growth. The organic food retail market in China increased from US$1.6 billion in 2009 to US$5.3 billion in 2013, and is expected to reach US$24.0 billion in 2018. China's share of the global organic food retail market is also expected to grow to 14.7% in 2018, compared with 2.8% in 2009 and 6.4% in 2013.

***Future trends and growth drivers***

The global organic food market is likely to continue growing in the future, with key growth drivers coming from both the demand side and the supply side. On the demand side, the global organic food market has witnessed growth in recent years due to increasing consumer health awareness, which is likely to continue driving the future growth of this market. The increasing penetration of organic food is expected to enhance its popularity and availability. Widening retail distribution channels including more physical stores as well as online channels is likely to support the growth of the market. On the supply side, in 2013, over 160 countries have produced and consumed organic food. With the maturity of public policies and government regulations on organic food, more suppliers are likely to engage in organic food markets. Increased research and development efforts for new products development provides significant market opportunities for the market players, which is also likely to promote the organic food market for the demand side.

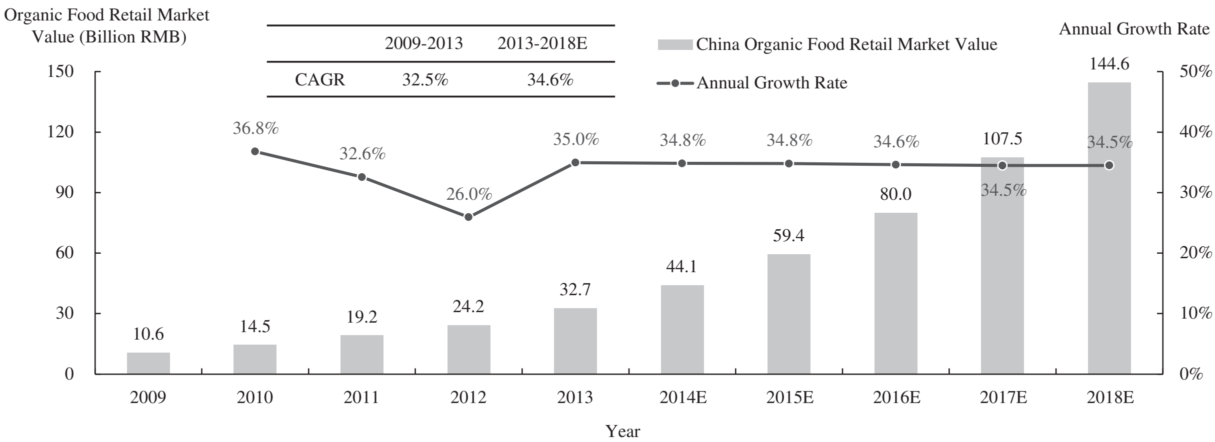
As a result of these growth drivers, the organic food market in China is expected to exhibit the following growth trends:

- *Rapid market growth.* With the increasing disposable income of Chinese consumers, as well as their increasing health consciousness, China's organic food market has grown rapidly in the past several years and is expected to continue the rapid growth in the future. More consumers are expected to consume organic food.

- *Increasing availability*. China's organic food market is still concentrated in large cities. Distribution channels of organic food are also limited compared to those of traditional food. In the future, with the development of distribution channels, such as online channels, organic food is expected to become available in more cities and regions of China, which will contribute to organic food market growth.

- *More product diversity*. Compared with western countries, China's organic food market still lags behind with limited product categories. The current main organic foods in China are, among others, organic milk, organic fruit and organic vegetables. Organic meat, such as beef and pork, and organic poultry are not popular in China. With the development of organic food market in China, an increasing number of products are likely to emerge to enrich the organic food portfolio.

China's organic food market has experienced a rapid growth stage from 2009 to 2013. The increasingly broad range of organic food and the rising of the living standard had driven the market growth. From 2009 to 2013, China's organic food retail market increased from RMB10.6 billion to RMB32.7 billion, with a CAGR of 32.5%, and is expected to further increase to RMB144.6 billion in 2018, representing a CAGR of 34.6% from 2013 to 2018. The following chart illustrates the consumption of organic food in China from 2009 to 2013 and the forecast from 2014 to 2018. In comparison, China's food retail market value only grew with a CAGR of 17.2% from 2009 to 2013, and is likely to expand with a CAGR of 13.8% from 2013 to 2018.




### Organic Food Certification

Organic certification is a certification process for producers of organic food and other organic agricultural products, including organic raw milk and dairy products. It is intended to assure quality and prevent fraud, and aimed at regulating and facilitating the sale of organic products to consumers. Certification requirements vary from country to country, and generally involve a set of production standards for growing, processing, storaging, packaging and shipping. Frequently used certification standards in China include those of the United States, Japan, E.U., and China.

## CHINA'S DAIRY INDUSTRY

Rapid growth in China's dairy industry began in the 1990s and has continued in recent years. In 2013, China's dairy products market, including UHT and fresh milk, milk powder, yogurt and other dairy products, had a total retail sales value of RMB300.4 billion and is expected to further grow at a CAGR of 11.3% to RMB513.4 billion in 2018.

## Industry Value Chain

The dairy industry supply chain in China includes the growing and processing of feed, dairy farming, and the production and sale of dairy products. An integrated and traceable supply chain is recognized as an effective solution for ensuring raw milk quality in the quality control of feed processing, milking, raw milk production and finished product transportation and storage. This is because a vertically-integrated business model can align the competing interests among different participants across critical segments of the dairy industry value chain. Set forth below is a comparison of the degree of vertical integration among major dairy companies in China.[1]

| | Forage Growing | Dairy Farming and Raw Milk Supply | Dairy Products Market |
|---|---|---|---|
| Shengmu[2] | ✔ | ✔ | ✔ |
| Huishan Group | ✔ | ✔ | ✔ |
| Bright | | ✔ | ✔ |
| Modern Dairy | | ✔ | ✔ |
| New Hope | | ✔ | ✔ |
| Weigang | | ✔ | ✔ |
| YuanShengTai | | ✔ | |
| Mengniu Group | | | ✔ |
| Yili Group[2] | | | ✔ |
| Sanyuan | | | ✔ |
| Wondersun | | | ✔ |

*(1) "✔" indicates that this participant had more than half of its forage supplied by the forage planting areas over which it had control or significant influences in terms of management and operation of forage growing, more than half of its raw milk supplied by the milk sources over which it had control or significant influences in terms of management and operation of dairy farming and raw milk supply, and the dairy products production over which it had control or significant influences in terms of management and operation of dairy products as of December 31, 2013.*

*(2) Shengmu and Yili Group were the only two grass-to-glass organic dairy producers in China as of December 31, 2013, defined as those with control or significant influences over management and operation of organic certified forage growing fields and ownership of organic certified dairy farms and processing capabilities. As non-organic milk production constitutes a significant component of Yili Group's business, and a majority of Yili Group's overall forage and raw milk is sourced from third-party suppliers, it is not regarded as a vertically-integrated dairy company. See "— China's Dairy Products Market — Increasing Penetration of High-end Market Segment — 'Grass-to-glass' Organic Dairy Market" below for further details.*

*Source: Frost & Sullivan*

Among all the major dairy companies in China, Shengmu was the only vertically integrated Chinese dairy farming company whose products meet the E.U. organic standards, as of May 31, 2014.

## Growth Drivers and Future Trends

Key growth drivers and future trends of China's dairy industry include the following:

- *Increase in per capita disposable income*. Per capita annual disposable income of urban households in China is expected to grow at a CAGR of 10.4% from RMB26,955 in 2013 to RMB44,150 in 2018, and the per capita annual disposable income of rural households in China is expected to grow at a CAGR of 12.3% from RMB8,896 in 2013 to RMB15,907 in 2018.

- *Rapid urbanization.* China's urbanization rate will increase from 53.7% in 2013 to 59.9% in 2018. Accelerating urbanization also affects consumer goods markets in lower-tier cities and rural areas as the urban mindset and lifestyle are being accepted by an increasing proportion of the rural population. Various consumer products, such as dairy products, which used to be found only in urban markets, are now more often displayed in rural markets, which has helped such products penetrate into broader and more diverse tiers of markets.

- *Increase in per capita consumption.* China's per capita consumption of dairy products is currently still significantly lower than that of developed countries. In 2013, the per capita consumption of dairy products was approximately 28.9 kilograms per year in China, as compared with 84.6 kilograms per annum, 96.2 kilograms per year and 58.0 kilograms per annum in the European Union, the United States and Japan, respectively.

- *Rising health awareness*. With the changing dietary habits and increasing health awareness of Chinese people, dairy products have become a daily diet staple of an increasing number of consumers. Such a trend is expected to drive further growth of dairy products consumption in China.

## CHINA'S DAIRY FARMING INDUSTRY

### Climatic and Geographical Suitability

The dairy farming business is affected by climate. In general, dairy cows prefer cool and dry weather over hot, humid weather, which is why the herd size of dairy cows in northern areas is generally larger than that of southern areas. It is generally accepted in the dairy farming industry that the most suitable cattle raising areas for dairy cows is located in what is known as the Golden Raw Milk Belt (40° and 47° north latitude). Many global leading dairy giants established their dairy farming companies around the Golden Raw Milk Belt, which can provide adequate feed with higher quality and lower transportation costs for dairy farming business. In China, the majority of northeastern China, Inner Mongolia and Xinjiang are within this area.

In particular, located in Bayannur League and Alxa League of Inner Mongolia with a total area of 11,000 square kilometers, the Ulan Buh desert is the eighth largest desert in China which has a number of advantages compared to conventional farming environments, including little pollution, very low levels of bacteria, viruses and pests, and favorable climatic advantages. Dairy cows prefer relatively cool temperature and dry weather. The intensity and the long hours of sunlight in the desert help forage crops grow and dairy cows convert vegetable protein into animal protein and produce higher levels of calcium in their milk. The following are certain climatic advantages of the Ulan Buh desert:

- *Desirable latitude zone for dairy farming*. The Ulan Buh desert is located in the Golden Raw Milk Belt.

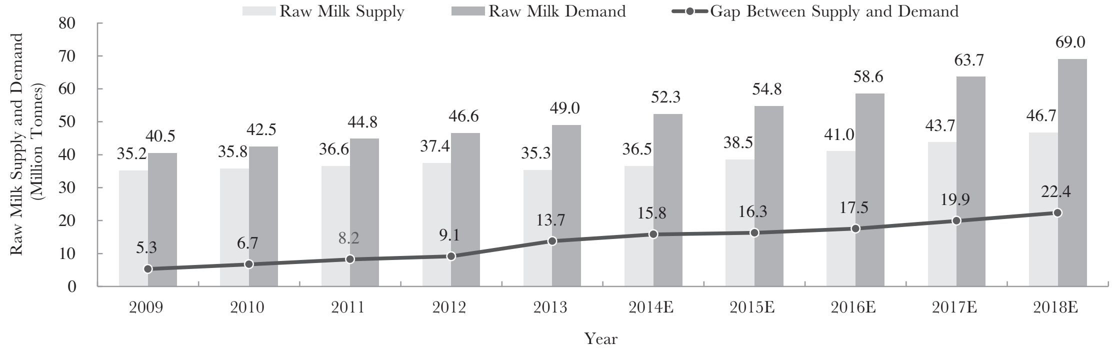
- *Cool and dry weather*. The temperature range from 0°C to 15°C is a favorable range for dairy cows, and the Ulan Buh desert has a temperature range generally from -30°C to 39°C with an annual average temperature of 7.8°C, and an annual average precipitation of approximately 103 millimeters. In addition, the temperature difference between day and night in the desert helps to improve the quality of forage crops. Meanwhile, the temperature in China generally ranges from -33°C to 43°C, with an annual average temperature of 10.2°C. The annual average precipitation in China is approximately 653.4 millimeters.

- *Ample sunlight.* The Ulan Buh desert has an average of almost 3,200 hours of sunlight annually with an average solar radiation intensity of 6,280 MJ/square meter, compared to an average 1,800 to 2,000 hours of sunlight annually with an average solar radiation intensity of 4,250 to 5,000 MJ/square meter in central and southern China. The intensity and the long hours of the sunlight in the desert help forage crops grow and dairy cows convert vegetable protein into animal protein and produce higher levels of calcium in their milk.

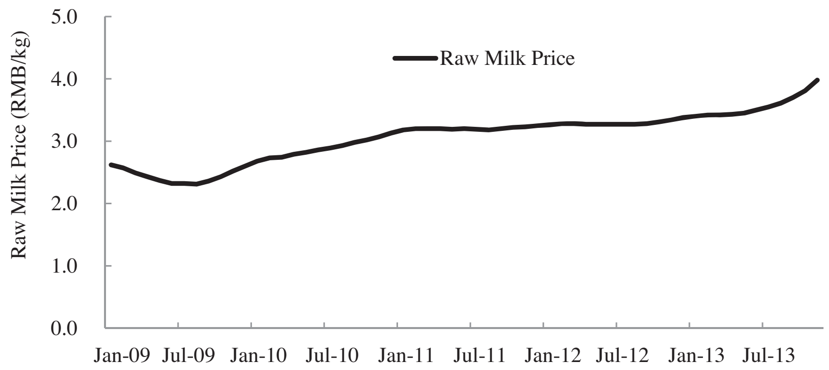
- *Abundant soil and water*. The Ulan Buh desert is the product of alluviation of the upper reaches of the Yellow River, which has formed a thick layer of rich soil under the sand surface of the desert conductive to plantation. According to the survey conducted by Inner Mongolia Hetao Irrigation Administration, the Ulan Buh desert area has an aquifer holding an aggregate of approximately 5.7 billion cubic meters of water under the sand surface. The water of the upper reaches of the Yellow River is very clean and is purified as it percolates through layers of rock, fine sand and gravel to form the desert lakes and aquifers.

## RAW MILK PRODUCTION IN CHINA

China's raw milk demand has been increasing steadily in the last few years, from 40.5 million tonnes in 2009 to 49.0 million tonnes in 2013, with a CAGR of 4.9%. Driven by the increasing demand of dairy products by Chinese consumers, China's raw milk shortage is expected to continue from 2014 to 2018 and the gap between demand and supply will continuously widen at a CAGR of 17.4% from 2009 to 2018, with the demand for raw milk increasing at a CAGR of 7.1% from 2013 to 2018.



The chart below illustrates the raw milk price trend in China from January 2009 to July 2013.




Within the raw milk market in China, the production volume of organic raw milk was approximately 0.17 million tonnes, accounting for 0.5% of total raw milk production volume which was 35.3 million tonnes in 2013. The market size of organic raw milk in the overall raw milk market is expected to grow significantly in the future. Organic raw milk production volume is expected to reach 1.48 million tonnes, equivalent to 3.2% of total raw milk production volume in 2018, representing a CAGR of 53.5% from 2013 to 2018.

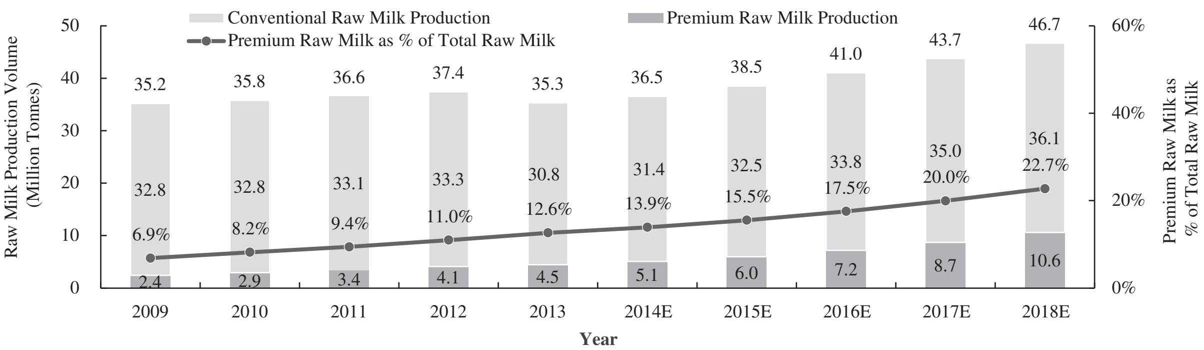
China's non-organic raw milk market was highly fragmented in 2013. In 2013, the top five non-organic raw milk producers collectively accounted for only 5.1% of total non-organic raw milk production volume in China. Modern Dairy, which ranked first in terms of non-organic raw milk production volume, produced 700.0 thousand tonnes of non-organic raw milk in 2013, or 2.0% of the total market. Shengmu produced approximately 113.3 thousand tonnes of non-organic raw milk in 2013, ranking eighth in terms of non-organic raw milk production volume in 2013 with a market share of 0.3%.

Raw milk can be broadly divided into premium raw milk and conventional raw milk based on certain nutrition and safety criteria. Premium raw milk can be further divided into organic raw milk and premium non-organic raw milk. See "— Raw Milk Production in China — Premium Raw Milk" and " — Raw Milk Production in China — Organic Raw Milk" below for further details on the classification criteria.

**Premium Raw Milk**

Premium raw milk refers to the raw milk with protein content above 3.2%, fat content above 3.7%, aerobic plate count below 100,000 CFU/mL and somatic cell below 400,000 CFU/mL. Medium-to-large-scale dairy farms are typically able to take advantage of advanced dairy farm management and premium dairy cow breed and generate a majority of premium raw milk. The quality of premium raw milk significantly exceeds China's national standards in most cases. China's premium raw milk production increased rapidly from 2.4 million tonnes in 2009 to 4.5 million tonnes in 2013, representing a CAGR of 16.6%. The proportion of premium raw milk in the total raw milk production also increased to 12.6% in 2013, compared with 6.9% in 2009. Given the increasing popularity of high-end milk products among Chinese consumers and the rising concentration in China's dairy farming market, the production of premium raw milk is likely to increase to 10.6 million tonnes, accounting for 22.7% of total raw milk production, in 2018, with a CAGR of 18.9% from 2013 to 2018. The proportion of organic raw milk in total premium raw milk production has been rising in the recent years. In 2013, organic raw milk accounted for approximately 3.9% of total premium raw milk production volume, compared to 0.7% in 2009. Organic raw milk production volume is expected to grow faster than total premium raw milk production volume and is expected to account for 13.9% of total premium raw milk volume in 2018.

The chart below illustrates the raw milk production volume and breakdown in China from 2009 to 2013 and a forecast from 2014 to 2018.




*Sources: National Bureau of Statistics of China, Frost & Sullivan*

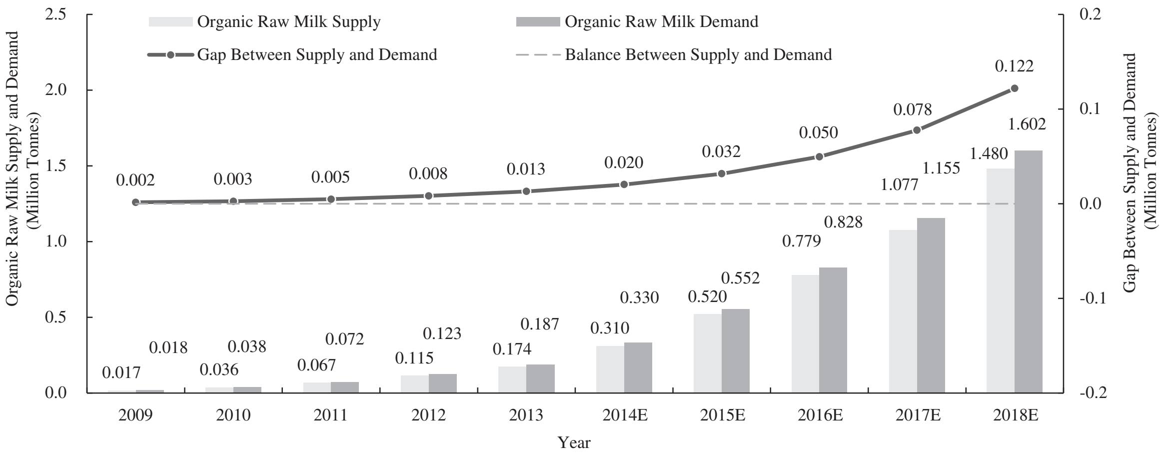
The total production volume of premium non-organic raw milk in China was 4.3 million tonnes in 2013. Shengmu produced 113,300 tonnes premium non-organic raw milk, with a corresponding market share of 2.6% in the same year, ranking among the top eight producers of premium non-organic raw milk in China.

**Organic Raw Milk**

Organic raw milk refers to the pollution-free and additive-free raw milk that meet the organic standards of third-party certification institutions. Organic certification standards are stringent, and involve lengthy approval processes, with requirements that focus on, among others, farmland, feed and breeding of dairy cows. With its high quality, organic raw milk is classified under premium raw milk.

***China's organic raw milk market***

Organic raw milk emerged in China only several years ago, and production volume of organic raw milk, which is also market supply of organic raw milk, had experienced rapid growth from 17,000 tonne in 2009 to 174,000 tonne in 2013, with a CAGR of 79.6%. As the Chinese consumers are becoming increasingly aware of the organic concept and the associated health and nutrition benefits, the unmet demand is likely to drive the future growth of the market. Organic raw milk production volume in China is expected to reach 1.48 million tonnes in 2018, representing a CAGR of 64.6% from 2009 to 2018. Furthermore, China's organic raw milk market is expected to keep under-supply and the gap between supply and demand is likely to increasingly enlarge in the future, representing a CAGR of 62.4% from 2009 to 2018. The chart below illustrates the supply and demand of organic raw milk in China from 2009 to 2013 and a forecast from 2014 to 2018.




China organic raw milk's demand exceeds its supply. Organic raw milk demand reached 187,000 tonnes in 2013, and is likely to sustain the growing trend to 1.60 million tonnes in 2018, representing a CAGR of 53.7% from 2013 to 2018. The gap between supply and demand was 13,000 tonnes in 2013, and is expected to increase to 122,000 tonnes in 2018, as Chinese organic dairy products market will expand and more organic dairy products such as organic yogurt and organic milk powder are likely to gain more market share.

Due to the widening gap between the demand and the supply of organic raw milk products, Shengmu is able to sell its products at a higher average selling price. In 2013, the average selling price was RMB5,247 per tonne for Shengmu's organic raw milk, which is substantially higher than the industry average price for raw milk of RMB3,570 per tonne during the same period.

*Competitive Landscape*

China's organic raw milk market was concentrated with only a handful of competitors in 2013. The market share and ranking of the top three organic raw milk producers in China in 2013 were introduced in the following charts, which included Shengmu, Yili Group and Inner Mongolia Yunhai Qiulin Husbandry Co., Ltd. (內蒙古雲海秋林畜牧有限公司), or Yunhai Qiulin. As of the end of 2013, Shengmu was the largest organic dairy farming company in China in terms of herd size of with 30,621 organic dairy cows, reflecting a market share of approximately 58.0% in 2013.

The following charts and tables illustrate the top three organic raw milk producers in China by production volume and herd size in 2013.

| Rank | Organic Raw Milk Producer | Organic Raw Milk Production Volume (000' Tonnes) | Market Share |
|---|---|---|---|
| **1** | **Shengmu** | **94.2** | **54.2%** |
| 2 | Yili Group | 40.2 | 23.1% |
| 3 | Yunhai Qiulin | 16.7 | 9.6% |
| | **Top three** | **151.1** | **86.9%** |
| | Others | 22.7 | 13.1% |
| | **Total** | **173.8** | **100.0%** |

| Ranking | Organic Dairy Farming Company | Herd Size of Organic Dairy Cows (Thousand Head) | Market Share |
|---|---|---|---|
| **1** | **Shengmu** | **30.6** | **58.0%** |
| 2 | Yili Group | 10.0 | 19.0% |
| 3 | Yunhai Qiulin | 4.0 | 7.6% |
| | **Top three** | **44.6** | **84.6%** |
| | Others | 8.1 | 15.4% |
| | **Total** | **52.8** | **100.0%** |

*Source: Certification and Accreditation Administration of the PRC, Frost & Sullivan*

- *Yili Group*. One of the largest dairy companies in China and has many series of dairy products. Yili Group's organic dairy products are sold under its high-end series, "Satine."

- *Yunhai Qiulin*. Yunhai Qiulin is a domestic participant in upstream organic dairy market in China, which produces organic forage and organic raw milk. In 2013, Yunhai Qiulin ranked No.3 in terms of herd size of organic dairy cows and organic raw milk production volume.

***Entry Barriers***

The following is a brief summary of the entry barriers of the organic raw milk market in China.

- *Natural resources and conditions*. The organic raw milk industry requires a combination of natural resources conditions to ensure product safety and quality, such as desirable latitude zone for dairy farming, cool and dry weather, ample sunlight, and abundant water. Those organic dairy farms that integrate these natural resources and conditions are able to produce organic raw milk that meet the organic standards. However, such combination is difficult for new market entrants to integrate in a short period of time.

- *Certifications*. The PRC government has laid out very high standards for organic dairy farming. For organic raw milk producers, each production process needs to follow corresponding requirements. Farmlands must be free of pollution, synthetic pesticides or antibiotics.

- *Conversion period*. Certain conversion periods are needed for organic raw milk. For example, it takes two years' conversion period to convert organic feed, and six months' conversion period to convert organic dairy cows under the corresponding organic certification requirements.

- *Limited supply of organic feed.* As the supply of organic feed for dairy farming is limited in China, it also sets as an entry barrier for the new market entrants.
- *Capital intensity.* The organic raw milk industry is a capital-intensive industry, and significant and continuous capital investment is needed for entering organic raw milk industry. Investment includes dairy farms development and maintenance as well as purchasing and raising dairy cows.
- *Management team.* As high requirements exist on organic raw milk production, rich experience on organic raw milk industry is needed. However, in China, organic raw milk industry is still an emerging industry, and there are limited market participants in the industry, so it is difficult to get an experienced management team. This is another entry barrier for market newcomers.

***Organic Dairy Certification***

Set forth below are certain key criteria for organic certification on dairy farming in China, the European Union, the United States and Japan in 2013.

| | **Farmland** | **Feeding** | **Breeding** | **Production** |
|---|---|---|---|---|
| **China GB** | Far from city, industrial and mining area, traffic trunk, polluted area, etc.<br>- Soil environment to meet GB15618<br>- Water quality to meet GB5684<br>- Air quality to meet GB3095 and GB9137<br>Buffer zone should be set if potential polluting risks exist nearby | At least 2 years conversion period (at least 1 year for lands that are newly cultivated, uncultivated for over 3 years, or free from banned substances for over 3 years)<br>Over 50% feeds from self-owned or partnered organic dairy farms<br>No chemical synthetic fertilizer permitted | At least 6 months conversion period<br>Natural birth with at least 3 months suckling period unless emergencies<br>6m$^2$ inside and 4.5m$^2$ outside active area per cow | Use minimum non-organic ingredients (no more than 5%)<br>No GMO additives |
| **E.U. Standard** | No polluting risks exist nearby | At least 2 years conversion period before sowing<br>At least 60% feed from self-owned or partnered organic dairy farms | 6 months conversion period<br>6m$^2$ inside and 4.5m$^2$ outside active area per cow | Use minimum non-organic ingredients (no more than 5%)<br>No GMO additives |
| **U.S. Standard** | Buffer zone needed for farm protection | 3 years conversion period<br>100% organic feeds required<br>At least 30% feed of dry matter during grazing season<br>Grazing area >0.66 acre per cow | 1 year conversion period<br>Year-round access for all animals to the outdoors, shade, shelter, exercise areas, fresh air, clean water for drinking, and direct sunlight | Organic ingredients should not be less than 95%<br>Only mechanical or biological methods can be used for preparing organic products |
| **Japan** | Pastureland and open-air exercise area where cows can grub the ground | 3 years conversion period before the first pasturing<br>100% organic feeds required | At least 6 months conversion period<br>4m$^2$ inside and outside active area per cow | Use minimum non-organic ingredients (no more than 5%)<br>Only physical and biological method may be used for manufacturing, processing or disease control |

*Source: GB/T 19630.1-2011, Ecocert Group, United States Department of Agriculture, Japan Ministry of Agriculture, Forestry and Fisheries*

The E.U. standard for organic certification on dairy farming is among the most well-recognized standards of organic certification in the world. Shengmu was the only vertically integrated dairy company in China that meets E.U. organic standards as of May 31, 2014.

For certifications under the PRC standard, certification institutions in China are required to be approved by China Certification and Accreditation Administration before issuing organic certifications. By May 2014, there were 25 such approved certification institutions, among which COFCC (北京中綠華夏有機食品認證中心), OFDC (南京國環有機產品認證中心) and WIT (杭州萬泰認證有限公司) are most widely recognized for organic milk certification and have certified the organic milk products of certain major PRC dairy companies. For instance, COFCC has certified "Shengmu" organic milk of Shengmu and "Deluxe" organic milk of Mengniu Group, and OFDC has certified "Satine" organic milk of Yili Group.

## CHINA'S DAIRY PRODUCTS MARKET

### Overall Market Size and Growth

In China, dairy products can be divided into four categories: liquid milk, milk powder, yogurt, and other dairy products. The entire market of dairy products in China has grown from RMB189.5 billion in 2009 to RMB300.4 billion in 2013 in terms of retail sales value, with a CAGR of 12.2%. UHT and fresh milk products contributed the major part and the market has been growing steadily from RMB70.9 billion in 2009 to RMB108.4 billion in 2013, with a CAGR of 11.2%. Yogurt has been enjoying a fast growth from RMB23.1 billion in 2009 to RMB36.4 billion in 2013, with a CAGR of 12.1%. Milk powder grew from RMB80.6 billion in 2009 to RMB131.8 billion in 2013, with a CAGR of 13.1%. Other dairy products mainly include cream, cheese, and condensed milk. The retail sales value increased from RMB14.9 billion to RMB23.8 billion from 2009 to 2013, with a CAGR of 12.4%.

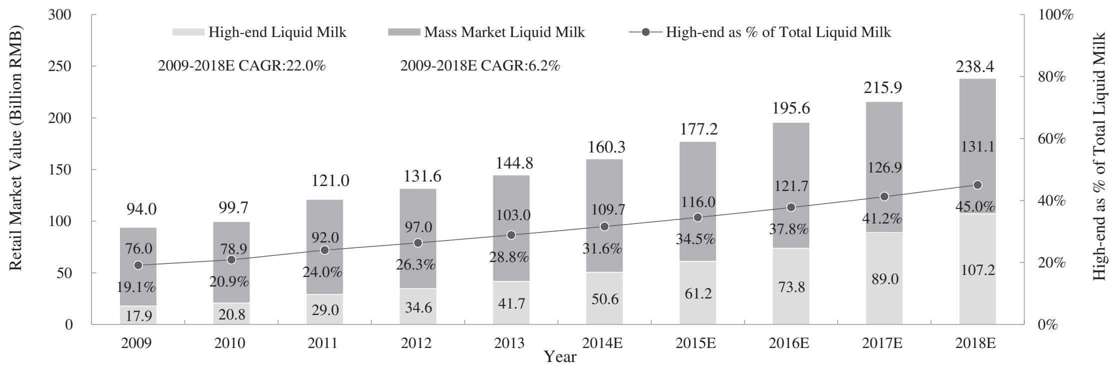
The total retail sales value of dairy products is likely to grow to RMB513.4 billion in 2018, with a CAGR of 11.3% from 2013 to 2018. UHT and fresh milk production is expected to grow with a CAGR of 10.2% to RMB176.4 billion in 2018. Yogurt production is likely to maintain the fast growing trend with a CAGR of 11.2% to RMB61.9 billion in 2018. Milk powder and other dairy products retail sales value are likely to reach RMB233.5 billion and RMB41.5 billion, with CAGRs of 12.1% and 11.8%, respectively.

According to the F&S Report, Mengniu Group ranked the first in terms of retail sales value of liquid milk products in China with a market share of 25.3%, 22.2% and 22.8% in 2011, 2012 and 2013, respectively. In 2013, Mengniu Group, Yili Group and another leading PRC dairy company were the three largest producers of liquid milk products with an aggregate market share of 55.4% in terms of retail sales value.

**Increasing Penetration of High-end Market Segment**

High-end liquid milk is defined as the products with a retail price of above RMB12 per liter. High-end liquid milk is usually made from domestic premium raw milk or imported dairy materials, and sometimes associated with additional nutritional contents or functions.

The chart below illustrates the breakdown of the liquid milk market in China in terms of retail sales value from 2009 to 2013 and the forecast from 2014 to 2018. The retail value of China's liquid milk market grew with a CAGR of 11.4% from 2009 to 2013 and is expected to further grow with a CAGR of 10.5% from 2013 to 2018.

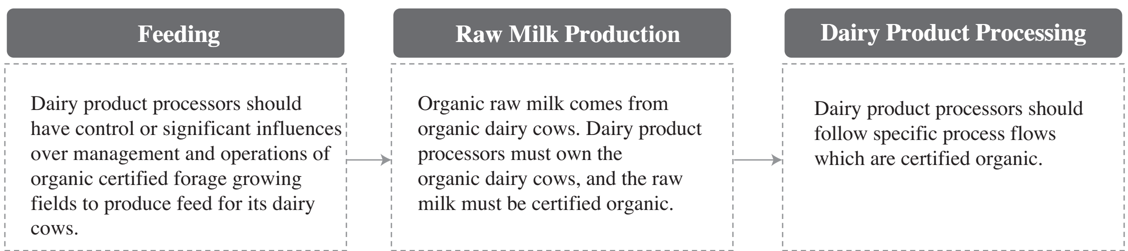



Shengmu is a major producer of organic liquid milk with a market share of 25.3% in terms of retail sales value of organic liquid milk in China in 2013. The total retail sales value of organic liquid milk in China was RMB1.9 billion in 2013, accounting for 1.3% of the total liquid milk market in China.

In 2013, Shengmu's organic liquid milk average retail sales price was RMB23,211 per tonne, which was substantially higher than high-end liquid milk industry average of RMB15,840 per tonne, and higher than the organic liquid milk industry's average of RMB22,597 per tonne.

***"Grass-to-glass" organic dairy market***

A grass-to-glass organic dairy product means that the dairy product is organic certified from feeding, to raw milk production and dairy product processing. A grass-to-glass organic dairy company is a company that produces both organic certified raw milk and organic certified dairy products. In addition, the process flows must observe organic standards, and the company must have the ability to control and track the organic certified feed. Shengmu was the only vertically integrated grass-to-glass organic dairy company in China that meets E.U. organic standards as of May 31, 2014.



As of the end of 2013, there were only two grass-to-glass organic dairy producers in China, Shengmu and Yili Group. There are a limited number of international market participants in China, such as Arla Foods and Organic Valley. Arla Foods is a global dairy company headquartered in Denmark. Arla's grass-to-glass organic dairy products are sold under its brand Arla Harmonie. Arla Foods has entered China and sells grass-to-glass organic dairy products in China. However, the brand is not very well penetrated in China and Arla Foods can only be seen in limited cities in China.

According to a consumer survey conducted by Frost & Sullivan, 90.2% of respondents indicated that they prefer organic milk to non-organic milk, among whom approximately 88.3% indicated that they prefer grass-to-glass organic milk to non-organic milk and would like to pay a price premium for grass-to-glass organic milk. With the rising health consciousness and increasing disposable income of consumers, more and more consumers will pursue grass-to-glass organic dairy products. By comparison, organic milk products only accounted for 0.6% of entire dairy products in China in terms of retail market value in 2013.

## RAW MATERIAL PRICES

Raw materials for the dairy industry predominantly consist of dairy cow feed and packaging materials. Dairy cow feed mainly includes forages and concentrated feed, representing approximately no less than 60% and no more than 40% of a dairy cow's daily feed, respectively.

- Principal types of forages include corn silage, alfalfa and guinea grass. Corn silage is made from corns after dough stage through fermentation in a sealed silage cellar at dairy farms. The average market price of domestic corn silage increased from RMB236.1 per tonne in 2009 to RMB410.0 per tonne in 2013. Alfalfa is a herbaceous legume grown widely across northern China and is rich in protein and minerals, with high energy and fiber. The average market price of domestic first-grade alfalfa increased from RMB2,281.6 per tonne in 2009 to RMB2,725.5 per tonne in 2013. The average market price of guinea grass increased from RMB650.0 per tonne in 2009 to RMB1,190.0 per tonne in 2013.

- Concentrated feed is a low-fiber feed made from blending various crops primarily consisting of corn, soybean meal and cottonseed meal. Corn and soybean meal are the two types of commonly used concentrated feed in China. The annual average market price of corn and soybean meal increased from RMB1,698.6 per tonne and RMB3,701.0 per tonne in 2009 to RMB2,452.5 per tonne and RMB4,298.2 per tonne in 2013, respectively.

Leading players in packaging materials for liquid milk products market in China include, among others, Tetra Pak, Greatview, and SIG Combibloc. The industry average market price of 250 mL packs was stable during the past five years. It has increased slightly from RMB205 per 1,000 packs in 2009 to RMB215 per 1,000 packs in 2013, or a CAGR of 1.2% during such period. The 250 mL packs price of Tetra Pak is approximately 30% to 40% higher than the industry average market price of 250mL packs, for its fine quality, good reputation and unique patent technology.

## OVERVIEW

Shengmu is the largest organic milk company in China with a 54.2% market share based on 2013 organic raw milk production volume, according to the F&S Report. We began to offer organic liquid milk products in June 2012 under the brand "Shengmu 圣牧," which has been rapidly gaining recognition in the PRC dairy industry. Set forth below are the key milestones in our history.

- *October 2009*. Established Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司), our PRC holding company.
- *May 2011*. Received the Gold Medal of BioFach China International Organic Trade Fair and Conference (中國國際有機食品博覽會金獎) for the first time.
- *May — July 2011*. Received certification from the COFCC (中綠華夏有機食品認證中心) under the PRC standard for organic dairy farming and processing for the first time.
- *November 2011*. Received certification from ECOCERT S.A. under the E.U. standard for organic dairy farming for the first time.
- *June 2012*. Launched organic liquid milk products under the brand "Shengmu 圣牧."
- *December 2013*. Established China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司), our Company and offshore listing vehicle.
- *December 2013 — February 2014*. Introduced institutional investors, including Goldman Sachs, Baring, Sequoia and BOCI.
- *March 2014*. Signed Long-term Strategic Cooperation Agreement with Shengmu Forage to secure long-term exclusive supplies of organic feed.
- *March 2014*. Completed the Reorganization in anticipation of the Global Offering.

## HISTORY AND DEVELOPMENT

### Early Investors and Shareholders

#### *Shengmu Holding and Initial Controlling Shareholders*

Our Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on December 11, 2013, and became the offshore holding company of our Group as a result of the Reorganization. See "— Reorganization." We trace our history back to the establishment of Shengmu Holding, our PRC holding company, in Inner Mongolia in October 2009. Our lead founder, Mr. YAO Tongshan (姚同山), together with 21 other parties, were the initial shareholders of Shengmu Holding. Mr. YAO Tongshan previously spent eight years with Mengniu Group, one of the leading PRC dairy companies, and accumulated extensive experience in the PRC dairy industry. For further details on Mr. YAO Tongshan's relevant experience, see "Directors and Senior Management — Directors."

A majority of the initial shareholders of Shengmu Holding, including Mr. YAO Tongshan, became acquainted with each other since 2001 through employment by, investment in or business dealings relating to Mengniu Group and funded their contribution to the initial registered capital of Shengmu Holding primarily with their personal financial resources and/or proceeds from selling their equity interests in Mengniu Group. In particular, a group of 12 initial shareholders reached a consensus among themselves since the founding of Shengmu Holding that each of them (except Mr. YAO Tongshan) would support Mr. YAO Tongshan's decisions in relation to the operation and management of Shengmu Holding.

The table below sets out the shareholding structure of Shengmu Holding and the respective equity contribution amounts of the founding shareholders immediately after its establishment in October 2009.

| | Shareholding percentage in Shengmu Holding as of establishment | Corresponding contribution amount to the registered capital |
|---|---|---|
| | (in percentages) | (RMB in thousands) |
| **Initial Controlling Shareholders** | | |
| WANG Fuzhu (王福柱) | 10.65% | 28,000 |
| YAO Tongshan (姚同山) | 5.71% | 15,000 |
| SHI Jianhong (史建宏) | 5.71% | 15,000 |
| WANG Zhenxi (王振喜) | 4.57% | 12,000 |
| GUO Yunfeng (郭運鳳) | 4.49% | 11,800 |
| YUN Jindong (雲金東) | 4.19% | 11,000 |
| YANG Yaping (楊亞萍) | 3.81% | 10,000 |
| YANG Yali (楊亞利) | 3.81% | 10,000 |
| LU Shunyi (盧順義) | 3.81% | 10,000 |
| GAO Lingfeng (高淩鳳) | 3.81% | 10,000 |
| WANG Zhen (王鎮) | 3.81% | 10,000 |
| ZHANG Junke (張俊科) | 1.90% | 5,000 |
| Subtotal | 56.27% | 147,800 |
| **Others** | 43.73% | 115,000 |
| **Total** | **100%** | **262,800** |

***Joining of Mr. WU Jianye***

Mr. YAO Tongshan became acquainted with Mr. WU Jianye (武建鄴) through business dealings. In view of Mr. WU Jianye's extensive experiences in business management, Mr. YAO Tongshan invited Mr. WU Jianye to invest in Shengmu Holding and participate in its management. Mr. WU Jianye accepted the invitation and acquired a 2.98% equity interest in Shengmu Holding by a combination of cash contribution to the registered capital of Shengmu Holding in the amount of RMB4.58 million and acquisition of equity interest from certain initial shareholders totaling RMB4 million in September 2010. The consideration of Mr. WU Jianye's investment in Shengmu Holding was equal to his corresponding contribution amount in Shengmu Holding's registered capital. When Mr. WU Jianye invested in Shengmu Holding, he was aware of the acting-in-concert arrangement among our Initial Controlling Shareholders and agreed to be bound by the same arrangement in October 2010.

At the same time, there were certain other capital contributions and transfers of equity interests based on the corresponding amounts in the registered capital of Shengmu Holding. The table below sets out the shareholding structure of Shengmu Holding and the respective equity contribution amounts of its then-existing shareholders immediately after these transactions in September 2010.

| | Shareholding percentage in Shengmu Holding | Corresponding contribution amount to the registered capital |
|---|---|---|
| | (In percentages) | (RMB in thousands) |
| **A group of 13 shareholders acting in concert** | | |
| SHI Jianhong (史建宏) | 9.95% | 28,630 |
| WANG Fuzhu (王福柱) | 9.74% | 28,000 |
| YAO Tongshan (姚同山) | 6.26% | 18,000 |
| GUO Yunfeng (郭運鳳) | 4.84% | 13,910 |
| WANG Zhenxi (王振喜) | 4.17% | 12,000 |
| GAO Lingfeng (高凌鳳) | 4.17% | 12,000 |
| YUN Jindong (雲金東) | 3.82% | 11,000 |
| YANG Yaping (楊亞萍) | 3.48% | 10,000 |
| LU Shunyi (蘆順義) | 3.48% | 10,000 |
| WANG Zhen (王鎮) | 3.48% | 10,000 |
| YANG Yali (楊亞利) | 3.30% | 9,500 |
| WU Jianye (武建鄴) | 2.98% | 8,580 |
| ZHANG Junke (張俊科) | 1.74% | 5,000 |
| Subtotal | 61.41% | 176,620 |
| **Others** | 38.59% | 111,000 |
| **Total** | **100%** | **287,620** |

***Joining of Mr. CUI Ruicheng***

Mr. CUI Ruicheng (崔瑞成) has been a senior management of Shengmu Holding since its establishment in October 2009 and agreed with the Initial Controlling Shareholders that he would support Mr. YAO Tongshan's decisions in relation to the operation and management of Shengmu Holding. On October 18, 2010, the Initial Controlling Shareholders, Mr. CUI Ruicheng and Mr. WU Jianye entered into a written agreement to confirm the acting-in-concert arrangement among themselves. In March 2011, Mr. CUI Ruicheng contributed RMB2.96 million to the registered capital of Shengmu Holding and became a shareholder holding a 1.02% equity interest of Shengmu Holding.

At the same time, Mr. WU Jianye acquired from a then-existing shareholder his equity contribution of RMB3.5 million in Shengmu Holding. The table below sets out the shareholding structure of Shengmu Holding and the respective equity contribution amounts of its then-existing shareholders immediately after these transactions in March 2011.

| | Shareholding percentage in Shengmu Holding | Corresponding contribution amount to the registered capital |
|---|---|---|
| | **(In percentages)** | **(RMB in thousands)** |
| **A group of 14 shareholders acting in concert (Ultimate Controlling Shareholders)** | | |
| SHI Jianhong (史建宏) | 9.85% | 28,630 |
| WANG Fuzhu (王福柱) | 9.64% | 28,000 |
| YAO Tongshan (姚同山) | 6.19% | 18,000 |
| GUO Yunfeng (郭運鳳) | 4.79% | 13,910 |
| WU Jianye (武建鄴) | 4.16% | 12,080 |
| WANG Zhenxi (王振喜) | 4.13% | 12,000 |
| GAO Lingfeng (高凌鳳) | 4.13% | 12,000 |
| YUN Jindong (雲金東) | 3.79% | 11,000 |
| YANG Yaping (楊亞萍) | 3.44% | 10,000 |
| LU Shunyi (盧順義) | 3.44% | 10,000 |
| WANG Zhen (王鎮) | 3.44% | 10,000 |
| YANG Yali (楊亞利) | 3.27% | 9,500 |
| ZHANG Junke (張俊科) | 1.72% | 5,000 |
| CUI Ruicheng (崔瑞成) | 1.02% | 2,960 |
| Subtotal | 63.01% | 183,080 |
| **Others** | 36.99% | 107,500 |
| **Total** | **100%** | **290,580** |

In view of expected change in the structure of our Group as a result of the Reorganization, on March 24, 2014, these 14 persons who became our Ultimate Controlling Shareholders as a result of the Reorganization entered into a supplemental agreement to extend the acting-in-concert arrangement to the management of our Group upon completion of the Reorganization. For further details, see "Relationship with Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert."

***Investment by Mengniu Group***

In May 2011, Mengniu Investment, a Hong Kong-incorporated investment company wholly owned by Mengniu Group, an Independent Third Party, was approved by the Bureau of Commerce of Inner Mongolia Autonomous Region (內蒙古自治區商務廳) to subscribe for a 5.44% equity interest in Shengmu Holding for a consideration of RMB104.4 million, based on arm's length negotiations between the parties with reference to the net asset value, earnings potential and growth prospects of our Group at the time of investment. The subscription consideration was irrevocably settled on May 31, 2011. Shengmu Holding was thus restructured into a Sino-foreign joint-venture company. For further details, see "— Pre-IPO Investments — Summary of Pre-IPO Investments."

Mengniu Group is a large and reputable customer of our raw milk business. Its equity investment in us at our early development stage helped us finance our fast-growing business and enabled us to quickly expand into organic dairy farming operations. We entered into a framework cooperation agreement with Mengniu Group in March 2010, pursuant to which Mengniu Group agreed to lease dairy-farming facilities and equipment to our dairy farms located in Hohhot and Bayannur as well as its established dairy farms in Hohhot. Under this framework agreement, Mengniu Group agreed to support our purchase of dairy cows with credit facilities in the form of guarantee. In return, we agreed to meet certain milk output volume requirements. Mengniu Group also agreed to purchase all of our raw milk outputs that met its quality standards on a priority basis. For details of our business arrangements with Mengniu Group, see "Business — Our Customers — Agreements with Mengniu Group."

***Investment by Jinqiao Investment***

As two of the then-existing shareholders of Shengmu Holding (other than our Ultimate Controlling Shareholders) sought to exit a portion of their investments, in December 2011, they sold a total of 0.45% equity interests in Shengmu Holding for an aggregate consideration of RMB14.25 million to Jinqiao Investment, a PRC investment fund and an Independent Third Party. The purchase price was based on arm's length negotiations between the parties. Jinqiao Investment subsequently sold its investment in Shengmu Holding to Mr. CUI Ruicheng in February 2014. For further details, see "— Reorganization — Pre-IPO Investments — Exit by Jinqiao Investment."

***Further Investments in Shengmu Holding by Its Shareholders***

To further finance our operations, in May 2011 and May 2012, the then-existing shareholders of Shengmu Holding made additional equity contributions to the registered capital of Shengmu Holding. The subscription consideration was based on arm's length negotiations among the parties.

The table below sets out the shareholding structure of Shengmu Holding and the respective equity contribution amounts of its then-existing shareholders immediately after the capital contribution in May 2012.

| | Shareholding percentage in Shengmu Holding | Corresponding contribution amount to the registered capital |
|---|---|---|
| | (In percentages) | (RMB in thousands) |
| **Ultimate Controlling Shareholders** | 62.07% | 212,280 |
| **Mengniu Group** | 5.26% | 18,000 |
| **Jinqiao Investment** | 0.44% | 1,500 |
| **Others** | 32.23% | 110,300 |
| **Total** | **100%** | **342,080** |

**PRC Operations**

As of the Latest Practicable Date, Shengmu Holding had 19 wholly- or non-wholly-owned PRC subsidiaries, primarily consisting of companies operating our dairy farms located principally in Hohhot and Bayannur. For further details of our PRC subsidiaries, see "— History and Development — Pre-Reorganization Shengmu Holding Structure." In addition to 15 PRC subsidiaries existing prior to the Reorganization, we established four PRC subsidiaries following the completion of the Reorganization in March 2014. As of the Latest Practicable Date, these newly-established PRC subsidiaries had not commenced operations. For further details of these newly-established PRC subsidiaries, see " — Our Corporate Structure."

The majority of our dairy-farm companies are operated through collaborative arrangements with local dairy farmers. In recent years, with favorable local government support, a number of local dairy farms emerged in the western part of Inner Mongolia as well as the neighboring areas of the Ulan Buh desert. Many of these dairy farms ran into financial difficulties during the "melamine incident" in 2008. For further details of the "melamine incident" and its impact on the PRC dairy industry, see "Risk Factors — Risks Relating to the PRC Dairy Industry — The existence of tainted or contaminated milk produced in China could negatively affect the image of China's dairy industry." Under these circumstances, we and owners of these dairy farms decided to work together and incorporate dairy-farm companies. Generally, we contributed cash for 55% to 65% equity interests in the newly-formed dairy-farm companies, with the owners of the farms subscribing for the remaining 35% to 45% of these companies' equity interests in cash. We used such cash to construct new free-stall farms to raise cows. As the majority equity owner of these companies, we control the operations of the newly-formed farms and implement our standard dairy farming processes on these farms. The minority equity owners are primarily responsible for the day-to-day management of such newly-formed farms. For further details of our dairy-farm companies and their respective shareholding structure, see " — History and Development — Pre-Reorganization Shengmu Holding Structure."

In January 2011, Shengmu Holding entered into a cooperation agreement with an asset management company affiliated with Inner Mongolia University (內蒙古大學), or IMU Company, an Independent Third Party, pursuant to which the parties agreed to incorporate a dairy-farm company, IMU-Shengmu Dairy, as business partners. IMU-Shengmu Dairy launched a research-oriented dairy farm by commercializing a proprietary know-how contributed by IMU Company. As of the establishment of IMU-Shengmu Dairy, Shengmu Holding and IMU Company owned 55% and 45% equity interests in IMU-Shengmu Dairy, respectively. Pursuant to an agreement dated May 29, 2013 and as confirmed by Inner Mongolia University, IMU Company gave Mr. LI Guangpeng (李光鵬), an Independent Third Party, a 15% equity interest in IMU-Shengmu Dairy at nil consideration. As a result, Shengmu Holding, IMU Company and Mr. LI Guangpeng owned 55%, 30% and 15% equity interests in IMU-Shengmu Dairy, respectively. As part of the Reorganization, our shareholding in IMU-Shengmu Dairy increased to 70%. See "— Reorganization — Capital Contributions to Dairy-farm Companies."

Established in 2011, Shengmu Dairy is our wholly-owned subsidiary and is principally engaged in the production and sale of our liquid milk products under the "Shengmu 圣牧" brand. The establishment of Shengmu Dairy was part of the strategy to expand our operation into liquid milk business. Our liquid milk products are fully organic, certified by the COFCC in China and ECOCERT S.A. in Europe. We sell our liquid milk products to consumers primarily through regional distributors.

In addition, Shengmu Dairy currently owns minority equity interests in four distribution companies, which are principally engaged in the distribution of dairy products and serve as our distribution arms in addition to third-party distributors and direct-sale channels. In particular, Shengmu Dairy owned 41.67% and 30% equity interests in Shanghai Saihan and Beijing Shengmu, respectively, prior to the Reorganization in December 31, 2013, and acquired minority equity interests in two other distribution companies, namely, Anhui Meilichen (as to 40%) and Tianjin Mengmu (as to 30%), in April 2014. Independent Third Parties own the remaining equity interests in these distribution companies. For further details of these distribution companies, see "— History and Development — Pre-Reorganization Shengmu Holding Structure" and "— Our Corporate Structure." We believe that our investment in these distribution companies could enable us to more closely monitor and manage their sales activities in certain key markets with great growth potentials, and have entered into standard distribution agreements with these distribution companies. For the principal terms, see "Business — Sales, Marketing and Distribution — Distributor Management."

**Shengmu Forage**

Established in April 2010, Shengmu Forage has been our primary source of organic feed. Shengmu Forage supplied substantially all the forage crops organically grown in its growing fields to us during the Track Record Period and up to the Latest Practicable Date. Shengmu Holding and Mr. WU Jianye were among the founding shareholders of Shengmu Forage. In 2011, Shengmu Forage and Pangu Group reached an understanding for the joint development of ecological economy in the Ulan Buh desert. Pursuant to this understanding, certain individuals associated with Pangu Group acquired equity interests in Shengmu Forage by making capital injections and also brought on the table their expertise in converting desert into growing fields. Since 2011, Pangu Group has been controlled by Ms. QIN Yuan (秦源) and Mr. QIN Guoqing (秦國慶), Mr. WU Jianye's wife and father-in-law, respectively, who collectively hold 66.7% of Pangu Group's equity interests. Mr. WU Jianye has not held any directorship or management role in Pangu Group since 2011. The remaining 33.3% equity interest of Pangu Group is held by Inner Mongolia Yuangu Biotechnology Co., Ltd. (內蒙古遠古生物工程有限公司), which is, to the best knowledge of our Directors, an Independent Third Party of Mr. WU and our Group. Pangu Group first came to the Ulan Buh desert to cultivate plantation and improve its ecological conditions in 1997 and had since accumulated extensive experience and know-how in growing forage in the desert. Leveraging on Pangu Group's expertise, Shengmu Forage was able to quickly convert desert into growing fields for organic forage.

Since its establishment, Shengmu Forage has required significant capital to expand. As our dairy farming business was also in its early development stage and required significant capital and other resources, we chose to allocate our resources to our dairy farming business and helped obtain investments in Shengmu Forage from third-party investors. Shengmu Holding owned 65.02% equity interests in Shengmu Forage at the beginning of 2011. By December 26, 2011, among certain other investors, Mr. WU and Ms. GAO Lingfeng (our vice president and executive Director) had contributed additional capital to Shengmu Forage, as a result of which Mr. WU and Ms. GAO held 20.32% and 15.49%, respectively, and Shengmu Holding held 23.77%. As a result, we consolidated the statement of profit or loss and other comprehensive income of Shengmu Forage for the period from January 1, 2011 to December 26, 2011, but did not consolidate its statement of financial position as of December 31, 2011, as our equity interest and voting right in Shengmu Forage had already decreased to 23.77% due to such additional capital contributions.

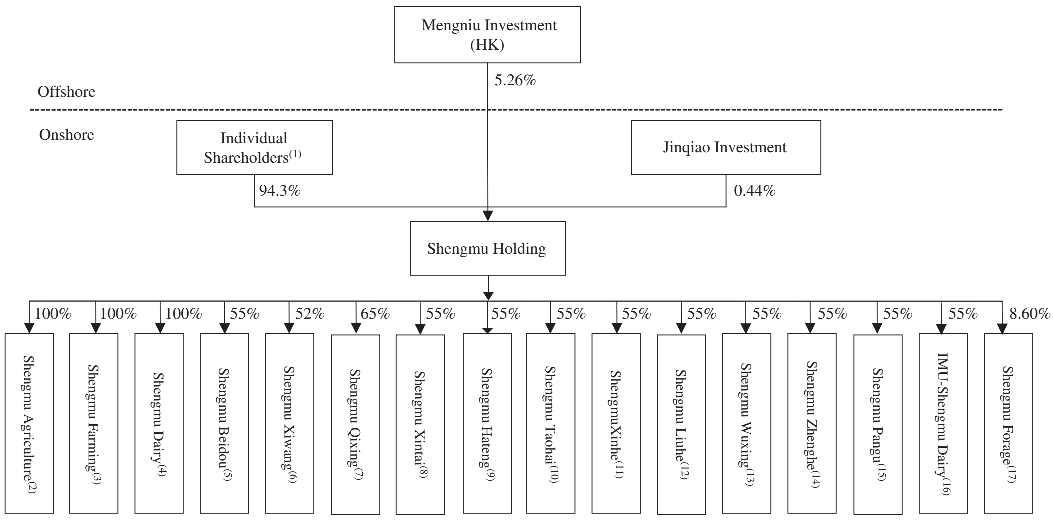
Although we were no longer the controlling shareholder of Shengmu Forage as a result of our cooperation with Pangu Group, we and Pangu Group had reached a consensus on the business objectives of Shengmu Forage in cultivating organic growing fields. In 2012 and 2013, Shengmu Forage obtained additional capital injections from third party investors, and our shareholding in Shengmu Forage further decreased to 8.60%. For accounting purposes, Shengmu Forage has been accounted for as an associate of our Group since the end of 2011 as we have had more than 20% effective voting power. Shengmu Holding, Mr. WU and Ms. GAO, who are two of our Ultimate Controlling Shareholders, entered into an acting-in-concert arrangement which became effective on June 25, 2012 after the completion of further capital investments in Shengmu Forage by other investors, as a result of which Shengmu Holding, Mr. WU and Ms. GAO held an aggregate of 48.35% equity interests in Shengmu Forage. For details, please refer to "Relationship with Controlling Shareholders — Major Retained Businesses of Our Ultimate Controlling Shareholders — Shengmu Forage." See "Relationship with Controlling Shareholders" for further details about our relationship with Shengmu Forage.

To further secure our relationship with Shengmu Forage, in March 2014, we entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage for a term of 20 years, under which Shengmu Forage undertakes to continue its exclusive supply arrangement for organic forages with us and support our future expansion plans. For further details of our business arrangement with Shengmu Forage, see "Business — Suppliers and Procurement — Organic Feed." In addition, Shengmu Forage and its shareholders (except Shengmu Holding) entered into letters of undertaking in April 2014, pursuant to which they agree not to issue or transfer any equity interests in Shengmu Forage to any third party without our prior written consent for a term of 20 years unless all the equity interests in

Shengmu Forage have been transferred to us prior to the expiration of the 20-year term. For further details of these undertakings, see "Relationship with Controlling Shareholders — Major Retained Businesses of Our Ultimate Controlling Shareholders — Long-term Strategic Cooperation Agreement with Shengmu Forage and Undertakings from Shengmu Forage and Its Shareholders."

**Pre-Reorganization Shengmu Holding Structure**

The chart below sets forth the shareholding structure of Shengmu Holding immediately prior to the Reorganization in December 2013.




(1) Consist of 25 individuals, including a group of 14 persons constituting our Ultimate Controlling Shareholders following the Reorganization and 11 other individuals.

(2) Inner Mongolia Shengmu Agriculture Technology Co., Ltd. (內蒙古聖牧農牧業科技有限公司), or Shengmu Agriculture, was established on March 20, 2012 in Hohhot, as a wholly-owned subsidiary of Shengmu Holding. It is principally engaged in technology development, training, transfer and consultancy.

(3) Bayannur Shengmu High-tech Farming Co., Ltd. (巴彥淖爾市聖牧高科牧業有限公司), or Shengmu Farming, was established on January 21, 2010 in Bayannur, as a wholly-owned subsidiary of Shengmu Holding. It is principally engaged in dairy farming operations.

(4) Inner Mongolia Shengmu High-tech Dairy Co., Ltd. (內蒙古聖牧高科奶業有限公司), or Shengmu Dairy, was established on July 29, 2011 in Bayannur, as a wholly-owned subsidiary of Shengmu Holding. It is principally engaged in dairy products processing operations. Immediately prior to the Reorganization in December 2013, Shengmu Dairy owned 41.67% and 30% equity interests in Saihan (Shanghai) Industrial Co., Ltd. (賽罕（上海）實業有限公司), or Shanghai Saihan, and Shengmu High-tech (Beijing) Trading Co., Ltd. (聖牧高科（北京）貿易有限公司), or Beijing Shengmu, respectively, which are principally engaged in the distribution of dairy products. These companies were established on September 24, 2012 and September 2, 2013, respectively, and Independent Third Parties owned their remaining equity interests.

(5) Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司), or Shengmu Beidou, was established on September 9, 2013 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding and YANG Bin (楊斌), who is the director of Shengmu Dairy and Shengmu Agriculture, owned 55% and 45% in Shengmu Beidou, respectively. It is principally engaged in dairy farming operations.

(6) Bayannur Shengmu Xiwang Farming Co., Ltd. (巴彥淖爾市聖牧希望牧業有限責任公司), or Shengmu Xiwang, was established on August 23, 2013 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding, WANG Zhen (王鎮), one of our Ultimate Controlling Shareholders, and SUN Xiyao (孫喜耀) owned 52%, 24% and 24% equity interests in Shengmu Xiwang, respectively. It is principally engaged in dairy farming operations.

(7) Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司), or Shengmu Qixing, was established on November 28, 2013 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding and LI Ruijun (李瑞軍) owned 65% and 35% equity interests in Shengmu Qixing, respectively. It is principally engaged in dairy farming operations.

(8) Otog Shengmu Xintai Farming Co., Ltd. (鄂托克旗聖牧欣泰牧業有限公司), or Shengmu Xintai, was established on August 24, 2012 in Otog Banner, Inner Mongolia. Immediately prior to the Reorganization in December 2013, Shengmu Holding and WANG Jinliang (王金良) owned 55% and 45% equity interests in Shengmu Xintai, respectively. It is principally engaged in dairy farming operations.

(9) Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司), or Shengmu Hateng, was established on April 16, 2013 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding and CHEN Qingjun (陳慶軍) owned 55% and 45% equity interests in Shengmu Hateng, respectively. It is principally engaged in dairy farming operations.

(10) Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司), or Shengmu Taohai, was established on January 29, 2013 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding and LI Yongqiang (李永強) owned 55% and 45% equity interests in Shengmu Taohai, respectively. It is principally engaged in dairy farming operations.

(11) Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司), or Shengmu Xinhe, was established on June 7, 2013 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding and WANG Lixin (汪立新) owned 55% and 45% equity interests in Shengmu Xinhe, respectively. It is principally engaged in dairy farming operations.

(12) Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司), or Shengmu Liuhe, was established on June 26, 2013 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding and LI Yundong (李運動), a member of our senior management, owned 55% and 45% equity interests in Shengmu Liuhe, respectively. It is principally engaged in dairy farming operations.

(13) Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司), or Shengmu Wuxing, was established on June 20, 2013 in Alxa League, Inner Mongolia. Immediately prior to the Reorganization in December 2013, Shengmu Holding and QIN Shuzhen (秦淑珍) owned 55% and 45% equity interests in Shengmu Wuxing, respectively. It is principally engaged in dairy farming operations.

(14) Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司), or Shengmu Zhenghe, was established on August 23, 2013 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding and CHANG Zhiba (常志拔) owned 55% and 45% equity interests in Shengmu Zhenghe, respectively. It is principally engaged in dairy farming operations.

(15) Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司), or Shengmu Pangu, was established on June 15, 2012 in Bayannur. Immediately prior to the Reorganization in December 2013, Shengmu Holding and WU Jianye (武建鄴), one of our Ultimate Controlling Shareholders, owned 55% and 45% equity interests in Shengmu Pangu, respectively. It is principally engaged in dairy farming operations.

(16) Inner Mongolia IMU-Shengmu High-tech Farming Co., Ltd. (內蒙古內大聖牧高科牧業有限公司), or IMU-Shengmu Dairy, was established on July 5, 2011. Immediately prior to the Reorganization in December 2013, Shengmu Holding, IMU Aodu Asset Management Co., Ltd. (內蒙古大學奧都資產經營有限責任公司) and LI Guangpeng (李光鵬) owned 55%, 30% and 15% equity interests in IMU-Shengmu Dairy, respectively. It is principally engaged in dairy farming operations.

(17) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司), or Shengmu Forage, was established on April 28, 2010. Immediately prior to the Reorganization in December 2013, Shengmu Holding owned a 8.60% equity interest, certain of our Ultimate Controlling Shareholders and their associates collectively owned 33.82% equity interests, and CHEN Qingjun (陳慶軍), a connected person, owned a 2.96% equity interest in Shengmu Forage, respectively. Independent Third Parties owned the remaining equity interests in Shengmu Forage. It is principally engaged in forage cultivation operations. Shengmu Forage ceased to be a member of our Group in December 2011. Alxa Shengmu High-tech Ecological Forage Co., Ltd. (阿拉善盟聖牧高科生態草業有限公司), established on November 6, 2012, is a wholly-owned subsidiary of Shengmu Forage.

## REORGANIZATION

Beginning in December 2013, we undertook the Reorganization in anticipation of the Global Offering. The Reorganization consisted of the following principal steps, which were primarily designed to introduce additional pre-IPO investors, establish the offshore listing structure and inject additional capital into our PRC dairy-farm companies.

### Pre-IPO Investments

As part of the Reorganization, Shengmu Holding introduced additional financial investors in anticipation of the Global Offering.

#### *Investments by Goldman Sachs and Baring*

In December 2013, Goldman Sachs (Beijing) and Saint Investment (investment entities affiliated with Goldman Sachs) and Flourish Treasure (an investment entity wholly owned by Baring) entered into a share purchase agreement with certain individual shareholders of Shengmu Holding, pursuant to which Goldman Sachs (Beijing), Saint Investment and Flourish Treasure agreed to acquire 3.85%, 3.85% and 7.71% equity interests in Shengmu Holding, respectively from these selling shareholders. The aggregate consideration totaled RMB685.4 million, based on arm's length negotiations among the parties with reference to the net asset value, earnings potential and growth prospects of our Group at the time of the investments. The consideration was irrevocably settled by these investors on January 9, 2014.

The table below sets forth the shareholding percentage of the selling shareholders before and after the share transfers in December 2013.

| Selling shareholders | Shareholding percentage prior to the share transfer | Shareholding percentage after the share transfer |
|---|---|---|
| | (In percentages) | |
| **Ultimate Controlling Shareholders** | | |
| GUO Yunfeng (郭運鳳) | 5.53% | 5.48% |
| GAO Lingfeng (高淩鳳) | 4.49% | 4.00% |
| YUN Jindong (云金東) | 3.22% | 2.87% |
| WANG Zhen (王鎮) | 3.22% | 2.87% |
| LU Shunyi (盧順義) | 2.95% | 2.64% |
| YANG Yali (楊亞利) | 2.78% | 2.48% |
| ZHANG Junke (張俊科) | 1.58% | 1.41% |
| **Other selling shareholders** | 22.22% | 8.8% |

***Investments by Sequoia, King Capital and BOCI***

Sequoia Capital, King Capital and BOCI Investment made their investments in Shengmu Holding through a single investment entity, Horizon King, a Hong Kong-incorporated company. In January 2014, Horizon King and Shengmu Holding entered into a share subscription agreement, pursuant to which Horizon King subscribed for a 12.54% equity interest in the increased share capital of Shengmu Holding for a consideration of RMB648.2 million. The consideration was determined based on arm's length negotiations among the parties with reference to the net asset value, earnings potential and growth prospects of our Group at the time of the investments. The consideration was irrevocably settled by Horizon King on February 8, 2014.

Sequoia Capital, King Capital and BOCI Investment beneficially owned 51.07%, 30.08% and 18.85% equity interests in Horizon King, respectively. Mr. HAN Jingyuan (韓敬遠), a private investor and an Independent Third Party, is the sole shareholder of King Capital.

***Exit by Jinqiao Investment***

In February 2014, Jinqiao Investment sold its investment in Shengmu Holding to Mr. CUI Ruicheng, one of our Ultimate Controlling Shareholders following the Reorganization, for a consideration of RMB19.68 million, which was determined based on the valuation basis similar to the institutional investors in our Group during the Reorganization.

***Summary of Pre-IPO Investments***

The table below summarizes the details of the pre-IPO investments in our Group.

| Name of pre-IPO investor | Brief description of investment | Date of agreement[(1)] | Consideration paid (RMB) | Irrevocable settlement date of consideration | No. of Shares subscribed or transferred (giving effect to the Capitalization Issue) | Cost per Share paid by each pre-IPO investor (HK$)[(2)] | Discount to Offer Price[(3)] | Approximate percentage of shareholding interests held by pre-IPO investor in Shengmu Holding upon completion of each pre-IPO investment | Approximate percentage of shareholding interests held by pre-IPO investor in our Company upon completion of Global Offering[(4)] |
|---|---|---|---|---|---|---|---|---|---|
| Start Great[(5)] | Capital contribution in Shengmu Holding, which was exchanged into our Shares through a share swap on March 26, 2014 | April 16, 2011 | 104,400,000 | May 31, 2011 | 269,865,600 | 0.49 | 81.6% | 5.44% | 4.25% |
| Saint Investment (Mauritius) | Share transfers in Shengmu Holding, which was exchanged into our Shares through a share swap on March 26, 2014 | December 20, 2013 | 171,360,000 | January 9, 2014 | 197,617,600 | 1.10 | 58.8% | 3.85% | 3.11% |
| Broad Street | Share transfers in Shengmu Holding, which was restructured into our Shares on March 24, 2014 | December 20, 2013 | 171,360,000 | January 9, 2014 | 197,617,600 | 1.10 | 58.8% | 3.85% | 3.11% |
| Greenbelt Global | Share transfers in Shengmu Holding, which was exchanged into our Shares through a share swap on March 26, 2014 | December 20, 2013 | 342,720,000 | January 9, 2014 | 395,235,200 | 1.10 | 58.8% | 7.71% | 6.22% |
| Sequoia Capital | Capital contribution in Shengmu Holding, which was exchanged into our Shares through a share swap on March 26, 2014 | January 23, 2014 | 331,030,000 | February 8, 2014 | 378,320,000 | 1.11 | 58.4% | 6.40% | 5.95% |
| BOCIFP[(6)] | Capital contribution in Shengmu Holding, which was exchanged into our Shares through a share swap on March 26, 2014 | January 23, 2014 | 122,170,000 | February 8, 2014 | 139,622,856 | 1.11 | 58.4% | 2.36% | 2.20% |
| King Capital | Capital contribution in Shengmu Holding, which was exchanged into our Shares through a share swap on March 26, 2014 | January 23, 2014 | 195,000,000 | February 8, 2014 | 222,857,144 | 1.11 | 58.4% | 3.77% | 3.51% |

(1) The agreements were entered into by the initial investment entities with Shengmu Holding at the relevant time.

(2) Calculated based on the exchange rate of RMB1 = HK$1.265.

(3) Calculated based on HK$2.67 per Share, being the mid-point of the Offer Price.

(4) Assumes no exercise of the Over-allotment Option and options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme.

(5) Start Great was designated by Mengniu Dairy to receive the Shares in the share-swap transaction.

(6) BOCIFP was designated by BOCI Investment to receive the Shares in the share-swap transaction.

The proceeds received by Shengmu Holding from Mengniu Group were used in full primarily for the expansion of our dairy farming business by constructing new dairy farms and purchasing dairy cows. The proceeds received by Shengmu Holding from Horizon King (investment entity of Sequoia, BOCI and King Capital) will be used primarily to finance the construction of new dairy farms and production facilities, purchase of dairy cows and general corporate purposes.

As Goldman Sachs (Beijing), Saint Investment and Flourish Treasure made their investments through acquisition of shares from Shengmu Holding's then-existing shareholders, we did not receive any proceeds from their investments in us.

***Principal Terms of Investments***

In connection with their investments in Shengmu Holding, the pre-IPO investors, Shengmu Holding and its then existing shareholders entered into a joint-venture agreement in December 2013 and an amendment thereto in January 2014. Pursuant to this joint-venture agreement, each of Goldman Sachs (Beijing), Saint Investment, Flourish Treasure and Horizon King was entitled to certain special shareholder rights. This joint-venture agreement (as amended) was terminated following the completion of the Reorganization in March 2014. Upon completion of the Reorganization, the pre-IPO investors entered into a shareholders agreement governing their rights and obligations in our Company. Pursuant to this shareholders agreement, each of the pre-IPO investors was entitled to certain special shareholder rights substantially similar to those under the original joint-venture agreement (as amended). For a summary of these shareholder rights, see "— Reorganization — Establishment of Offshore Listing Structure — Shareholders Agreement."

**Establishment of Offshore Listing Structure**

***Establishment of Our Company***

On December 11, 2013, our Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands with an authorized share capital of HK$300,000 divided into 300,000 shares of a par value of HK$1.00 each. On the same day, the initial subscriber share was transferred to World Shining. On February 14, 2014, the share capital of our Company was sub-divided into 30,000,000,000 Shares of par value of HK$0.00001 each by sub-dividing every share of par value HK$1.00 each into 100,000 Shares of par value of HK$0.00001 each.

On February 14, 2014, World Shining and Greater Honour subscribed for 774,830 and 125,170 Shares at HK$0.00001 each in our Company, respectively, and as a result, World Shining and Greater Honour owned 87.48% and 12.52% equity interests in our Company, respectively.

World Shining is controlled by our Ultimate Controlling Shareholders. On February 14, 2014, a group of 14 persons constituting our Ultimate Controlling Shareholders as well as seven other individual shareholders, all being the remaining individual shareholders of Shengmu Holding following the pre-IPO investments, became the shareholders of World Shining by subscription of shares at US$0.0002 each. As a result, our Ultimate Controlling Shareholders collectively owned 87.44% equity interests in World Shining.

The table below sets forth the individuals referred to as our Ultimate Controlling Shareholders through an act-in-concert arrangement. For further details of the act-in-concert arrangement, see "Relationship with Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert."

| **Name** | **Shareholding percentage in World Shining** |
|---|---|
| | **(In percentages)** |
| SHI Jianhong (史建宏) | 12.36% |
| WANG Fuzhu (王福柱) | 11.93% |
| YAO Tongshan (姚同山) | 11.28% |
| GUO Yunfeng (郭運鳳) | 7.56% |
| YANG Yaping (楊亞萍) | 7.09% |
| WU Jianye (武建鄴) | 6.24% |
| GAO Lingfeng(高凌鳳) | 5.71% |
| WANG Zhenxi (王振喜) | 5.38% |
| YUN Jindong (云金東) | 4.10% |
| WANG Zhen (王鎮) | 4.10% |
| LU Shunyi (盧順義) | 3.76% |
| YANG Yali (楊亞利) | 3.54% |
| CUI Ruicheng (崔瑞成) | 2.36% |
| ZHANG Junke (張俊科) | 2.01% |
| **Total** | **87.44%** |

The table below sets forth the individuals owning the remaining 12.56% equity interests in World Shining.

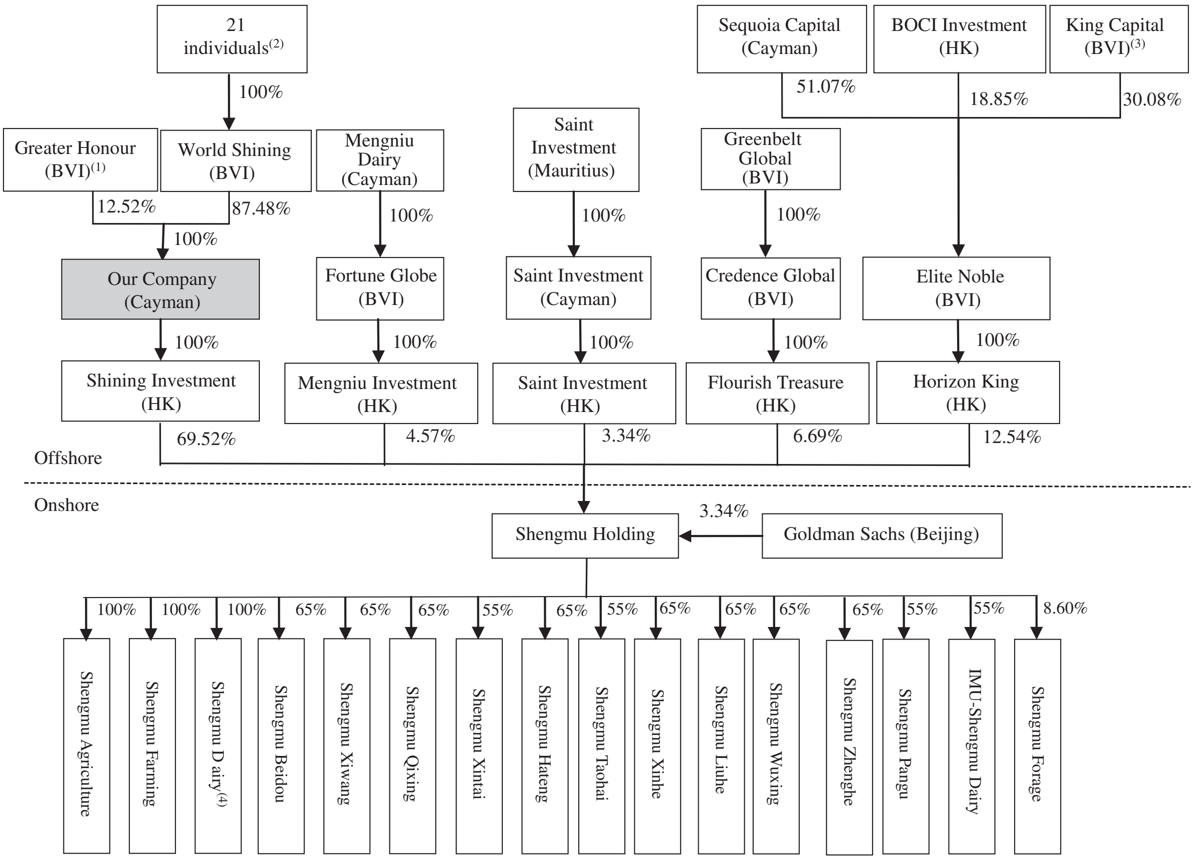
| Name | Shareholding percentage in World Shining |
|---|---|
| | (In percentages) |
| DONG Runli (董潤利) | 2.88% |
| WANG Dongsheng (王東升) | 2.42% |
| HUANG Xiuying (黃秀英) | 1.86% |
| SUN Chuan (孫川) | 1.86% |
| WANG Caixia (王彩霞) | 1.76% |
| XIANG Yonghong (向永紅) | 1.66% |
| GUO Yongfeng (郭永豐) | 0.12% |
| **Total** | **12.56%** |

Greater Honour is wholly owned by Mr. JIANG Jinzhi (蔣錦志), who is also a remaining individual shareholder of Shengmu Holding following the pre-IPO investments.

***Acquisition of Shengmu Holding***

Following the pre-IPO investments, the 22 remaining individual shareholders in Shengmu Holding (including our Ultimate Controlling Shareholders) consolidated their interests into our Group by acquiring their onshore equity interests in Shengmu Holding through our Company. In connection with this restructuring step, World Shining and Greater Honour, the offshore holding companies of these individual shareholders, obtained two bridge loans from BOCI Leveraged and Structured Finance Limited and Wing Lung Bank Limited on February 26, 2014 and applied the loan proceeds to the pro-rata subscription for 86,608,170 and 12,391,830 Shares in our Company, respectively, which in turn channeled the funds into Shining Investment, our wholly-owned Hong Kong subsidiary. Shining Investment used the funds to purchase an aggregate of 69.52% equity interests in Shengmu Holding from the 22 individual shareholders pursuant to a share purchase agreement dated February 20, 2014. The purchase consideration totaled RMB775,472,580, which was determined based on arm's length negotiations among the parties.

Upon the completion of this restructuring step, Shengmu Holding, together with its PRC subsidiaries, became part of the listing group. Set forth below is the shareholding structure of our Group immediately after the acquisition of Shengmu Holding.




(1) Owned by Mr. JIANG Jinzhi (蔣錦志).

(2) Consisting of a group of 14 persons constituting our Ultimate Controlling Shareholders following the Reorganization (87.44%) and seven other individuals (12.56%).

(3) Owned by Mr. HAN Jingyuan (韓敬遠), an Independent Third Party.

(4) Shengmu Dairy owned 41.67% and 30% equity interests in Shanghai Saihan and Beijing Shengmu, respectively.

The entire amount of the bridge loan borrowed by Greater Honour and World Shining from BOCI Leveraged and Structured Finance Limited had been fully repaid before March 31, 2014, the date of our listing application. As of the Latest Practicable Date, as a result of a series of fund transfers, an aggregate amount of US$66.8 million remains payable by Greater Honour and World Shining to the Macau Branch of Bank of China Limited.

***Restructuring of the Investment by Goldman Sachs (Beijing)***

Goldman Sachs invested in us through two investment entities, Goldman Sachs (Beijing) and Saint Investment. Goldman Sachs (Beijing), a limited partnership formed in the PRC, was an onshore shareholder of Shengmu Holding following its investment. In anticipation of the Global Offering, Goldman Sachs restructured this onshore investment through an offshore entity (i.e., Broad Street) such that it was translated into Shares in our Company. Immediately following this restructuring in March 2014, World Shining, Greater Honour and Broad Street owned 83.47%, 11.94% and 4.59% equity interests in our Company, respectively.

***Share Swap between Our Company and Certain Pre-IPO Investors***

In anticipation of the Global Offering, the investments in Shengmu Holding made by Mengniu Investment, Saint Investment, Flourish Treasure and Horizon King needed to be translated into Shares in our Company. Accordingly, pursuant to a share exchange agreement dated March 26, 2014, our Company acquired the entire equity interests in each of Fortune Globe, Saint Investment (Cayman), Credence Global and Elite Noble from their respective shareholders in exchange for the Shares in our Company issued and allotted to each of those shareholders or their designees. As a result of this share swap, Greenbelt Global, Sequoia Capital, Start Great (a wholly-owned subsidiary and designee of Mengniu Dairy), King Capital, Saint Investment (Mauritius) and BOCIFP (an affiliate and designee of BOCI Investment) owned 6.69%, 6.40%, 4.57%, 3.77%, 3.34% and 2.36% equity interests in our Company, respectively.

***Shareholders Agreement***

Upon completion of the share swap, Saint Investment (Mauritius), Broad Street, Greenbelt Global, Sequoia Capital, BOCIFP, World Shining, our Company and our Ultimate Controlling Shareholders entered into a shareholders agreement on March 26, 2014. Pursuant to this shareholders agreement, each of Saint Investment (Mauritius) and Broad Street as a group, Greenbelt Global, Sequoia Capital and BOCIFP, or collectively, the Special Right Holders, was granted certain special shareholder rights (as applicable), which are briefly summarized below.

- *Director nomination*. Each of the Special Right Holders (except BOCIFP) has the right to nominate a director to the Board. BOCIFP has the right to appoint a non-voting observer to the Board. In addition, each of Saint Investment (Mauritius) and Broad Street as a group and Greenbelt Global has the right to nominate a director to the board of Shengmu Holding.

- *Representation right*. A quorum of the Board is not constituted unless each of the directors nominated by each of Saint Investment (Mauritius) and Broad Street as a group and Greenbelt Global is present. If the required quorum is not present at an adjourned meeting, the directors present at such adjourned meeting constitutes a quorum.

- *Veto right*. Each of Saint Investment (Mauritius) and Broad Street as a group and Greenbelt Global has a veto right over certain material corporate actions undertaken by our Company, including without limitation, any material change to the business of any member of our Group, change of the size of the Board, appointment and removal of independent auditors of our Company, and certain related party transaction in excess of RMB10 million.

- *Pre-emptive right*. A proposed issuance of new Shares is subject to a pre-emptive right exercisable by each of the Special Right Holders and World Shining.

- *Anti-dilution right*. A proposed issuance of new Shares (other than issuance of Shares pursuant to an employment incentive plan or the Global Offering) at a price below the per-share subscription price of the relevant pre-IPO investment in Shengmu Holding entitles each of the Special Right Holders to require our Company and/or our Ultimate Controlling Shareholders to take all necessary steps to either (i) issue or cause our Company to issue additional Share at a nominal price to them or (ii) compensate them in cash, on a several and joint basis, in order to make them whole.

- *Right of first refusal*. A proposed third-party transfer of Shares by a Shareholder is subject to the prior consent of, and a right of first refusal exercisable by, each of the Special Right Holders and World Shining.

- *Tag-along right*. A proposed transfer of Shares by World Shining is subject to a tag-along right exercisable by each of the Special Right Holders not exercising the right of first refusal.

This shareholders agreement, including any special shareholder rights provided thereunder, will terminate upon the completion of the Global Offering. Each of our pre-IPO investors and Greater Honour will hold less than 10% of the shareholding of our Company upon the completion of the Global Offering and therefore is not a connected person of our Company under the Listing Rules. All the Shares to be held by them, respectively, following the completion of the Global Offering will be counted as part of the public float of our Company for the purpose of Rule 8.08 of the Listing Rules.

Furthermore, each of the pre-IPO investors and Greater Honour will provide a six-month lock-up undertaking to our Company and the Joint Global Coordinators. For details, see "Underwriting — Underwriting Arrangements and Expenses — Undertakings pursuant to the Hong Kong Underwriting Agreement — Undertakings by the Other Shareholders".

***Compliance with Interim Guidance***

On the basis that each of the investments by the pre-IPO investors was completed more than 28 clear days before the date of the first submission of the first listing application form in respect of the Listing, the Joint Sponsors are not aware of any special circumstances or incidences that could lead to their belief that the pre-IPO investments did not comply with the Interim Guidance on Pre-IPO Investments announced by the Listing Committee on October 13, 2010 (and updated on January 16, 2012) or that the disclosure in relation to the pre-IPO investment does not comply with the disclosure requirements set out in the Guidance Letters GL 43-12 and GL 44-12 issued by the Stock Exchange on October 25, 2012 (and updated in July 2013 with respect to GL 43-12), to the extent applicable.

**Capital Contributions to Dairy-farm Companies**

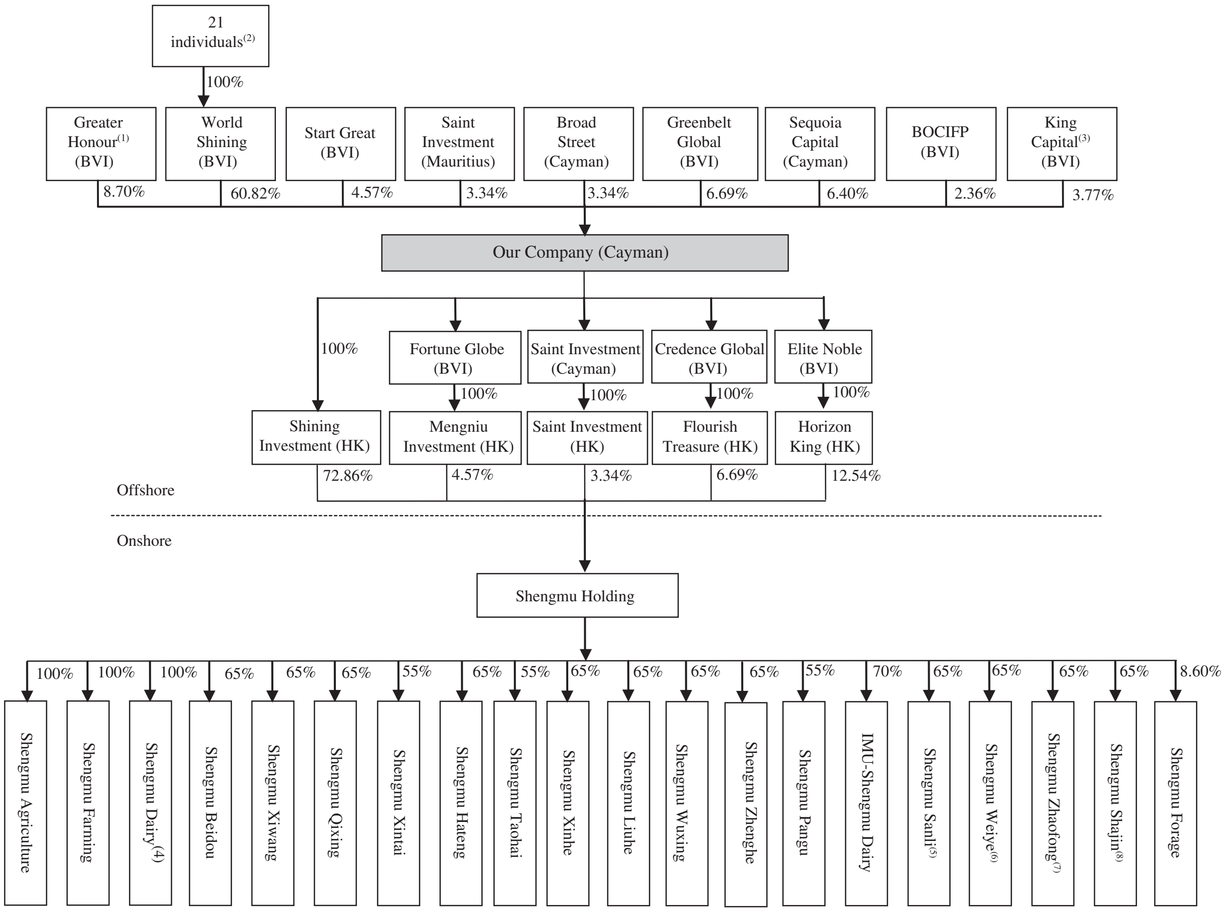
As of the Latest Practicable Date, we had injected additional capital into our dairy-farm companies to support their growth. With respect to Shengmu Taohai and Shengmu Pangu, we contributed RMB2.2 million and RMB8.8 million, respectively, on a pro-rata basis with our business partners. With respect to Shengmu Xiwang, we contributed RMB4.9 million and our shareholding percentage increased from 52% to 65%. With respect to Shengmu Hateng, Shengmu Xinhe, Shengmu Liuhe, Shengmu Zhenghe, Shengmu Wuxing and Shengmu Beidou, we contributed RMB19.1 million, RMB17.9 million, RMB32.9 million and RMB8.0 million, RMB19.1 million and RMB27.0 million, respectively, and our shareholding percentage increased from 55% to 65%. The consideration for such capital contributions in each instance was based on arm's length negotiations with our business partners.

In addition to capital contributions, in January 2014, our business partner in Shengmu Wuxing, QIN Shuzhen (秦淑珍), sold the 35% equity interest (equivalent to a RMB24.5 million cash contribution) in Shengmu Wuxing to WANG Qiang (王强), and as a result, Shengmu Holding and WANG Qiang owned 65% and 35% equity interests in Shengmu Wuxing, respectively.

In March 2014, Shengmu Holding acquired a 15% equity interest in IMU-Shengmu Dairy from LI Guangpeng (李光鹏) for a consideration of RMB6.7 million based on arm's length negotiations between the parties. As a result, Shengmu Holdings' shareholding in IMU-Shengmu Dairy increased from 55% to 70%.

## OUR CORPORATE STRUCTURE

The following diagram illustrates our corporate and shareholding structure immediately prior to the Global Offering.




(1) - (3) See footnotes to chart in "— Reorganization — Establishment of Offshore Listing Structure — Acquisition of Shengmu Holding."

(4) Shengmu Dairy owns 41.67% and 30% equity interests in Shanghai Saihan and Beijing Shengmu, respectively. In April 2014, Shengmu Dairy acquired minority equity interests in two other distribution companies, namely, Anhui Meilichen (as to 40%) and Tianjin Mengmu (as to 30%), which are also principally engaged in the distribution of dairy products. These companies were established on March 12, 2012 and September 10, 2012, respectively, and Independent Third Parties own their remaining equity interests.

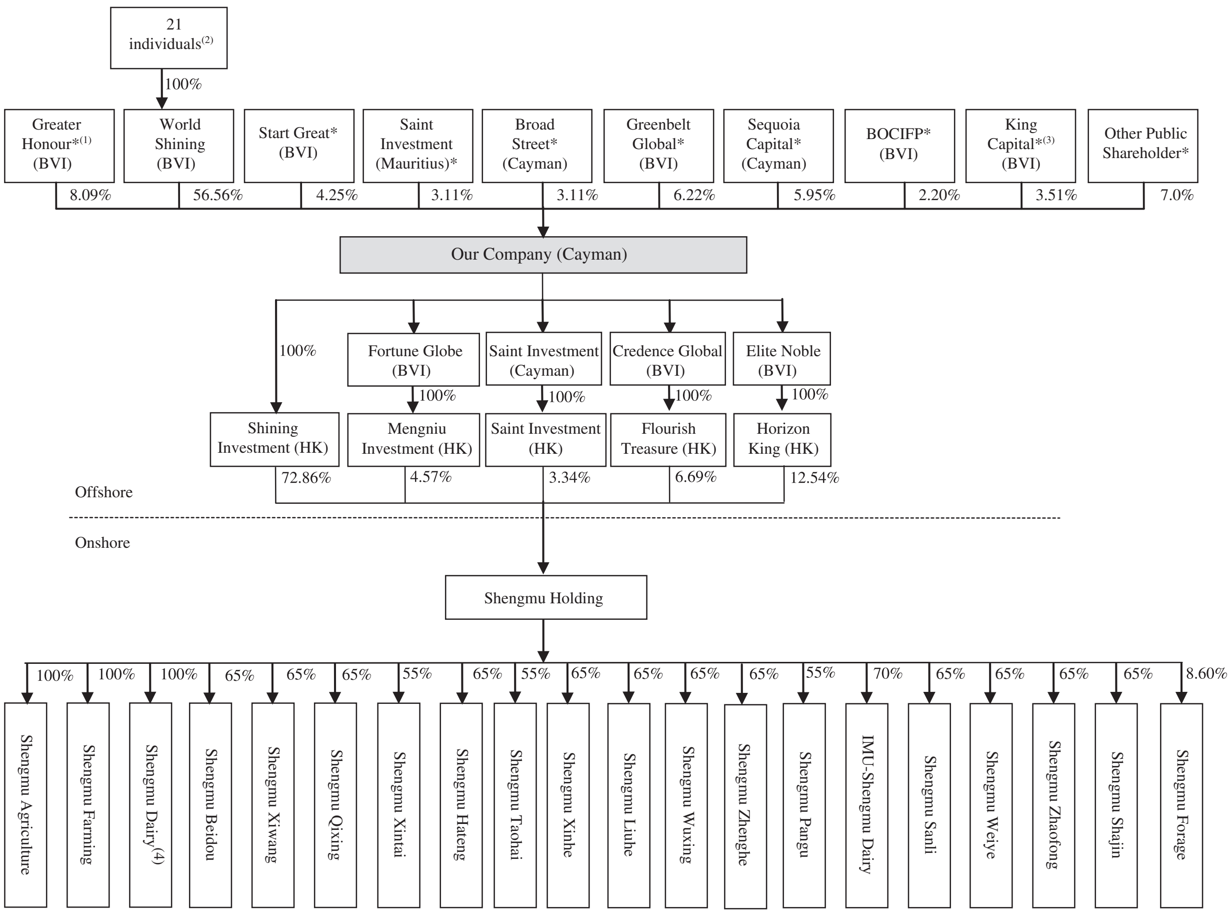
(5) Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司), or Shengmu Sanli, was established on April 2, 2014. As of the Latest Practicable Date, Shengmu Holding and REN Junming (任俊明) owned 65% and 35% equity interests in Shengmu Sanli, respectively. Shengmu Sanli is designed to principally engage in dairy farming operations, and had not commenced operations as of the Latest Practicable Date.

(6) Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司), or Shengmu Weiye, was established on March 31, 2014. As of the Latest Practicable Date, Shengmu Holding and HOU Liubin (侯留斌) owned 65% and 35% equity interests in Shengmu Weiye, respectively. Shengmu Weiye is designed to principally engage in dairy farming operations, and had not commenced operations as of the Latest Practicable Date.

(7) Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司), or Shengmu Zhaofeng, was established on May 5, 2014. As of the Latest Practicable Date, Shengmu Holding and GUO Yongfeng (郭永豐) owned 65% and 35% equity interests in Shengmu Zhaofeng, respectively. Shengmu Zhaofeng is designed to principally engage in dairy farming operations, and had not commenced operations as of the Latest Practicable Date.

(8) Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司), or Shengmu Shajin, was established on May 26, 2014. As of the Latest Practicable Date, Shengmu Holding and HAO Kaiyun (郝凱雲) owned 65% and 35% equity interests in Shengmu Shajin, respectively. Shengmu Shajin is designed to principally engage in dairy farming operations, and had not commenced operations as of the Latest Practicable Date.

The following diagram illustrates our corporate and shareholding structure immediately following the completion of Global Offering, assuming that none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised.




(1) - (3) See footnotes to chart in "— Reorganization — Establishment of Offshore Listing Structure — Acquisition of Shengmu Holding."

(4) Shengmu Dairy owns 41.67%, 30%, 40% and 30% equity interests in four distribution companies, namely, Shanghai Saihan, Beijing Shengmu, Anhui Meilichen and Tianjin Mengmu, respectively.

* The Shares held by these Shareholders are counted as part of the public float of our Company for the purpose of Rule 8.08 of the Listing Rules.

## COMPLIANCE WITH LAWS

### Circular 75

On October 21, 2005, SAFE issued Circular 75 which came into force on November 1, 2005, requiring PRC residents who establish or control offshore companies and inject assets or equity interests in their PRC entities into offshore companies, or offshore SPVs, for the purposes of overseas equity financing to register with competent local SAFE branch before establishing or controlling any company outside China. Under Circular 75, our Ultimate Controlling Shareholders and other individual shareholders, who are PRC domestic residents, are required to register with the local SAFE branch their ownership in us. Circular 75 also requires that any PRC resident that is the shareholder of an offshore SPV shall amend its SAFE registration with the local SAFE branch with respect to that offshore SPV in connection with any alteration of capital, transfer of shares, share exchange, merger, division, long-term investment with equity investment, debt investment, external guarantee and other material capital alteration. Our Ultimate Controlling Shareholders who are PRC residents completed all required filings (including amendments thereto) under Circular 75 on March 28, 2014.

### M&A Regulation

Pursuant to Article 40 of 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》), or the M&A Regulation, promulgated on August 8, 2006 by six PRC governmental agencies, effective on September 8, 2006 and amended by MOFCOM in June 2009, any offshore SPV established for capital financing purposes and controlled directly or indirectly by PRC persons, shall obtain MOFCOM approval prior to such offshore SPV acquiring any related entities or assets in the PRC, as well as CSRC approval prior to the listing and trading of the securities of such offshore SPV on an overseas stock exchange. Shengmu Holding was restructured into a Sino-foreign joint-venture company in August 2011 with the investment from Mengniu Investment, a Hong Kong-incorporated company. Therefore, the acquisition by Shining Investment of Shengmu Holding was a transfer of equity in a foreign-invested enterprise rather than a domestic enterprise (內資企業) as defined in the M&A Regulation, and as such, the M&A Regulation is not applicable. Instead, the acquisition must comply with the Rules on the Changes of Shareholding of Foreign-invested Enterprise Investor (《外商投資企業投資者股權變更的若干規定》).

Our PRC legal advisers have also confirmed that we have obtained all material approvals and permits required under PRC laws and regulations in connection with each step of the Reorganization and the Global Offering.

## ABOUT OUR PRE-IPO INVESTORS

Our institutional investors have brought management expertise and industry experience to our Group. Mengniu Group, on the other hand, is a large and reputable customer of our raw milk business, and its equity investment in us at our early development stage helped us finance our fast-growing business and enabled us to quickly expand into organic dairy farming operations.

**Mengniu Group**

Start Great is wholly owned by Mengniu Dairy, a leading PRC dairy product company, whose shares are listed and traded on the Hong Kong Stock Exchange (stock code: 2319). Mengniu Dairy is an Independent Third Party.

**Goldman Sachs**

Broad Street is an exempted limited partnership registered in the Cayman Islands. Its general partner is Broad Street (Cayman) GP Limited, a wholly-owned subsidiary of The Goldman Sachs Group, Inc., a company listed on the New York Stock Exchange (ticker symbol: GS). Its limited partner is Shanghai Broad Street Investment Center, whose limited partner is Broad Street (Beijing) 2011 Investment Center (Limited Partnership), an investment fund managed and controlled by affiliates of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc. is an Independent Third Party.

Saint Investment (Mauritius) is a GBL1 (Global Business License Category 1) entity registered in Mauritius. Saint Investment (Mauritius)'s capital derives from funds and monies managed and/or controlled by subsidiaries of The Goldman Sachs Group, Inc.

**Baring**

Greenbelt Global is held as to approximately 99.4% by The Baring Asia Private Equity Fund V, L.P., an Independent Third Party. Baring Private Equity Asia GP V, L.P., an Independent Third Party, is the general partner of The Baring Asia Private Equity Fund V, L.P. Jean Eric Salata, an Independent Third Party, is the sole shareholder of Baring Private Equity Asia GP V Limited (the general partner of Baring Private Equity Asia GP V, L.P.). Each of Baring Private Equity Asia GP V Limited and Jean Eric Salata is therefore deemed to be interested in the Shares held by Greenbelt Global. Jean Eric Salata disclaims beneficial ownership of such Shares, except to the extent of his economic interest in such entities.

**Sequoia**

Sequoia Capital is wholly owned by Sequoia Capital China Growth 2010 Fund, L.P., Sequoia Capital China Growth 2010 Partners Fund, L.P. and Sequoia Capital China Growth 2010 Principals Fund, L.P., or collectively, SCC 2010 Growth Funds. The SCC 2010 Growth Funds' general partner is SC China Growth 2010 Management, L.P., whose general partner is SC China Holding Limited, a company incorporated in the Cayman Islands. SC China Holding Limited is wholly owned by SNP China Enterprises Limited, a company wholly owned by Mr. SHEN Nanpeng (沈南鵬), an Independent Third Party. Mr. SHEN disclaims beneficial ownership of the Shares held by Sequoia Capital, except to the extent of his pecuniary interest therein.

**BOCI**

BOCIFP is a company incorporated under the laws of BVI and an indirect wholly-owned subsidiary of Bank of China Limited, whose shares are listed and traded on the Hong Kong Stock Exchange (stock code: 3988) and the Shanghai Stock Exchange (stock code: 601988). It is principally engaged in investment activities. Bank of China Limited is an Independent Third Party.

**King Capital**

King Capital is wholly owned by Mr. HAN Jingyuan (韓敬遠), a private investor and an Independent Third Party.

## OVERVIEW

Shengmu is the largest organic dairy company in China and the only vertically integrated organic dairy company in China that meets E.U. organic standards, according to the F&S Report. We had a 54.2% market share in China based on 2013 organic raw milk production volume, according to the F&S Report. Together with our associate, Shengmu Forage, our unique vertically integrated "grass-to-glass" organic ("全程有機") production model covers the entire dairy industry value chain, meeting E.U. organic standards for all major stages of the dairy production process: forage growing, dairy farming to produce raw milk, and processing to produce liquid milk products. According to the F&S Report, we are a major producer of organic liquid milk with a market share of 25.3% in terms of retail sales value in China in 2013. In addition, we are also among the top eight producers of premium non-organic raw milk (which refers to the raw milk that meets certain nutrition and safety standards) in China with a market share of 2.6% based on 2013 production volume, according to the F&S Report.

China's organic raw milk market accounted for 0.5% of the overall raw milk market in China in terms of production volume in 2013, and is expected to grow at a CAGR of 53.5%, reaching 3.2% of China's total raw milk production volume in 2018, according to the F&S Report. The total retail sales value of organic liquid milk in China was RMB1.9 billion in 2013, accounting for 1.3% of the total liquid milk market in China, according to the same source. In addition, China's high-end liquid milk market accounted for 28.8% of the overall liquid milk product market in China in terms of retail sales value in 2013, according to the F&S Report.

Our business consists of the dairy farming business and the liquid milk business. We began our dairy farming operations in 2010 by engaging in the premium non-organic raw milk production in Hohhot, Inner Mongolia, and in 2011 expanded into the production of organic raw milk in Bayannur, Inner Mongolia. In 2012, we further expanded into the liquid milk business under which we produce and sell packaged organic liquid milk products under our "Shengmu 圣牧" brand. All of our liquid milk products are produced from organic raw milk produced internally by our organic dairy farms. We are the only dairy company in China that offers branded organic dairy products that are 100% processed from raw milk produced by self-owned certified organic dairy farms, according to the F&S Report. We expect that our future growth will primarily be driven by the growth of our organic dairy farming and liquid milk businesses.

We pioneered the unique fully integrated "grass-to-glass" organic production model to ensure that our production is end-to-end traceable and controllable from raw materials to end retail product by us and Shengmu Forage. We stringently control each major step of the organic production process under our "grass-to-glass" organic production model: (i) organic environment — no other agricultural or industrial activities on the sites of our organic dairy farms located on the Ulan Buh desert, the eighth largest desert in China; (ii) organic forage planting — effective control over the source and quality of our dairy cow feed by sourcing our forage substantially from Shengmu Forage, which primarily grows corn silage and alfalfa in the Ulan Buh desert without using any agricultural chemicals or chemical synthetic fertilizers; (iii) organic dairy farming — we are committed to raising our dairy cows in a low density, low stress environment with organic feed using no growth hormones; (iv) organic dairy product processing — all of the raw milk we use to produce our liquid milk products is supplied internally by our organic dairy farms, with no preservatives, artificial colorings and artificial flavorings added during the production process; (v) organic milk origin tracing — each unit of our organic milk products is given a code recognized by PRC Certification and Accreditation Administration (中國國家認證認可監督管理委員會) to trace the origin of production of each product as a quality control measure.

The strategic location of our organic dairy farms at the Ulan Buh desert is core to our organic dairy production model. Pangu Group, controlled by the family of Mr. WU Jianye (our president), began a large-scale greening effort in 1997, with tens of millions of trees planted over a period of more than 12 years. Such greening effort has substantially reduced dust storms and improved the quality of soil and the overall environment, making it possible to grow organic forage in a large scale. Leveraging on the environmental improvements made by Pangu Group as well as its forage growing experience, Shengmu Forage began growing forages in 2010, and currently grows organic forages on approximately 115,000 mu of growing fields, in the Ulan Buh desert and by 2020, Shengmu Forage expects to develop a total of approximately 560,000 mu of growing fields for organic forages. Shengmu Forage supplied substantially all the forage crops organically grown in its growing fields to us during the Track Record Period, and has entered into the Long-term Strategic Cooperation Agreement with us under which Shengmu Forage agreed to continue its exclusive supply arrangement and support our future expansion plans.

As of December 31, 2013, we owned the largest herd of organic dairy cows in China, with a 58.0% market share in terms of herd size, and the third largest herd of dairy cows overall, according to the F&S Report. As of December 31, 2013, we had a total of 30,621 organic dairy cows and 29,836 non-organic dairy cows. As of that date, all of our 13 organic dairy farms were located in the Ulan Buh desert while all of our 12 non-organic dairy farms were located in Hohhot, Inner Mongolia, with a majority of our dairy farms having capacity to house between 2,500 to 4,500 cows. Our average annual milk yield in 2013 was 8.5 tonnes. Mengniu Group, Yili Group and Want Want purchase our raw milk for the production of their high-end product lines.

Our own "Shengmu 圣牧" branded organic liquid milk products are rapidly gaining recognition as the premium organic liquid milk product in China since its launch in June 2012. We only offer organic dairy products, comprising of organic whole milk, organic low fat milk, and organic children's milk, under our brand. The average retail selling price of our organic liquid milk products has been significantly higher than the industry average price for high-end liquid milk, according to the F&S Report.

Since June 2012, our nationwide distribution network has grown rapidly from 108 distributors as of December 31, 2012 to 316 as of December 31, 2013 covering 31 provinces, municipalities and autonomous regions in China. For three consecutive years since 2011, we were awarded the Gold Medal of BioFach China International Organic Trade Fair and Conference (中國國際有機食品博覽會金獎) in recognition of the premium quality of our products.

The following table sets forth the sales volume of our organic and premium non-organic raw milk for the period indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Tonnes | % of total | Tonnes | % of total | Tonnes | % of total |
| Organic raw milk | | | | | | |
| External sales | 21,484 | 20.9% | 33,397 | 21.2% | 68,518 | 33.6% |
| Inter-segment sales[(1)] | — | — | 2,708 | 1.7% | 23,813 | 11.7% |
| Subtotal | 21,484 | 20.9% | 36,105 | 22.9% | 92,331 | 45.3% |
| Premium non-organic raw milk | 81,165 | 79.1% | 121,300 | 77.1% | 111,465 | 54.7% |
| Total | 102,649 | 100.0% | 157,405 | 100.0% | 203,796 | 100.0% |

(1) Represents internally produced organic raw milk sold to the liquid milk business.

We have experienced rapid growth over the Track Record Period. Our revenue increased from RMB389.4 million in 2011 to RMB1,143.7 million in 2013, or a CAGR of 71.4%. Our profit for the year before biological asset fair value adjustments increased from RMB106.1 million in 2011 to RMB365.0 million in 2013, or a CAGR of 85.5%. Our gross margin was 29.4%, 33.4% and 42.9% in 2011, 2012 and 2013, respectively.

## COMPETITIVE STRENGTHS

We believe that our achievements to date have given us certain competitive advantages, which position us well for continued growth to capture the growing organic dairy and premium non-organic dairy market, and collectively are barriers to entry for new competitors.

### Market leader well-positioned to benefit from China's fast-growing organic dairy market

The organic food retail market in China has grown rapidly in recent years, increasing from RMB10.6 billion in 2009 to RMB32.7 billion in 2013, representing a CAGR of 32.5%, according to the F&S Report. Driven by increasing consumer awareness on healthy diet and rising disposable income, as well as the continuing development of distribution channels, this market is expected to continue to grow, reaching RMB144.6 billion in 2018, representing a CAGR of 34.6%, also according to the F&S Report. In particular, the retail market of organic liquid milk products, which grew at a CAGR of 93.2% from 2009 to 2013, is expected to increase from RMB1.9 billion in 2013 to RMB25.8 billion in 2018, representing a CAGR of 68.5% from 2013 to 2018, according to the same source. The growth of organic liquid milk product supply, on the other hand, has significantly lagged the growth of demand. According to the F&S Report, the gap between organic liquid milk supply and demand is expected to widen, reaching RMB1.14 billion in 2018, in terms of retail market value.

Due to the high barriers to entry to the organic milk market, the supply of organic raw milk in China is highly concentrated. According to the F&S Report, the top three organic raw milk producers accounted for 86.9% of the total organic raw milk produced in China in 2013. We believe that the high entry barriers primarily include (i) limited availability of large parcels of clean and unpolluted land with climates suitable for organic dairy farming; (ii) lengthy and stringent organic certification process; (iii) limited supply of organic feed; (iv) significant initial capital requirement and (v) experienced management team.

We are an early mover in the PRC organic dairy farming industry and have achieved a leading position in the organic milk market in China. According to the F&S Report, we are the largest organic dairy farming company in China based on 2013 organic raw milk production volume, with a 54.2% market share. As of December 31, 2013, we had 30,621 organic dairy cows, or approximately three times that of the company with the second largest herd of organic dairy cows in China, according to the F&S Report. As the market leader in the PRC organic dairy farming industry, we believe we are well-positioned to continue to capture the rapid growth in demand for organic dairy in China.

**Unique vertically integrated "grass-to-glass" organic production model ensuring product safety and quality**

Together with our associate, Shengmu Forage, we are the only organic dairy company in China that applies a vertically integrated "grass-to-glass" ("全程有機") organic production model in China with all major steps of the industry value chain, including forage growing, dairy farming to produce raw milk and milk processing meeting E.U. organic standards. We stringently control each major step of the production process under our "grass-to-glass" organic production model, which consists of the following:

- *Organic environment*. The Ulan Buh desert offers a number of benefits compared to conventional farming environments in China. These benefits include cool and dry weather preferred by dairy cows, as well as limited human activity, little pollution and very low levels of bacteria, viruses and pests. In addition, the land underneath Ulan Buh desert is formed as a result of the alluviation of the Yellow River, the second longest river in Asia, and there is rich soil and abundant water resources underneath the sandy surface, according to the F&S Report.

- *Organic forage planting*. Effective control over the source and quality of our dairy cow feed is the first step of our "grass-to-glass" organic production process. We currently source our organic forage substantially from Shengmu Forage, which grows, among others, corn and alfalfa in the Ulan Buh desert without using any agricultural chemicals or chemical synthetic fertilizers.

- *Organic dairy farming*. We are committed to cattle welfare as part of the culture of organic dairy farming, which we believe contributes to our product quality. We raise our dairy cows in a low density environment with organic feed without using any growth hormones.

- *Organic milk processing*. All of our liquid milk products are produced from organic raw milk supplied internally by our organic dairy farms. No preservatives, and artificial coloring and artificial flavorings are added during the production process.

- *Organic milk origin tracing*. Each unit of our organic liquid milk products is given a code recognized by PRC Certification and Accreditation Administration (中國國家認證認可監督管理委員會) to trace the origin of production of each product as a quality control measure.

**Strategic desert location providing the ideal environment to raise organic dairy cows**

We consider our strategic location in the Ulan Buh desert, where Shengmu Forage plants forage crops and where we operate our organic dairy farms, core to our "grass-to-glass" organic production model. We believe, based on the F&S Report, that our Ulan Buh desert location is ideal for operating organic dairy farms because of its following features:

- *Clean environment*. There is little pollution and very low levels of bacteria, viruses and pests.

- *Sand and sunlight.* The soft and permeable desert sand provides comfortable lying ground for our cows to rest and reduce their chances of common cow diseases. The intensity and the long hours of the sunlight in the desert help forage crops grow and our cows produce higher levels of calcium in their milk, according to the F&S Report.

- *Preferred climate*. Cows prefer relatively cool temperature and dry weather. The Ulan Buh desert is located in a region which is generally considered the ideal geographic region for dairy farming known as the Golden Raw Milk Belt. According to the F&S report, the temperature range from 0°C to 15°C is a favorable range for dairy cows and the Ulan Buh desert has an annual average temperature of 7.8°C and an annual average precipitation of approximately 103 millimeters. Compared to some cold and humid regions in China, the climatic environment in the Ulan Buh desert is more suitable for dairy farming.

- *Sufficient room for growth.* Shengmu Forage currently grows organic forages on approximately 115,000 mu (76.7 square kilometers) of growing fields in the Ulan Buh desert. By 2020, Shengmu Forage expects to develop a total of approximately 560,000 mu (373.3 square kilometers) of growing fields for organic forages to support our cow herd expansion. Shengmu Forage supplied substantially all the forage crops organically grown in its growing fields to us during the Track Record Period, and has recently entered into the Long-term Strategic Cooperation Agreement with us under which Shengmu Forage agreed to continue its exclusive supply arrangement and support our future expansion plans.

- *Convenient transportation*. Our organic dairy farms are all located within 100 kilometers from our processing plant by local highways. Because of the dry desert weather of the Ulan Buh desert, we are less susceptible to transportation delays due to severe weather conditions than many other regions in China.

Based on our experience, it would require significant efforts, costs, time and expertise to convert a sand desert area of a similar size into arable land. Therefore, we believe that our unique location for our organic dairy farms provides us with a significant competitive advantage that is highly difficult to replicate by other dairy companies in China.

**Farm management system and commitment to promoting cattle welfare contributing to industry leading milk quality**

We believe that cattle welfare contributes to milk quality, and seek to provide our dairy cows with a relatively comfortable, low stress environment and nutritious feed. In particular, our organic dairy cows enjoy superior living conditions, including the following:

- *The environment*. The natural conditions of the Ulan Buh desert are ideal for organic dairy farming.

- *Farm management*. Our dairy farms are designed with an aim to provide organic dairy cows with the maximum comfort. Our organic dairy cows have an average living space of 60 to 80 square meters per cow. All of our farms are free stall farms with easy access to food and water, clean and comfortable dry sand bedding and spacious outdoor sand sport fields that allow our dairy cows to eat, drink, and relax freely. Dairy cows are ruminants and prefer to lie down to digest food. The bedding and sport fields covered with the fine dry sand from the Ulan Buh desert are aimed to provide our dairy cows with a comfortable place to lie on and reduce their chance of developing mastitis and limping diseases.

- *Food and water*. To promote cow health and improve milk yield, we feed our organic dairy cows with customized nutritious organic forages based on their development stage, lactation stage and milk yield. We purify drinking water for dairy cows on our organic dairy farms to meet the health standards for human consumption in China.

- *Physical and mental health*. We have implemented a strict and effective disease control policy at our farms. Each of our dairy farms has five to eight veterinarians and assistants onsite, depending on its herd size.

We believe our efforts to promote the welfare of our dairy cows have contributed to the superior quality of our milk products. Set forth below are comparisons of certain key quality indicators between our raw milk, both organic and premium non-organic, raw milk by certain other leading PRC raw milk producers and certain government standards.

| | Nutrition Standard | | Safety Standard | |
|---|---|---|---|---|
| | Protein Content(1) | Fat Content(1) | Aerobic Plate Count(2) | Somatic Cell Count(2) |
| | (%) | | (CFU/mL) | |
| Our products(3) | | | | |
| - Organic raw milk | 3.4 | 4.3 | 28,000 | 110,000 |
| - Premium non-organic raw milk | 3.3 | 4.1 | 30,000 | 130,000 |
| Huishan Dairy(4) | ≥3.2 | ≥4.1 | <50,000 | <200,000(4) |
| Modern Dairy(4) | ≥3.1 | ≥3.7 | <50,000 | <250,000 |
| YuanShengTai(4) | 3.4 | 4.2 | 4,000 | 162,000 |
| PRC Standard | ≥2.8 | ≥3.1 | ≤2,000,000 | N/A(4) |
| E.U. Standard | N/A | N/A | <100,000 | <400,000 |
| U.S. Standard | ≥3.2 | ≥3.5 | <100,000 | <750,000 |

(1) Protein content and fat content are two major indicators used to determine the nutritional value of raw milk. Generally a higher protein and fat content indicates higher quality. The E.U. Standard does not provide for a minimum protein or fat requirement.

(2) Aerobic plate count and somatic cell count are two major indicators used to determine safety quality of raw milk. Generally a lower aerobic plate count indicates improved sanitation and a lower somatic cell count indicates better animal health. The PRC Standard does not provide for a maximum somatic cell count requirement.

(3) Information on protein content, fat content and aerobic plate count based tests of our raw milk sample by SGS - CSTC Standards Technical Services Co., Ltd., a leading testing lab, and information on somatic cell count based on tests of our raw milk sample by a testing laboratory operated by Mengniu Group and accredited by China National Accreditation Service for Conformity Assessment.

(4) Based on the data for 2013 in the F&S Report.

**Premium and trusted brand recognized for its quality and safety**

The quality of our upstream raw milk is well-recognized by branded dairy players in China. Our industrial customers primarily include Mengniu Group and Yili Group, which are the leading dairy companies in China, and purchase our raw milk only for the production of their high-end product lines. In addition, Want Want, a leading maker of rice crackers, dairy products and beverages in China, purchases our raw milk for their dairy products.

In the downstream branded liquid milk market, our "Shengmu 圣牧" brand is rapidly gaining recognition as a premium organic dairy brand. Since we began to market our own organic liquid milk products under the "Shengmu 圣牧" brand in June 2012, our distribution network has grown rapidly from 108 distributors as of December 31, 2012 to 316 as of December 31, 2013, with sales increasing from RMB33.9 million in 2012 to RMB303.0 million in 2013. For three consecutive years since 2011, we were awarded the Gold Medal of BioFach China International Organic Trade Fair and Conference (中國國際有機食品博覽會金獎) in recognition of the premium quality of our products.

Chinese consumers are increasingly focused on health and food safety. According to the consumer survey in the F&S Report, Chinese consumers consider "grass-to-glass" organic milk products to be healthier and safer than conventional organic milk products, which in turn are considered healthier and safer than non-organic milk products, and are willing to pay a premium for "grass-to-glass" organic milk products over conventional organic milk. In 2013, the average retail sales price for our liquid milk products was RMB23,211 per tonne, substantially higher than the industry average of RMB15,840 per tonne for high-end liquid milk products, according to the F&S Report. As Chinese consumers increasingly recognize the benefits of our "grass-to-glass" organic milk products and of organic milk products in general and the disposable income of Chinese consumers continues to grow, we expect that consumer trust in organic milk products will help increase our brand recognition, drive our business growth and enhance our profit margins.

**Vertically integrated model and portfolio of premium non-organic and organic milk products offering flexibility that allow us to achieve attractive returns**

We began operations in 2010 with a dairy farming business of supplying premium non-organic raw milk to industrial customers. That business ramped up quickly, generating RMB487.8 million in sales of premium non-organic raw milk in 2013. Our non-organic dairy farming business has helped us fund our investments into our organic dairy farming business, which we began in 2011, and our organic liquid milk products business, which began generating sales in 2012. As a result of these efforts, by 2013, we have a diverse revenue mix from premium non-organic raw milk, organic raw milk and organic liquid milk products. This diverse revenue mix, together with our vertically integrated model of combining dairy farming businesses with the manufacturing and sales of liquid milk products business allows us to:

- continue to benefit from a stable cash flow provided by our premium non-organic raw milk business;
- capture higher profit margins resulting from the growing revenue stream from our organic dairy farming and liquid milk products businesses; and
- respond timely to changes in the supply-demand dynamics in the market of raw milk vis-a-vis organic liquid milk products and premium non-organic milk vis-a-vis organic milk by adjusting our business focus and revenue mix.

Benefiting from this one-of-a-kind vertically integrated "grass-to-glass" organic production model, we have been able to price our organic raw milk and liquid milk products at a premium to achieve higher profit margins and returns. In 2013, we generated a gross profit margin of 35.9% for premium non-organic raw milk, 44.0% (before elimination of internal profit from inter-segment sales) for organic raw milk and 33.7% (before elimination of internal profit from inter-segment sales) for liquid milk products, and our overall gross profit margin was 42.9%. Our return on equity and return on assets were 21.9% and 12.0% in 2013, respectively.

As we continue to shift our revenue mix towards organic milk in the next phase of our expansion, and as our production scale for liquid milk products continues to expand, we will be well-positioned to continue growing our revenue while improving our overall profitability.

**Visionary management team with a proven track record of successful execution**

Less than six years ago, Mr. YAO Tongshan, our chairman and founder, had a vision of building an organic dairy company based on the proposition of offering to the consumer a wholesome product that is "grass-to-glass" organic and played a key management and leadership role in our development. Today, under Mr. YAO's leadership, our business has grown rapidly, and we have become the largest organic dairy company in China based on organic raw milk production volume and organic herd size in 2013, according to the F&S Report. We believe that our rapid growth over such a short period of time would not have been possible without the cohesive collaboration of an experienced management team led by Mr. YAO. Mr. YAO is in charge of our overall business operations and strategic direction and personally oversees our sales and marketing function. Mr. YAO had accumulated extensive experience and in-depth knowledge about the dairy industry from his prior working experience at Mengniu Group. He served as vice president of finance and chief financial officer at Mengniu Group for eight years before founding our Group, and led the development of an advanced finance management system for enhancing the coordination among different business departments and improving employee performance through effective employee performance review. The Chief Financial Officer magazine, a third party publication in China, credited Mengniu Group's stable business operations during its rapid growth partly to its highly recognized internal control system developed under Mr. YAO's leadership. In 2008, Mr. YAO became an executive director at Mengniu Group, and since then he had participated increasingly more in its management and business decisions. Leveraging on his expertise and experience in the dairy industry, Mr. YAO has implemented a similar management system tailored to our company's needs, which has been instrumental in our development. In addition, Mr. YAO also brought together this experienced management team, including:

- *Feed and crops*. Mr. WU Jianye, our president, whose family controls the Pangu Group, which planted tens of millions of trees in the Ulan Buh desert, co-founded Shengmu Forage with Shengmu Holding to hold the land that supplies feed to our dairy cows. Although we no longer control Shengmu Forage, Mr. WU continues to be instrumental in coordinating its development plans to meet our development requirements. In addition, Mr. WU is primarily in charge of formulating our organic business value chain development plan and the implementation of the related budget.

- *Production*. Ms. GAO Lingfeng, our vice president, also joined from Mengniu Group. With 15 years of management experience in milk production and product quality, Ms. GAO is primarily responsible for the operations of our liquid milk business, as well as the setting up and implementing key performance indicators for various business units, production chain's quality management and organic certification management.

- *Dairy farms operations*. Our vice president of operations, Mr. LI Yundong, with 11 years of management experience in business operations at Mengniu, is in charge of our dairy farm operations.

In addition, Mr. CUI Ruicheng, our chief financial officer, has over 10 years of experience in financial accounting and business management, including six years of related work experience at Mengniu Group, and significant knowledge in dairy farming related financial accounting system. He has been instrumental in the establishment and strengthening of our financial accounting system, providing strong accounting and budgeting support for our rapid business expansion. We believe that this management team will continue its successful record of execution and lead us to our next phase of expansion.

## BUSINESS STRATEGY

Our long-term objective is to become a leading organic dairy company in the world. We intend to continue to be headquartered in Bayannur, Inner Mongolia, where we and the local government aim to build a world-class organic raw milk production base. To achieve this goal, we plan to implement a business strategy with the following components.

### Expand our organic dairy farming operations and ensure our product safety and quality

As of December 31, 2013, we operated 13 organic dairy farms with 30,621 dairy cows, including 16,825 milkable cows, in the Ulan Buh desert. According to the F&S Report, the organic liquid milk retail market in China is expected to increase at a CAGR of 68.5% from 2013 to 2018. To meet the increasing market demand, we plan to significantly expand our organic dairy farming operation and increase milk yield with the following initiatives:

- *Expand organic dairy farms*. We currently have three organic dairy farms under construction, which are expected to commence operation by September 2014. We plan to invest RMB700 million to build an additional 18 organic dairy farms by the end of 2016.

- *Increase herd size of dairy cows*. We plan to grow our herd of organic dairy cows to approximately 120,000 organic dairy cows by 2016. We expand our herd primarily by breeding calves and heifers using imported frozen semen, supplemented by purchasing heifers from domestic dairy farmers and from overseas markets. We expect to invest RMB480 million to purchase no less than 28,000 additional organic dairy cows by the end of 2016.

- *Improve milk yield*. We plan to improve the physical conditions and average milk yield of purchased dairy cows and our herd in general and our operating efficiency through various measures, including feeding our dairy cows with customized feed that we developed in-house, fine tuning and implementing our standardized organic dairy farming process in new dairy farms, and cooperating with leading national and international research institutions and animal care and breeding companies.

- *Further strengthen relationship with Shengmu Forage*. We will seek to further strengthen our relationship with Shengmu Forage to ensure that they develop additional organic growing fields to meet our increasing requirements for organic forages.

The expansion of our organic dairy farms and herd size will allow us to capitalize on the rising demand for organic milk products in China. In addition, we believe that our expanded operation will allow us to enjoy economies of scale, improve our operating efficiency and consolidate our position as the leading organic dairy company in China. We will also continue to invest in quality control and product safety to support growth.

**Increase our liquid milk processing capacity**

We plan to further expand our "Shengmu 圣牧" branded liquid milk business to capture additional margin along the value chain. We currently have three production lines in our organic milk processing facilities with a maximum daily processing capacity of 330 tonnes of organic liquid milk. As we continue to expand organic dairy farming operation and dairy cow herd, we expect that our organic raw milk production capacity will increase to 1,800 tonnes per day by the end of 2016. Accordingly, we plan to invest a total of approximately RMB360 million to increase our daily liquid milk processing capacity to 1,150 tonnes per day by the end of 2016, with the remaining organic raw milk to be sold to our industrial customers. Specifically, we are in the process of assembling our new production line for organic yogurt products and expect to commence operation in the third quarter of 2014 with a daily production capacity of 30 tonnes of organic yogurt, which we plan to increase to 200 tonnes by the end of 2015 and further to 380 tonnes by the end of 2016. We plan to install additional production lines to achieve an expected daily processing capacity of 440 tonnes per day of other organic liquid milk products by the end of 2016.

**Expand our premium organic product portfolio**

We currently offer organic liquid milk products under our "Shengmu 圣牧" brand, including organic whole milk, organic low-fat milk and organic milk for children, all made from our organic raw milk. We aim to continue to develop new products which can leverage our increasing raw organic milk production, share our existing processing, marketing and distribution platforms, as well as benefit from our increasingly recognized brand. We plan to develop additional organic milk products to cater to capture demand for organic dairy products, cater to customer preferences, and expand our revenue sources. We expect to market yogurt and milk beverage products, all made from our organic milk, by the third quarter of 2014 and the end of 2016, respectively. By expanding our organic milk based product portfolio, we believe we will be able to capture the increasing market demand for safe and high-quality dairy products in China, broaden our revenue sources and increase our profitability.

**Build an extensive nationwide distribution network and strengthen brand recognition**

We currently sell our liquid milk products through distributors. As of December 31, 2013, we had approximately 316 distributors covering 31 provinces, municipalities and autonomous regions in China. We plan to expand our distribution network to over 400 distributors by the end of 2014. We intend to increase efforts in engaging additional distributors in tier three and tier four cities. In terms of points of sale, we intend to continue to increase our product presence in department stores and large supermarket chains in order to promote our brand recognition. We also plan to focus on expanding convenience store chains as a key future revenue source. Furthermore, in addition to our direct sales to consumers via VIP membership cards and corporate wholesale, we plan to develop online-to-offline (O2O) sales channels by setting up an Internet direct sales portal to reach a wider customer base. To ensure prompt delivery of products to our rapidly growing customers, we plan to set up regional distribution centers by leasing warehouse facilities close to regional transportation hubs throughout China and purchase trucks to establish our own delivery fleet to support our sales growth.

We also intend to increase our brand recognition and solidify our high-end image in our target markets through the following initiatives:

- developing and implementing a uniform marketing strategy and coordinating nationwide advertising and marketing campaigns, including online advertising, to promote the benefits of organic milk as well as our own brand;
- promoting the establishment of more specialty shops which, in addition to their sales function, will serve to educate consumers about our "grass-to-glass" organic production model and the benefits of our organic milk and promote our brand image; and
- demonstrating our "grass-to-glass" organic concept through more open-house events at our dairy farms and production facilities.

## OUR BUSINESS

Our business consists of dairy farming business and liquid milk business. We began our operation in 2010 by engaging in the premium non-organic raw milk production in Hohhot with our own dairy farms. We expanded into organic dairy farming business in 2011. In 2012, we further expanded into liquid milk products business under which we produce and sell packaged liquid milk products under the "Shengmu 圣牧" brand. All of the raw milk we use to produce our liquid milk products is supplied internally by our organic dairy farms. We expect that our future growth will primarily come from the growth of our organic raw milk and liquid milk products businesses.

The following table sets forth the components of our revenue by operating segment for the period indicated.

| | Dairy farming business | | | | Liquid milk business | | | | |
|---|---|---|---|---|---|---|---|---|---|
| For the year ended December 31, | Segment revenue | Inter-segment sales[1] | External sales | External sales as % of total revenue | Segment revenue | Inter-segment sales | External sales | External sales as % of total revenue | Total revenue (after elimination of inter-segment sales[1]) |
| | (RMB in thousands, except percentages) | | | | | | | | |
| 2011 | 389,417 | — | 389,417 | 100.0% | — | — | — | — | 389,417 |
| 2012 | 682,179 | 15,345 | 666,834 | 95.2% | 33,929 | — | 33,929 | 4.8% | 700,763 |
| 2013 | 972,308 | 131,561 | 840,747 | 73.5% | 302,962 | — | 302,962 | 26.5% | 1,143,709 |

(1) Represents internally produced organic raw milk sold to our liquid milk business.

The following table sets forth the sales volume of organic and premium non-organic raw milk for the period indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Tonnes | % of total | Tonnes | % of total | Tonnes | % of total |
| Organic raw milk | | | | | | |
| External sales | 21,484 | 20.9% | 33,397 | 21.2% | 68,518 | 33.6% |
| Inter-segment sales[(1)] | — | — | 2,708 | 1.7% | 23,813 | 11.7% |
| Subtotal | 21,484 | 20.9% | 36,105 | 22.9% | 92,331 | 45.3% |
| Premium non-organic raw milk | 81,165 | 79.1% | 121,300 | 77.1% | 111,465 | 54.7% |
| Total | 102,649 | 100.0% | 157,405 | 100.0% | 203,796 | 100.0% |

(1) Represents internally produced organic raw milk sold to our liquid milk business.

As of December 31, 2013, all of our 13 organic dairy farms were located at the Ulan Buh desert while all of our 12 non-organic dairy farms were located in Hohhot, Inner Mongolia. The following table sets forth the number of our dairy farms and dairy cows as of the date indicated.

| | Organic | | | | Non-organic | | | | |
|---|---|---|---|---|---|---|---|---|---|
| As of December 31, | Dairy farms | Calves and heifers | Milkable cows | Subtotal | Dairy farms | Calves and heifers | Milkable cows | Subtotal | Total cows |
| 2011 | 4 | 3,423 | 5,559 | 8,982 | 13 | 8,405 | 17,729 | 26,134 | 35,116 |
| 2012 | 7 | 5,557 | 8,554 | 14,111 | 14 | 16,190 | 19,082 | 35,272 | 49,383 |
| 2013 | 13 | 13,796 | 16,825 | 30,621 | 12 | 10,811 | 19,025 | 29,836 | 60,457 |

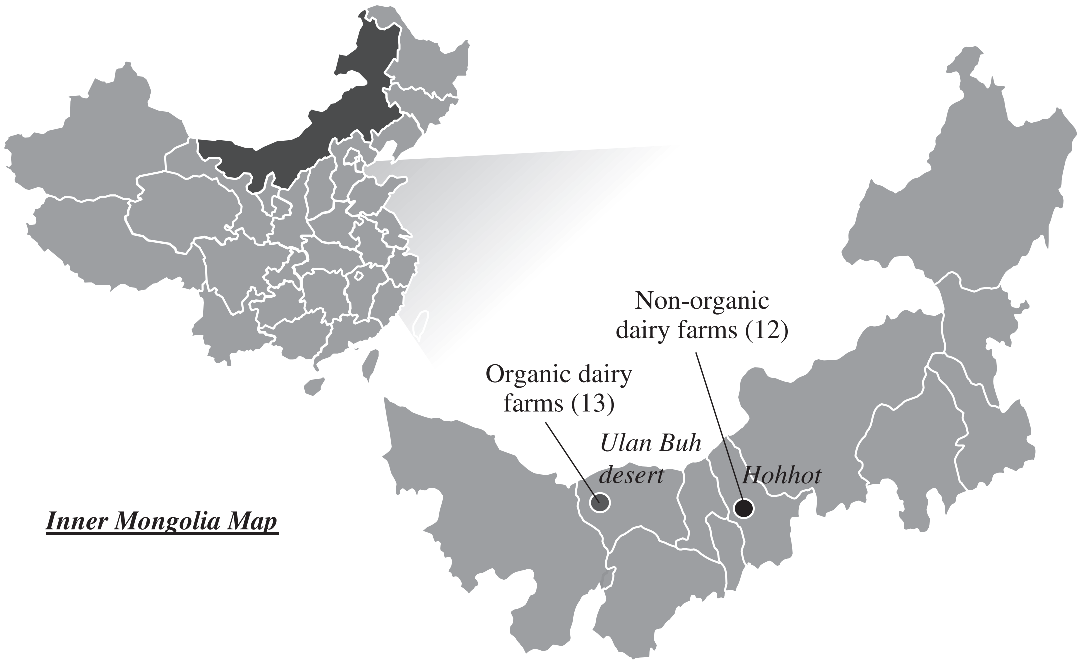
The table below sets forth the movement in the number of our organic and non-organic dairy cows as of the date indicated.

| | 2011 | | | 2012 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Organic cows | Non-organic cows | Total | Organic cows | Non-organic cows | Total | Organic cows | Non-organic cows | Total |
| As of January 1 | 4,032 | 12,706 | 16,738 | 8,982 | 26,134 | 35,116 | 14,111 | 35,272 | 49,383 |
| Addition[(1)] | 7,201 | 18,381 | 25,582 | 9,654 | 14,535 | 24,189 | 25,895 | 15,372 | 41,267 |
| Reduction[(2)] | (2,251) | (4,953) | (7,204) | (4,525) | (5,397) | (9,922) | (9,385) | (20,808) | (30,193) |
| As of December 31 | 8,982 | 26,134 | 35,116 | 14,111 | 35,272 | 49,383 | 30,621 | 29,836 | 60,457 |

(1) Includes primarily births and purchases of cows, of which the addition of organic cows also includes nil, 286 and 8,278 organic cows in 2011, 2012 and 2013, respectively, converted from non-organic cows following a six-month transition period.

(2) Includes primarily deaths, culling and sales of cows, of which the reduction of non-organic cows also includes a corresponding number of non-organic cows converted into organic cows following a six-month transition period as mentioned in Note (1) above.

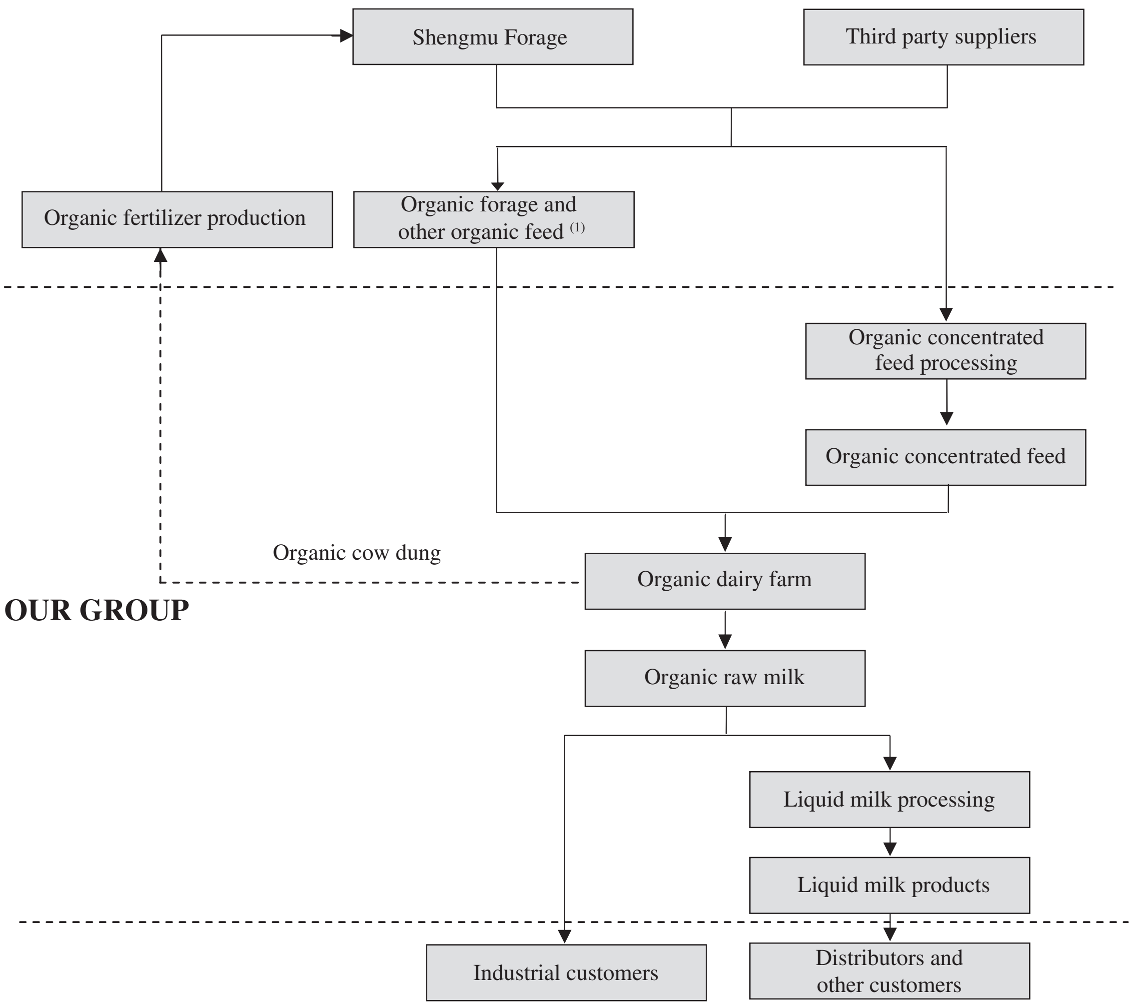
The following map illustrates the location and number of our dairy farms in Inner Mongolia as of December 31, 2013.




**Dairy Farming Business**

We are the largest organic dairy company in China in terms of 2013 production volume, according to the F&S Report. In 2013, we produced an aggregate 94,152 tonnes of organic raw milk, representing a 54.2% market share in China in terms of 2013 production volume, according to the F&S Report. As of May 31, 2014, we were the only vertically integrated Chinese dairy farming company that meets E.U. organic standards, according to the F&S Report.

The diagram below illustrates our "grass-to-glass" organic production process.

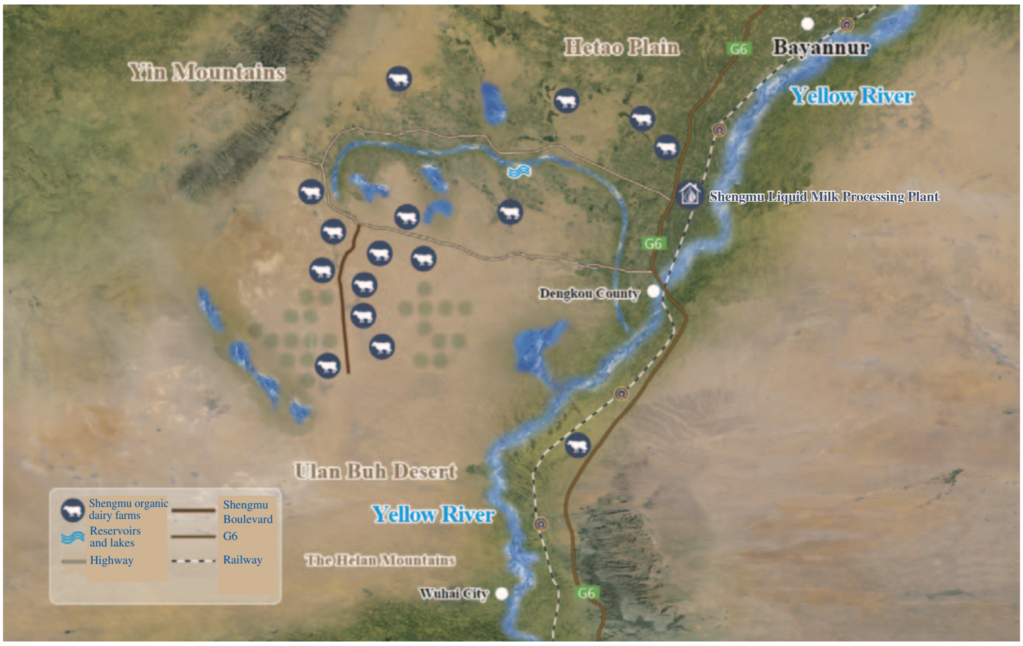



(1) Since 2013, we have processed organic concentrated feed based on our own feed formulae from raw materials purchased primarily from Shengmu Forage.

*Organic environment*

Core to our "grass-to-glass" organic production model is our Ulan Buh desert location in which Shengmu Forage plants forage crops and where we operate our organic dairy farms. Located in Bayannur League and Alxa League of Inner Mongolia with a total area of approximately 11,000 square kilometers, the Ulan Buh desert is the eighth largest desert in China.

The following map illustrates the location of our organic dairy farms (including three farms currently under construction) in the Ulan Buh desert.




We believe that our Ulan Buh desert location is the ideal location to plant forage crops and operate organic dairy farms because of its following features:

- *Clean environment*. As of the Latest Practicable Date, we are not aware of any chemical or industrial plants within the close vicinity of our organic dairy farms that could lead to the suspension or revocation of our organic certifications. The absence of industrial activities coupled with the desert weather conditions means that there is little pollution and very low levels of bacteria, viruses and pests. The desert sand also provides comfortable lying ground for our cows to rest and reduce their chances of developing mastitis.

- *Sand and sunlight*. The soft and breathable desert sand provides comfortable lying ground for our cows to rest and reduce their chances of developing limping disease. According to the F&S Report, the Ulan Buh desert has an average of almost 3,200 hours of sunlight annually with an average solar radiation intensity of 6,280 MJ/square meter, compared to an average 1,800 to 2,000 hours of sunlight annually with an average solar radiation intensity of 4,250 to 5,000 MJ/square meter in central and southern China. The intensity and the long hours of sunlight in the desert help forage crops grow and our cows produce higher levels of calcium in their milk, according to the F&S Report.

- *Preferred climate*. Cows prefer relatively cool temperature and dry weather. The Ulan Buh desert is located within the latitude zone generally considered ideal for dairy farming and known as the Golden Raw Milk Belt. According to the F&S report, the temperature range from 0°C to 15°C is a favorable range for dairy cows and the Ulan Buh desert has an annual average temperature of 7.8°C, and an annual average precipitation of approximately 103 millimeters. Compared to some cold and humid regions in China, the climatic environment in Ulan Buh desert is more suitable for dairy farming. In addition, the temperature difference between day and night in the desert helps to improve the quality of forage crops.

- *Rich soil and abundance of water*. Unlike other large deserts in China, the Ulan Buh desert is the product of alluviation of the upper reaches of the Yellow River, the second longest river in Asia, which has formed a thick layer of rich soil under the sand surface of the desert conductive to plantation. The lateral seepage of the upper reaches of the Yellow River also provides abundant shallow underground water. According to the survey conducted by Inner Mongolia Hetao Irrigation Administration, the Ulan Buh desert area has an aquifer holding an aggregate of approximately 5.7 billion cubic meters of water under the sand surface. The water of the upper reaches of the Yellow River is very clean and is purified as it percolates through layers of rock, fine sand and gravel to form the desert lakes and aquifers.

- *A long history of greening*. In a large-scale greening effort that began in 1997, Pangu Group, controlled by the family of Mr. WU Jianye, our president, had continuously planted trees on the Ulan Buh desert to improve its ecological conditions, with tens of million trees planted. Such greening effort has substantially reduced dust storms, improved the quality of soil and the overall environment and, coupled with the abundant water and land resources, has made it possible to grow organic forage in a large scale.

- *Sufficient room for growth*. The desert provides sufficient land resource for us to build new farms and our associate, Shengmu Forage, to grow organic forages. Shengmu Forage currently grows organic forages on approximately 115,000 mu of growing fields in the Ulan Buh desert. In addition, Shengmu Forage has obtained the right, through cooperation with local governments and third parties, to further develop an additional 400,000 mu of growing fields for organic forages. By 2020, Shengmu Forage expects to develop a total of approximately 520,000 mu of growing fields in the Ulan Buh desert to grow organic forages. Shengmu Forage supplied substantially all the forage crops organically grown in its growing fields to us during the Track Record Period, and has entered into the Long-term Strategic Cooperation Agreement with us recently under which Shengmu Forage agreed to continue its exclusive supply arrangement and support our future expansion plans.

- *Convenient transportation*. Our organic dairy farms are all located within 100 kilometers from our processing plant by local highways. Given the close proximity between our organic dairy farms and processing plant, we are able to deliver the raw milk to our processing plant within an average of 1.5 hours to maintain the freshness of raw milk. Because of the dry desert weather of the Ulan Buh desert, we are less susceptible to transportation delays due to severe weather conditions than many other regions in China.

We estimate that it would require significant efforts, costs, time and expertise to convert a sand desert area of a similar size into fertile land. Therefore, we believe the unique location of the Ulan Buh desert makes our operations highly difficult to replicate by other dairy companies in China.

***Organic feed***

*Shengmu Forage*

As of the Latest Practicable Date, Shengmu Forage had developed approximately 115,000 mu of growing fields in the Ulan Buh desert to grow forage crops for our dairy cows. Because of the favorable ecological conditions, climatic advantages and unique desert characteristics of the Ulan Buh desert (see "— Organic Environment" above), Shengmu Forage has grown the forages without using any synthetic pesticides. To protect the organic environment and maintain and enhance the soil conditions in the Ulan Buh desert, Shengmu Forage does not use chemical synthetic fertilizers but organic fertilizers produced from the cow dung generated on our organic dairy farms. In this connection, Shengmu Forage has adopted a production method of using biologic germ and cow dung to produce organic fertilizers through high temperature fermentation. Shengmu Forage established and began the operation of four modern processing facilities of organic fertilizers in 2013 in close proximity to many of our organic dairy farms and plans to build similar facilities close to our other organic dairy farms in the future. As a result, we believe we are able to establish a self-sustained ecological cycle in a cost-efficient manner.

All of the growing fields developed by Shengmu Forage meet the E.U. organic standards and are certified organic under the PRC organic standards by the COFCC. See "— Permits, Approval and Product Certificates." ECOCERT SA inspectors audit its operation each year. The scope of audit generally covers air quality, water quality, risk of pollution, use of chemical synthetic fertilizer, use of genetically modified organisms, use of antibiotics and use of synthetic pesticide. Shengmu Forage expects that it will have a total of approximately 180,000 mu of growing fields in the Ulan Buh desert that meet the E.U. organic standards by December 2014 which are able to supply the principal organic forages for approximately 53,000 dairy cows. In addition, Shengmu Forage has also obtained the right, through cooperation with local governments and other parties, to develop an additional 400,000 mu of desert land. It is expected that Shengmu Forage will have approximately 280,000 mu and 380,000 mu of growing fields by the end of 2015 and 2016, respectively. By 2020, Shengmu Forage expects to develop a total of approximately 560,000 mu of growing fields to grow organic forages to support our cow herd expansion.

In March 2014, we entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage, under which Shengmu Forage has undertaken to continue the exclusive supply of organic forages to us and formulate its expansion plan according to our expansion plans. For further details of the Long-term Strategic Cooperation Agreement, see "— Suppliers and Procurement — Organic Feed — Shengmu Forage." For accounting purposes, Shengmu Forage has been accounted for as an associate of our Group since the end of 2011 as we have had more than 20% effective voting power. Shengmu Holding (our PRC holding company), Mr. WU Jianye and Ms. GAO Lingfeng, who are two of our Ultimate Controlling Shareholders, entered into an acting-in-concert arrangement which became effective on June 25, 2012 after the completion of further capital investments in Shengmu Forage by other investors, as a result of which Shengmu Holding, Mr. WU and Ms. GAO held an aggregate of 48.35% equity interests in Shengmu Forage. We are able to exercise significant influences over the management and operations of Shengmu Forage through our active involvement in the following aspects:

- *Active participation in management and operations*. We controlled the management and operations of Shengmu Forage as our subsidiary until the end of 2011, after which time we continued to be involved in its day-to-day management and operations. We typically have approximately 12 to 18 employees participating in the monitoring, supervision and management of Shengmu Forage's production process, in addition to Shengmu Forage's approximately 30 full-time operation-related employees (i.e., excluding management and administrative personnel). Since the establishment of Shengmu Forage, our employees have worked onsite in each stage of Shengmu Forage's forage growing process. Set forth below are the details of Shengmu Forage's production process and quality control policy measures, which have been formulated under our supervision:

  - Seed procurement. Our employees and Shengmu Forage jointly formulate procurement plans for seeds, select qualified seed suppliers according to such procurement plans and conduct on-site inspections to assess the reliability of the organic certifications held by prospective suppliers.

  - Fertilizing management. Our employees conduct on-site inspections to verify the type and quantity of fertilizers, participate in the testing of the composition of fertilizers and provide guidance on the application of fertilizers. Shengmu Forage's organic fertilizers are primarily derived from the organic biowaste from our organic dairy farms.

  - Sowing management. Our employees participate in the inspection of the sowing procedures to ensure that the use of seeds and the sowing process are proper and meet the relevant organic standards.

  - Irrigation management. Our employees participate in the inspection of the irrigation procedures to ensure that the combined utilization of drip irrigation system and sprinkler irrigation system meets both forage growing needs and water conservation requirements.

  - Weed control. Our employees and Shengmu Forage jointly formulate weed control plans and schedules, and the purchase of suitable weed control machinery. We also engage in on-site supervision of the implementation of such weed control plans and schedules, including the restriction on the use of chemical synthetic herbicides.

  - Pest control. Our employees participate in the inspection of the pest control procedures and enforce the restriction on the use of synthetic pesticides to ensure the quality of organic forages.

  - Harvesting management. Our employees assist Shengmu Forage with the inspection of each step of forage harvesting and supervise the harvesting process. We and Shengmu Forage assign a number to each plat of land and establish traceability system based on such batch numbering for harvesting, storage and transportation to our organic dairy farms.

- ○ Organic certification. Our employees also engage in on-site coordination with the audits conducted by the COFCC and ECOCERT S.A., including initial testing, conversion period inspection, acceptance testing and follow-on inspections. Through such involvement, we supervise Shengmu Forage's production process to ensure that it meets the relevant organic standards.

- *Shareholding overlap*. As of the Latest Practicable Date, we and our Ultimate Controlling Shareholders (together with their associates) held 8.60% and 33.82% of equity interests, respectively, in Shengmu Forage (although we are not aware of any acting-in-concert arrangements among the shareholders of Shengmu Forage other than the one among Shengmu Holding, Mr. WU and Ms. GAO holding an aggregate equity interest of 23.03% as of the Latest Practicable Date), which we believe will have significant influence in aligning the interests of Shengmu Forage with our Group's interests. In addition, as of the Latest Practicable Date, other shareholders of Shengmu Forage with more than 5% equity interest include LIU Wenguang (劉文光) (19.39%), CHENG Yongli (程永利) (7.35%) and CHANG Pengfei (常鵬飛) (5.93%). To the best knowledge of our Directors, notwithstanding that CHENG Yongli is the head of Hateng Farm (哈騰牧場), which is operated by Shengmu Hateng, all of them are Independent Third Parties.

- *Influence on board of directors*. Although we do not control Shengmu Forage in terms of shareholding, our Directors, Mr. WU and Ms. GAO, are also directors of Shengmu Forage, giving us two out of three seats on its board of directors, and as a result, we have significant influence over its development strategy, management and operations. Mr. WU is responsible for coordinating with Shengmu Forage's business development, and Ms. GAO is also responsible for Shengmu Forage's quality control efforts.

- *Full support for our expansion plan*. Because we are Shengmu Forage's only customer, its expansion plan has been prepared specifically to support the requirements of our expansion plan, which is also explicitly provided for in the Long-term Strategic Cooperation Agreement. Particularly, Shengmu Forage has undertaken to (i) not change its current business direction as an organic forage company, (ii) not change its development plans as the organic feed supplier for our organic dairy farms, (iii) follow our supervision over its forage growing operations under the relevant organic standards and (iv) continue to supply its forage crops exclusively to us on normal commercial terms.

- *Exclusive customer*. We are currently Shengmu Forage's only customer for its organic forages. As its only customer, we provide to Shengmu Forage our annual forage procurement plans, pursuant to which Shengmu Forage formulates its own forage growing plans to ensure its supplies meet our production requirements. Such arrangement has also been reduced to writing under the Long-term Strategic Cooperation Agreement. Under this agreement, Shengmu Forage has agreed to supply to us on an exclusive basis, i.e. we would be its only customer. We, however, are permitted to seek alternative suppliers of organic forages. As a result, although currently an exclusive relationship for both sides, Shengmu Forage is, as a result of the agreement, more reliant on our Group than is the case vice versa.

- *Major supplier*. We are a major raw material supplier of Shengmu Forage, supplying cow dung required for producing organic fertilizers necessary for its forage growing operations. Shengmu Forage uses cow dung generated on our organic dairy farms, which are adjacent to its growing fields, to process organic fertilizers to be used on its organic growing fields.

- *Prepayment*. Shengmu Forage depends significantly on our prepayment, which we use to secure the supply of organic forage, to support its operations. As of December 31, 2013, our prepayment to Shengmu Forage totaled RMB57.5 million, which will be settled subsequently through purchases. We expect such prepayment to continue in the future.

In addition, Shengmu Forage and its shareholders (except Shengmu Holding) have provided us with undertakings not to issue or transfer any equity interest of Shengmu Forage to any third party without our prior written consent for a term of 20 years unless all the equity interests in Shengmu Forage have been transferred to us prior to the expiration of this 20-year term. For details, please see "— Suppliers and Procurement — Organic Feed — Shengmu Forage."

At its early development stage, Shengmu Forage required significant financial and human resources for its organic forage growing business. On one hand, it sought capital injections from third-party investors, and on the other, it enlisted the assistance of local farmers to grow primarily corn for processing into corn silage. Shengmu Forage entered into leasing agreements with these local farmers in 2011, 2012 and 2013. Pursuant to these agreements, these local farmers were contracted to grow specified types of forages on the leased growing fields owned by Shengmu Forage. Pursuant to these agreements, Shengmu Forage monitored and supervised the growing process to ensure that the forage crops grown by the local farmers met our organic and quality standards, including the following aspects: (i) local farmers were required to use seeds obtained from qualified suppliers designated by Shengmu Forage; (ii) local farmers were required to apply organic fertilizers obtained from Shengmu Forage and should not use chemical synthetic fertilizers; (iii) local farmers were required to strictly follow Shengmu Forage's organic dairy farming protocols, and Shengmu Forage could unilaterally terminate the leasing agreements for breach of this requirement; and (iv) Shengmu Forage supervised and managed every step of the local farmers' field activities and conducted sampling tests on the soil quality. The local farmers were required to sell all the forage crops harvested from the leased growing fields to us if they met our organic and quality standards, and Shengmu Forage agreed to waive an annual management fee, which would otherwise be payable by the local farmers, if they were able to supply sufficient amount of organic forage crops to us. To the best knowledge of our Directors, each of these local farmers is, except for his/her leasing arrangements with Shengmu Forage, an Independent Third Party and has not held any equity interest in any company of our Group since the commencement of such leasing arrangements up to and including the Latest Practicable Date.

Shengmu Forage does not currently lease any of its growing fields to local farmers. To the understanding of our Directors, however, we cannot exclude the possibility that Shengmu Forage will in the future decide to lease a portion of its growing fields to local farmers, if necessary, to grow organic forages in accordance with its own organic dairy farming protocols to supplement its operations in order to enhance flexibility in its resources allocation and ensure the fulfillment of applicable organic standards.

*Organic forages*

We feed our organic dairy cows forages, including primarily corn silage and alfalfa, that Shengmu Forage grows organically in its growing fields in the Ulan Buh desert. Shengmu Forage supplied substantially all the forage crops organically grown in its growing field to us during the Track Record Period and pursuant to the Long-term Strategic Cooperation Agreement, Shengmu Forage has undertaken to continue to supply its forage crops exclusively to us on normal commercial terms. Below is a brief description of the forages that we purchased from Shengmu Forage.

- *Corn silage*. Corn silage is the principal type of feed for our dairy cows. It is made from corn after dough stage through fermentation in a sealed silage cellar at our dairy farms. The corn silage we feed our cows generally has more than 20% of starch, more than 7% of crude protein and other nutritional elements that can provide sufficient energy for the cows.

- *Alfalfa.* Alfalfa, a perennial leguminous plant, is a primary source of protein for dairy cows, and is essential for high protein content in raw milk. The high fiber content in alfalfa also helps improve milk yield.

In addition to corn silage and alfalfa, our cows' feed includes a small portion of guinea grass supplied by third-party suppliers. We obtained organic certification by the COFCC for 310,000 mu of wild growing fields of guinea grass in December 2013. See "— Suppliers and Procurement" and "— Permits, Approval and Product Certificates."

*Organic concentrated feed*

In addition to organic forages, our organic cow feed includes organic concentrated feed, which is lower-fiber feed primarily consisting of processed corn kernels and oil sunflower. We began purchasing corn kernels and oil sunflower primarily from Shengmu Forage in 2012 and 2014, respectively. Organic concentrated feed accounts for approximately no more than 40% of a dairy cow's aggregate daily feed consumption in terms of volume. In 2013, we set up a new processing plant within approximately 80 kilometers from our organic dairy farms to process concentrated feed. We process all of our organic concentrated feed at this processing plant to meet the needs of our organic dairy farms. As of December 31, 2013, our processing plant had an aggregate annual production capacity of approximately 50,000 tonnes organic concentrated feed and a maximum annual production capacity of 200,000 tonnes, sufficient to meet the requirements of 120,000 dairy cows.

*Feeding management*

To promote cow health and ensure sufficient nourishment, we use different feed formulae developed in-house employing the total mixed ration, or TMR, concept based on the cow's development stage, lactation stage and milk yield. We plan to continuously improve our feed formulae for our dairy cows to receive better nutrition. Such improvement will lead to an increase in our average feed costs, which may negatively affect our profit margins if the improved feed formulae fail, or prove to be less effective than we expected, to increase our milk yield or enhance the nutrition contents of our raw milk and increase its sales price, and we are unable to pass such increased cost onto our customers. See “Risk Factors — Risks Relating to Our Business — Increases in feed prices and disruptions of our feed supply could adversely affect our business and results.” We have installed feed-mixing equipment on the feeding trucks at our dairy farms to mix forages and concentrated feed based on such formulae to reduce cost and better control feed quality.

***Organic dairy farming***

*Overview*

We are the largest organic dairy farming company in China in terms of organic raw milk production and organic herd size, according to the F&S Report. As of December 31, 2013, we owned and operated 13 organic dairy farms with approximately 30,621 dairy cows and the capacity of housing a maximum number of 45,100 dairy cows. Our organic dairy farms are located in the Ulan Buh desert with an aggregate gross land area of approximately 7.7 million square meters. All of our milk producing organic dairy farms have obtained organic certification under the E.U. organic standards by ECOCERT S.A. and under the PRC organic standards by the COFCC.

*Herd size and growth*

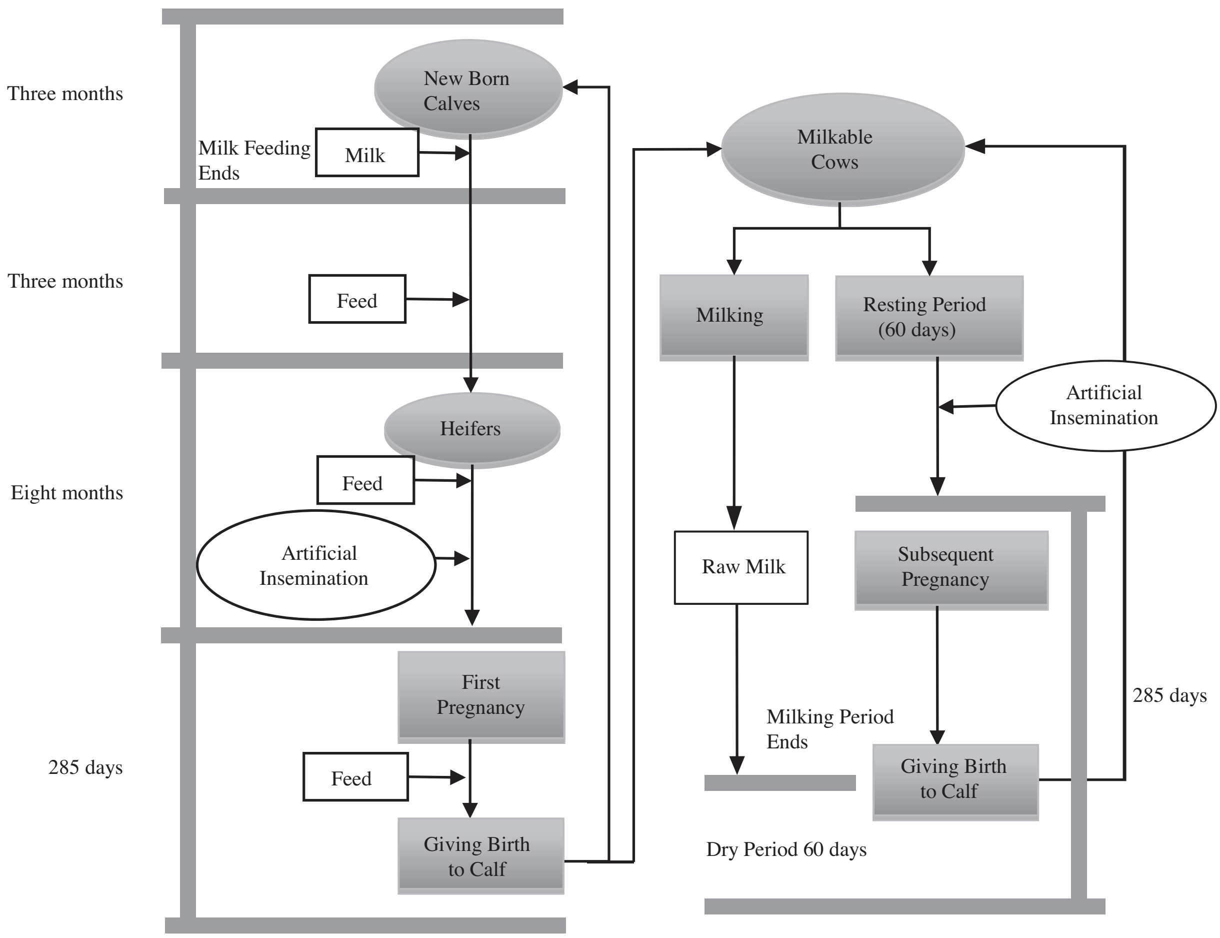
All of our dairy cows are Holsteins, which generally have higher milk yield than other types of dairy cows, according to the F&S Report. Historically, we have grown our herd primarily by purchasing dairy cows domestically and breeding dairy cows by ourselves. As our herd has grown sufficiently large, we intend to grow our herd primarily by breeding our own dairy cows using imported frozen semen, supplemented by purchasing dairy cows from domestic dairy farmers as well as from overseas.

Historically, we have grown our herd primarily by purchasing dairy cows domestically, which are less expensive than imported dairy cows. In particular, when we began operations in 2010, our dairy cows were purchased at particularly low prices after the PRC dairy market was negatively impacted by the melamine incident in 2008 as a result of which dairy farmers were eager to dispose of their dairy cows. We require dairy cows purchased from our suppliers to receive various health certifications to ensure that they do not carry diseases. In addition, purchased dairy cows are vaccinated for foot-and-mouth disease and quarantined for at least 21 days before receiving clearance to enter into our farms.

We also grew our herd size by cooperating with local experienced dairy farmers operating medium sized farms. We generally selected one or more such local farmers to form a new subsidiary company with us. We are the majority shareholder of these companies and control the operations of the newly formed farms and implement our standard dairy farming process on these farms. The farmers, as minority shareholders, are primarily responsible for the day-to-day management of such newly formed farms.

Purchased cows are non-organic cows and require a six-month transition period to be converted into organic cows based on E.U. and China GB standards, during which time such cows are kept according to our organic production standards. For information about organic dairy certification, see "Industry Overview — Raw Milk Production in China — Organic Raw Milk — Organic Dairy Certification."

The following diagram illustrates a typical birth cycle of dairy cows:




- Calves normally refer to dairy cows of up to six months old. We keep the new born calves and sell all male new-borns. Calves are typically fed by milk for three months, and then fed by dairy cow feed afterwards.

- Heifers normally refer to dairy cows aged between seven months and the date of giving birth. Heifers are typically artificially inseminated at approximately 14 months old, and the pregnancy period is approximately 285 days. As of December 31, 2013, we had 13,796 organic calves and heifers.

- After giving birth to a calf, the cow can be milked and therefore becomes a milkable cow. Milking starts immediately after the birth of the calf. Therefore, heifers typically become milkable cows as early as at the age of 24 months. As of December 31, 2013, we had 16,825 organic milkable cows.

- After giving birth to a calf, a milkable cow will rest for 60 days (commonly referred to as "resting period") before being artificially inseminated again. Therefore, it typically takes 65 days to 90 days for a milkable cow to get pregnant again after giving birth to its calf. Milking starts immediately after giving birth and continues during the resting period.

- We stop milking a pregnant milkable cow 60 days before its due date to ensure a higher milk yield for the subsequent lactation period. This period is called the dry period and a cow during the dry period is normally referred to as a dry cow.

- Typically, a milkable cow can be milked for approximately 305 days before the start of the 60-day dry period ahead of giving birth to another calf.

We determine whether to stop milking and sell a milkable cow based on its health condition and milk yield. Typically, a milkable cow can be milked for five lactation periods. To maintain the quality of our milk products, we typically stop milking cows older than eight years, equivalent to five lactation periods.

As of December 31, 2013, approximately 48.1%, 28.9%, 18.9% and 4.1% of our organic milkable cows were in the first, second, third and fourth lactation period and beyond, respectively.

*Farm management*

We are committed to cattle welfare as part of the culture of organic dairy farming, which we believe contributes to our product quality. Our dairy farms are designed with an aim to provide dairy cows with the maximum comfort. Our organic dairy cows have an average living space of 60 to 80 square meters per cow. All of our farms are free stall farms with easy access to food and water, clean and comfortable dry sand bedding and spacious sport fields that allow our dairy cows to eat, drink and relax freely. A majority of our dairy farms have a capacity to house between 2,500 to 4,500 dairy cows. We believe that the size of our farms enables us to enjoy economies of scale without over-burdening the environment.

We have adequate access to water supply to support the operation of both our organic and non-organic dairy farms. The water supply for our dairy farms primarily consists of underground water underneath the farm land. All of our dairy farms have obtained necessary permit to draw underground water to feed our dairy cows and support the daily operation of the farm. The volume of underground water to be drawn as stated in the permits obtained by our dairy farms ranges from 10,000 cubic meters to 220,000 cubic meters annually depending on the actual need of each farm. Each of our dairy farms is also required to pay water resource fees for the consumption of underground water that is obtained through the aforementioned permit. In 2011, 2012 and 2013, we paid RMB46,000, RMB57,000 and RMB73,000, respectively, for such water resource fees. In accordance with applicable PRC laws, we are required to pay additional water resource fees if the actual volume of underground water used by our dairy farms exceeds the volume as stated in the relevant permit. See "Regulatory Overview" for more information about the permit to draw underground water. During the Track Record Period, we have not experienced any shortage of water supply for our organic and non-organic dairy farms and there has been no third party claims with respect to the water sources used by us.

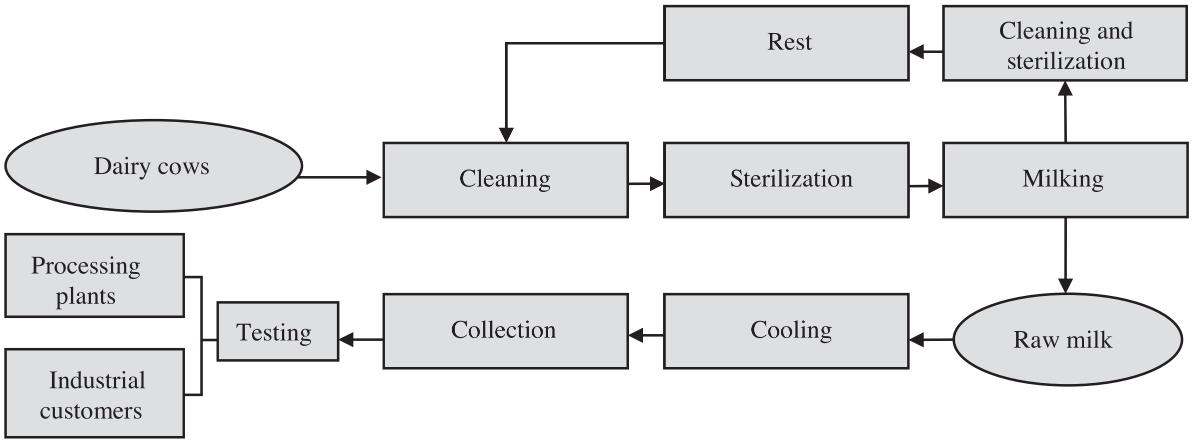
We operate our dairy farms in accordance with standardized operational procedures, including a special set of organic procedures primarily related to organic feeding, breeding and medical treatment. We feed our organic cows with organic feed, and do not treat our organic cows with growth hormones. These standardized design and procedures enable us to devise unified supplying and feeding plans and operate our farms under uniform protocols. Therefore, we are able to apply a uniform benchmark to evaluate the performance of each of our dairy farms and improve our operational efficiency. Such standardized processes also allow us to replicate our experiences amongst our dairy farms through the sharing of management techniques and operational best-practices. In addition, we believe that the scale of our dairy farms enables us to better control certain diseases as compared with super large-scale dairy farms. We use a variety of feed formulae developed in-house based on the cow's development stage, lactation stage and milk yield to promote cow health and ensure sufficient nourishment.

*Milking process*

We generally milk our dairy cows two or three times a day depending on a particular cow's lactation stage, physical and health conditions. We believe that the design and size of our dairy farms also help reduce the fatigue of pregnant milkable cows in the milking process by reducing their walking distance, and thereby maintaining a high milk yield and raw milk quality. We milk our dairy cows primarily using imported automatic milking systems, which are automated and require low involvement of individual workers during the milking process. We follow strict hygiene standards at all of our milking facilities as well as during the milking process. Before milking, the udders and teats of cows are sprayed with sanitizing fluids. We also clean and sterilize the teat cups before milking. The udders and teats of cows are wiped dry with dry towels after sterilization. After finishing the above procedures, our dairy workers will attach the teat cups, which are connected directly to an automatic pump and a temperature-controlled central milk tank, to our cows' udders. After completion of the milking process, raw milk will be cooled to 3°C and will flow to the central milk tank before delivery to our industrial customers or our milk processing plants. In addition, we carry out further testing and inspection before the raw milk leaves our central milk tanks.

We continuously monitor our milking process through closed circuit television systems in our control room and our computer systems that record data from our dairy farms. We carry out inspections at systematic intervals throughout the process to ensure consistency in the quality of our raw milk and compliance with applicable milk safety and organic processing standards.

The following diagram illustrates our milking process.




*Disease control*

We have implemented a strict and effective disease control policy at all of our organic and non-organic dairy farms, which primarily consists of these aspects:

- *Prevention*. We have set up stringent protocols for any personnel and vehicles and dairy cows entering our dairy farms. To minimize the possible spread of any contagious disease, our milk transport trucks and drivers are assigned to a specific dairy farm exclusively, and are prohibited from transporting the milk of other farms. In addition, we disinfect our staff living quarters, barns, milking halls, trucks, machines and equipment, and the veterinary hospitals on a regular basis. We require dairy cows purchased from our suppliers to receive standard health certifications to ensure that they do not carry diseases, including foot-and-mouth disease, tuberculosis and brucellosis. In addition, purchased dairy cows are vaccinated for foot-and-mouth disease and quarantined for at least 21 days before receiving clearance to enter into our dairy farms.

- *Immunization*. Our dairy cows are vaccinated regularly throughout their lives, receiving with foot-and-mouth disease vaccines twice a year. We only use vaccines that meet E.U. and PRC organic standards. Moreover, we conduct annual checks for tuberculosis and brucellosis and carry out routine health inspections based on, among other things, the movement and rumination of dairy cows. Those cows with disease symptoms and are suspected to come in heat wear pedometers to facilitate observation and detection of illness and heat.

- *Treatment and containment*. Upon detection of any sign of sickness, the relevant dairy cows will be immediately quarantined in a separate zone and examined by our professional veterinarians. We seek to avoid the use of antibiotics in treating sick cows and instead treat them with herbal remedies to the extent appropriate. Where medical treatment is not cost-effective or not feasible, the diseased dairy cows will be culled, their bodies will be sterilized and disposed of, and the immediate areas will be disinfected. Where there is a concern of substantial risk of infection, we carry out farm-wide disinfection and immunization to prevent the spread of the disease. We are required to make relevant filings to government authorities for outbreak of certain classified diseases. See "Regulatory Overview" for further details. During the Track Record Period and up to the Latest Practicable Date, there had been no outbreak of any disease in our farms.

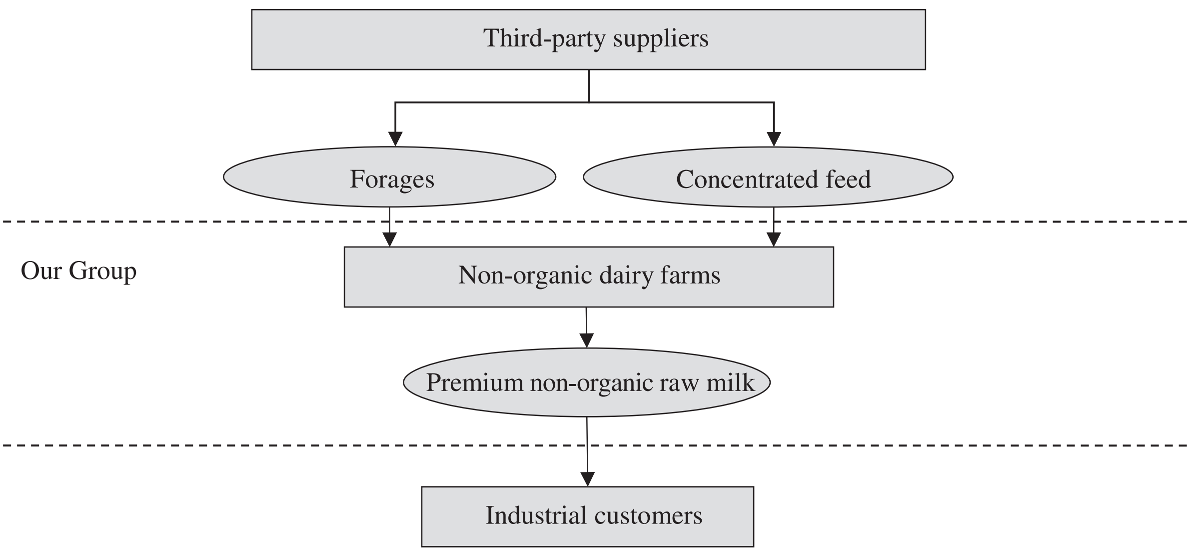
Milk produced by any cow during the period it is under medical treatment and for an additional "withdrawal period" is discarded. We generally milk the recently recovered dairy cows after the withdrawal period in a separate zone, where the milk produced is discarded until it passes all of our quality tests. The length of the withdrawal period varies depending on the medical treatment received by the cow and generally is twice as long as the recommended withdrawal period for non-organic cows.

***Non-organic Dairy Farming***

*Overview*

We are among the top eight producers of premium non-organic raw milk in China with a total production volume of approximately 113,300 tonnes in 2013, according to the F&S Report. As of December 31, 2013, we operated 12 non-organic dairy farms in Hohhot, Inner Mongolia with a total of 29,836 dairy cows. We seek to provide our non-organic cows with a comfortable, low stress environment and with nutritious feed to promote their health and productivity. We feed our dairy cows at these non-organic dairy farms with the same types of forages and concentrated feed as our organic dairy cows purchased from third-party suppliers, but we do not require them to be organically grown or processed. During the Track Record Period, substantially all of our premium non-organic raw milk was sold to Mengniu Group and Yili Group for their further processing into high-end dairy products.

The following diagram illustrates the production process of our non-organic dairy farming operation.



*Non-organic dairy farms*

In addition to our organic dairy farms in the Ulan Buh desert, we operated 12 non-organic dairy farms, including eight farms owned by us and four farms leased from Mengniu Group, with a total number of 29,836 dairy cows as of December 31, 2013 and the capacity to house up to 41,700 dairy cows. All of our non-organic dairy farms are located in the rural area of Hohhot, Inner Mongolia. We leased the farms from Mengniu Group in 2010 and 2011 for a period of six years. We own all the dairy cows and Mengniu Group owns all the facilities and equipment, and we have agreed to sell all the raw milk produced on such farms to Mengniu Group. For details on our lease arrangements with Mengniu Group, see "— Our Customers — Agreements with Mengniu Group."

All of our non-organic dairy cows are Holsteins which generally have higher milk yield than other types of dairy cows, according to the F&S report. Historically, we have grown our herd primarily by purchasing dairy cows domestically and breeding dairy cows by ourselves. Like our organic dairy farms, we require dairy cows purchased from our suppliers to receive various health certifications to ensure that they do not carry diseases. The birth cycle of non-organic dairy cows is the same as our organic cows, see "— Organic Dairy Farming — Herd size and growth" for details.

As of December 31, 2013, approximately 41.8%, 30.8%, 22.2% and 5.2% of our non-organic milkable cows were in the first, second, third and fourth lactation period and beyond, respectively.

*Farm Management*

We are committed to the welfare of dairy cows at our non-organic dairy farms. Our non-organic dairy farms are free stall farms with an average space per cow of approximately 30 square meters. A majority of our non-organic dairy farms have a capacity to house between 2,500 and 4,500 dairy cows. We believe that the size of our farms enables us to achieve greater economies of scale and optimal cost-benefit ratio. Same as our organic dairy farms, our non-organic dairy farms have easy access to food and water, clean, comfortable, dry sand bedding and sport fields that allow our dairy cows to eat, drink and relax freely. We generally follow the same milking process as our organic dairy farms with substantially the same types of equipment as used on our organic dairy farms. See "— Organic Dairy Farming — Milking process" for details.

We feed our non-organic dairy cows with the same types of feed as our organic cows, including corn silage, guinea grass, alfalfa and concentrated feed purchased from third-party suppliers; however, we do not require them to be organic. To ensure sufficient protein intake, we primarily feed our dairy cows with alfalfa imported from the United States. In addition, we sourced corn silage and guinea grass, as well as concentrated feed, locally, during the Track Record Period, and require our suppliers to meet our internal quality standards. We use different feed formulae developed in-house employing the total mixed ration, or TMR, concept based on the cow's development stage, lactation stage and milk yield. We have also installed feed-mixing equipment on the feeding trucks at our non-organic dairy farms to mix forages and concentrated feed based on such formulae to reduce cost and better control feed quality. In addition, unlike our organic dairy cows which drink purified water, our non-organic dairy cows drink groundwater from wells on our farms. We inspect the water quality regularly to ensure that it is clean and safe.

*Environmental impact*

Biowaste and wastewater are the primary wastes from our non-organic dairy farming operation. We supply biowaste generated from our non-organic dairy farms to our local feed suppliers and charge a fee for the provision of processing services with our own facilities. We have also installed anti-pollution equipment in our farms to minimize the impact to surrounding environment caused by our farming operation. See "— Environmental, Health and Safety Matters" for further details.

*Future plans*

Although we began our operation in 2010 by engaging in premium non-organic raw milk production, we have shifted our focus to organic dairy farming business following our expansion into organic raw milk and liquid milk businesses in 2011 and 2012 respectively. We expect that our future growth will primarily be driven by the growth of our organic raw milk and liquid milk businesses. In comparison, our premium non-organic raw milk business is expected to maintain a relatively steady growth in the future.

**Liquid Milk Business**

We began to produce and sell liquid milk products made from our internally produced organic raw milk by launching our organic whole milk under "Shengmu 圣牧" brand in June 2012. In 2013, we further expanded our product portfolio by offering organic low-fat milk and organic milk for children. We also have developed an e-commerce pack for sale through leading e-commerce operators such as JD.com ("京東") and Tmall ("天貓"). In addition, we recently launched our organic whole milk and organic low-fat milk in business pack in May 2014. Our liquid milk products are fully organic, certified by the COFCC in China and ECOCERT S.A. in Europe.

*Products*

Our organic whole milk products are made directly from our organic raw milk through UHT process. We believe that the protein and fat content of our organic whole milk contributes to its smooth and rich taste. Our organic low-fat milk products are made from our organic raw milk with reduced fat content. Our organic milk products for children are made from our organic raw milk with the addition of ingredients appealing to children or beneficial to their health, such as fructose and DHA. Set forth below is certain information about our organic milk products by product type.

| Product type | Commercial launch date | Packaging | Suggested retail price per pack |
|---|---|---|---|
| | | (mL per carton x cartons per pack) | |
| **Organic whole milk** | | | |
| Gift pack | June 2012 | 250 mL x 12 | RMB98 |
|     | | | |
| Business pack | May 2014 | 250 mL x 12 | RMB80 |
|     | | | |
| Environmentally friendly pack | December 2012 | 250 mL x 12 | RMB78 |
|    | | | |

| Product type | Commercial launch date | Packaging | Suggested retail price per pack |
|---|---|---|---|
| | | (mL per carton x cartons per pack) | |
| E-commerce pack ................................ | August 2013 | 200 mL x 12 | RMB58 |



**Organic low-fat milk**

| Product type | Commercial launch date | Packaging | Suggested retail price per pack |
|---|---|---|---|
| Gift pack ............................................ | January 2013 | 250 mL x 12 | RMB108 |



| Product type | Commercial launch date | Packaging | Suggested retail price per pack |
|---|---|---|---|
| Business pack ...................................... | May 2014 | 250 mL x 12 | RMB90 |



| Product type | Commercial launch date | Packaging | Suggested retail price per pack |
|---|---|---|---|
| Environmentally friendly pack ............ | September 2013 | 250 mL x 12 | RMB88 |


| Product type | Commercial launch date | Packaging | Suggested retail price per pack |
|---|---|---|---|
| | | (mL per carton x cartons per pack) | |
| **Organic milk for children (whole milk).** | January 2013 | 190 mL x 12 | RMB68 |

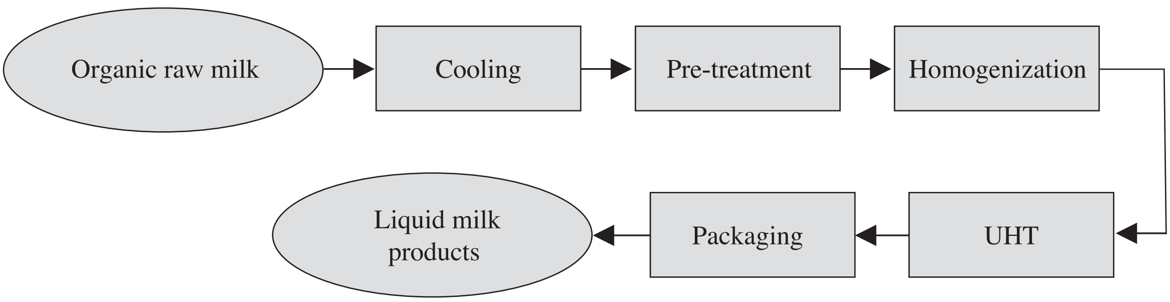

Set forth below is certain information about our liquid milk products as of December 31, 2013.

| Product type | Protein content | Fat content | Calcium content | Other ingredients | Shelf life |
|---|---|---|---|---|---|
| | g/100mL | g/100mL | mg/100mL | | Days |
| Organic whole milk (gift pack, business pack and environmentally friendly pack) .. | 3.5 | 4.1 | 115 | — | 180 |
| Organic whole milk (e-commerce pack) ........................................ | 3.4 | 4.1 | 115 | — | 180 |
| Organic low-fat milk..................... | 3.4 | 1.4 | 110 | — | 180 |
| Organic milk for children.............. | 3.2 | 3.7 | 115 | Fructose; DHA | 180 |

### *Processing and facilities*

Our organic milk processing plants are located in Dengkou Food Industry Zone, which is within 100 kilometers from our organic dairy farms. Our processing plants encompass approximately 12,000 square meters of office, processing, and warehouse space.

The following diagram illustrates how organic raw milk is processed into liquid milk products.



- *Cooling*. Raw milk is cooled to 3°C to ensure the freshness of the milk.

- *Pre-treatment*. Raw milk is treated to achieve the uniform content standard that is required for sale.

- *Homogenization*. Raw milk is treated to prevent separation of fat and liquid and to improve texture and taste.

- *UHT*. Raw milk is heated to a temperature of approximately 137°C to 139°C for approximately four to six seconds. UHT eliminates bacteria and microbes from the raw milk and significantly extend the shelf life of liquid milk.

Our liquid milk processing uses advanced equipment and machinery purchased from well-recognized manufacturers, including Tetra Pak (Sweden). Particularly, we have purchased aseptic treatment, homogenization, UHT treatment and filling machines from Tetra Pak, an industry-leading supplier of food packaging equipment and materials. All of our major machinery units were purchased around three years ago and are in good condition for sustainable operation.

We perform all these processes in our liquid milk processing plants, and we closely monitor each production step to ensure the safety and quality of liquid milk products. We do not use any artificial colorings, preservatives and flavorings in the course of processing other than fructose and DHA for our organic milk for children. We use packaging materials for milk cartons produced by Tetra Pak (Sweden).

During the Track Record Period, our utilization rate was 10.4% and 38.1% in 2012 and 2013 respectively. Our utilization rate was relatively low in 2012 since we launched our liquid milk products in June 2012. Our utilization rate rose significantly from 10.4% in 2012 to 38.1% in 2013 primarily because we ramped up our production and our products became more recognized by the market. The following table sets forth the designed production capacity, production volume and utilization rate of our milk processing plants as of the date or for the period indicated.

| As of or for the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2011 | | | 2012 | | | 2013 | | |
| Production capacity[(1)] | Production volume | Utilization rate | Production capacity[(1)] | Production volume | Utilization rate | Production capacity[(1)] | Production volume | Utilization rate |
| (In tonnes, except percentages) | | | | | | | | |
| — | — | — | 21,600 | 2,246 | 10.4% | 54,828 | 20,885 | 38.1% |

*(1) Calculated as the sum of the monthly production capacity of each of our production lines multiplied by the respective number of months during which such production line was in operation.*

## QUALITY CONTROL

### Quality Control Function

Quality control is one of our core values and vital to our business. We implement stringent quality control and production safety measures throughout our production process, including the procurement and storage of feed, dairy farming, milking and raw milk processing, storage and transportation of raw milk and finished products.

As of December 31, 2013, we had approximately 33 employees dedicated to product safety and quality control. These employees are all specialized in food inspection, many of whom had an average of five years of relevant experience from Mengniu Group. At the group level, our vice president and our executive Director, Ms. GAO Lingfeng (高凌鳳), is primarily responsible for the evaluation, improvement and monitoring of our quality control system. She also audits product quality, formulates quality control targets, supervises their implementation and reports directly to our president. Ms. GAO Lingfeng previously held various management positions with Mengniu Group, including head of quality control department, and had over 10 years of management experience in food quality control systems. Our quality control team also serves research and development functions. For more details, see "— Research and Development" below.

### Quality Control Management

Our comprehensive quality control system consists of the following elements: (i) control over the quality of feed, (ii) control over the quality of dairy cows, (iii) control over the milking process and storage of raw milk, (iv) control during delivery of raw milk, (v) control over raw materials and suppliers, (vi) control over production process, and (vii) control over storage and delivery of finished products.

***Quality of feed***

We have implemented stringent quality control standards and monitoring mechanism for the feed used at our dairy farms. The feed for our dairy cows consists of primarily corn silage, alfalfa and concentrated feed. We have adopted a comprehensive set of standards for each type of forage crops and raw materials used in our feed. Such standards generally include color, odor, moisture, appearance, texture and chemical composition, as well as hygiene standards for certain types of feed. The quality control staff at each farm is required to inspect the feed on a sampling basis in accordance with our feed quality control manual.

After receipt of the feed at each farm, the responsible feed manager conducts initial inspection in accordance with the applicable quality standards. If there is any material defect, we will return the entire batch of feed delivered to us and notify the quality management department as well as other farms. After passing the initial sensory inspection, the feed manager conducts at least five random sensory inspections during the unloading process to ensure there is no unqualified feed.

After passing the random sensory inspections, our quality control staff located at each farm will take samples for chemical indicators testing. We have established a feed inspection laboratory to conduct inspections and experiments on numerous indicators that are crucial to the quality of feed and to provide feedback to our dairy farms. If the testing results satisfy each and every indicator, we will accept the relevant batch of feed delivered to us. The quality management department compiles monthly quality control reports for all the feed inspected which include the results of inspection.

***Quality of dairy cows***

We have implemented a strict and effective disease control policy at all of our organic and non-organic dairy farms. For details, see "— Organic Dairy Farming — Disease Control." We require the frozen semen imported from North America to be accompanied by a quarantine report of each supplying bull before the frozen semen is accepted.

***Milking process and storage of raw milk***

We milk our dairy cows in our dairy farms primarily using imported automatic milking systems. We have adopted strict hygiene standards for all of our milking facilities and procedures to ensure the quality and safety of raw milk, including, among other things, sanitizing the teats of our dairy cows, the apparel and gloves of milking personnel and towels before milking commences, discarding the first three squeezes of raw milk from the dairy cows and dipping the dairy cows' teats with disinfectant after milking.

The hygiene of the milking facilities is crucial to the safety and quality of raw milk. We have implemented strict cleaning standards for our milking facilities, including the frequency of cleaning, among other things, to ensure high hygiene level of our milking facilities. For example, we clean the milking equipment, including the milking cups, on a daily basis and conduct a thorough clean-up of the entire milking facilities on a weekly basis. We also sterilize the milking facilities and all passages to the milking facility with disinfectant solutions.

After completion of the milking process, raw milk will be cooled-off and then transported to a temperature-controlled milk tank before delivery to our industrial customers or our milk processing plants. We carry out rigorous testing and inspection before the raw milk leaves our farms. After each milking shift of a given day, our milking personnel conduct temperature tests, sensory tests, odor tests, antibiotic tests, foreign substance tests and grain alcohol tests before the milk tanks are sealed. These tests are designed to ensure the raw milk does not contain any forbidden substances.

As a preventive measure, we conduct antibiotic tests on milk produced by cows that are in their first lactation period or are receiving or have recently received medication before milking them with our automatic milking systems together with other cows. The purpose of the tests is to ensure that our raw milk does not get contaminated with milk containing antibiotics. We also conduct chemical tests of the water source of our farms on a quarterly basis and tests for recessive mastitis of our cows on a monthly basis to ensure the quality and safety of our raw milk.

***Delivery of raw milk***

We primarily engage third-party logistics companies to deliver and transport our raw milk. We have implemented a stringent safety and quality control policy throughout the transportation process. Each logistics company is required to maintain a certain number of trucks including back-up trucks with specifications strictly in accordance with its contract with us. We require the logistics companies to maintain the sanitary conditions of the trucks and conduct random inspections to ensure compliance. In addition, we prohibit any cross-use of delivery trucks that are used to transport milk with antibiotic residuals. If any antibiotic residuals are detected in the milk delivered, the delivery truck must be thoroughly sanitized and tested by our laboratory before next delivery.

We require each delivery truck to deliver the raw milk within the pre-determined timeframe without any delay. The logistics company will be responsible for any loss in the quantity and quality of milk caused by any delivery delay. The delivery trucks are also required to leave our farms within one hour after each milking shift to ensure the freshness of our raw milk. If we detect certain conduct of a third-party logistics company that is in material breach of our contract, we will immediately terminate the contract with such logistics company. During the Track Record Period and up to the Latest Practicable Date, we did not discover any conduct of a third-party logistics company that is in breach of our contract.

***Raw materials and suppliers***

We implement stringent quality control standards with respect to the raw materials we source from third-party suppliers and stringent evaluation and engagement policies for new suppliers. Before engaging a new supplier, our procurement team will first review the qualifications of the supplier and then conduct thorough on-site inspection. A supplier will only be qualified if it passes the qualifications review and on-site inspections. Both the qualified suppliers and our current suppliers remain subject to periodic review and evaluation, covering the quality of the raw materials we procured, the timeliness of delivery, compliance with our quality control protocols and their production facilities. We conduct inspection on raw materials upon delivery in compliance with the raw material acceptance standards set by our quality management department.

***Production process***

We implement stringent safety and quality standards at each stage of our production process. Our major production equipment was purchased from national and international manufacturers, including Tetra Pak, an international supplier of food packaging materials. We enforce strict hygiene standards for our personnel involved in production activities. Our quality control staff members conduct sample tests on our products at each stage of our production process, to ensure the appearance, color, odor, taste and nutrients of our products comply with our safety and quality standard.

*Storage and delivery of finished products*

We perform quality inspection on our products by batch before delivery to ensure compliance with national food safety standards. Each unit of our organic milk products is given a code recognized by PRC Certification and Accreditation Administration (中國國家認證認可監督管理委員會) to trace the origin of production of each product as a quality control measure. We have implemented stringent internal control protocols to ensure that each product meets the relevant quality and safety standards by conducting strict sample tests on our products. Our warehousing facilities have designated zones for the storage of finished products by product type and batch, with identification cards recording the production time and batch number for tracking purposes. A batch of products is allowed for delivery only after we complete our tests and issue a quality inspection report for such batch.

*Compliance with organic certifications*

See "— Permits, Approval and Product Certificates."

*Record of Quality Control*

As of the Latest Practicable Date, our brand and products had never been associated with any food safety incidents. In addition, we have received various certifications from government authorities or recognized organizations including the IS09001 quality management system certification and HACCP certification, food safety management system certification.

## AWARDS

The table below sets forth the major awards that we received since 2011.

| Time | Award | Awarding Organization |
|---|---|---|
| May 2011............ | Gold Medal of BioFach China International Organic Trade Fair and Conference (中國國際有機食品博覽會金獎) | Organizing Committee of BioFach China International Organic Trade Fair and Conference (第五屆中國國際有機食品博覽會組委會) |
| May 2012............ | Gold Medal of BioFach China International Organic Trade Fair and Conference (中國國際有機食品博覽會金獎) | Organizing Committee of BioFach China International Organic Trade Fair and Conference (第六屆中國國際有機食品博覽會組委會) |
| May 2013............ | Gold Medal of BioFach China International Organic Trade Fair and Conference (中國國際有機食品博覽會金獎) | Organizing Committee of BioFach China International Organic Trade Fair and Conference (第七屆中國國際有機食品博覽會組委會) |
| August 2013 ...... | 2013 Hohhot Excellent Local Private Enterprise (2013呼和浩特市優秀本土民營企業) | Hohhot Municipal Government (呼和浩特市人民政府) |
| December 2013 ... | Mayor's Medal of Quality (市長質量獎) | Bayannur Municipal Government (巴彥淖爾市政府) |
| December 2013 .. | Key Leading Enterprise for Industrialization of Animal Husbandry in Inner Mongolia (內蒙古自治區農牧業產業化重點龍頭企業) | People's Government of Inner Mongolia Autonomous Region (內蒙古自治區人民政府) |

## OUR CUSTOMERS

Our customer base may be categorized into industrial customers and distributors. Our premium non-organic raw milk is sold to a limited number of leading dairy companies in China, including primarily Mengniu Group and Yili Group. In January 2014, we also entered into an annual raw milk supply agreement with Want Want. For reliance risks, see "Risk Factors — Risks Relating to Our Business — We rely on a major customer for the sale of our raw milk, which may adversely affect our operating results if it terminates its relationship with us or reduces its purchases." A portion of our organic milk is also sold as raw milk to these industrial customers, but increasingly sold after processing as liquid milk products under our "Shengmu 圣牧" brand. Our liquid milk products are primarily sold to distributors, which then distribute them to retail chains such as supermarket chains and department stores. A very small portion of our liquid milk products are sold directly to end-consumers mainly via VIP card membership and corporate wholesale. See "— Sales, Marketing and Distribution — Distribution Network" for further details.

The table below set forth certain information about our customers.

| Product type | Major customers | Point of sale | Use of our products |
|---|---|---|---|
| Raw milk .................................... | Mengniu Group<br>Yili Group<br>Want Want | N/A | Production of end products |
| Liquid milk products ................... | Distributors | Supermarket chains, department stores, convenience store chains and specialty channels[1] | Sale to sub-distributors or points of sale |
| | Consumers | VIP card membership, corporate wholesale | Consumption |

(1) Our specialty channels include restaurants, gas stations, fitness centers and e-commerce platforms.

Our largest customer, Mengniu Group, accounted for 87.4%, 94.6% and 58.3% of our total revenue in 2011, 2012 and 2013, respectively. We also sold raw milk to Mengniu Group through two individuals who were the then directors of Shengmu Holding in 2011, which accounted for 12.0% of our total revenue for the same period. In 2011, 2012 and 2013, our five largest customers contributed in aggregate 99.7%, 95.6% and 77.0% of our total revenue, respectively. Mengniu Investment, an investment company wholly owned by Mengniu Group, subscribed for a 5.44% equity interest in Shengmu Holding in May 2011. See "History, Reorganization and Group Structure — History and Development — Early Investors and Shareholders — Investment by Mengniu Group" for further details. Following the completion of the Global Offering and assuming none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised, Mengniu Group will own 4.25% of the then issued share capital of our Company. Other than disclosed above, during the Track Record Period, our Directors confirm that the remainder of our five largest customers were Independent Third Parties and none of our Directors and their respective associates or any of our Shareholders (which, to the knowledge of our Directors, owned more than 5% of our issued share capital) held any interest in any of our five largest customers.

Mengniu Group is a leading dairy company in China, with which we have had a business relationship since we began producing raw milk. We elected to sell substantially all of our products to Mengniu in 2011 and 2012 because a number of our founders and shareholders were employees at Mengniu Group. In addition, as a leading dairy company in China, and in light of the growing demand for premium milk, Mengniu Group had sufficient demand to agree to offtake all our production of raw milk. See "— Agreements with Mengniu Group." As our business operations expanded and as our reputation grew, other leading dairy companies such as Yili Group and other food companies such as Want Want also became our customers. Our entry into the liquid milk business in 2012 further diversified our customer base and revenue stream.

Due to their organic quality and high-end image, we believe that our liquid milk products are suitable as gifts during traditional Chinese holidays, such as the Mid-Autumn Festival and the Spring Festival. Seasonality has no impact on the pricing of our liquid milk products as we impose a uniform suggested retail price on all of our liquid milk products. See "— Sales, Marketing and Distribution — Distribution Network — Distributor Management" for further details. During the Track Record Period, we did not experience any material fluctuation of product pricing that had an adverse impact on our business and results of operations.

**Agreements with Mengniu Group**

Prior to June 2013, we had sold all of our raw milk primarily to Mengniu Group, a single large-scale nationwide dairy product manufacturer in China. Sales to this single customer accounted for approximately 87.4%, 99.4% and 79.3% of our sales of raw milk in 2011, 2012 and 2013, respectively.

We entered into a framework cooperation agreement with Mengniu Group in March 2010, pursuant to which Mengniu Group agreed to lease dairy-farming facilities and equipment to our dairy farms located in Hohhot and Bayannur as well as their established dairy farms in Hohhot. Mengniu Group agreed to purchase on a priority basis and we agreed to meet certain milk output volume requirements and supply all of our raw milk outputs that meet its quality standards from the leased dairy farms. In addition, as contemplated under the framework agreement, we also entered into a series of dairy farm lease and equipment lease agreements. For more information, see "Relationship with Mengniu Group — Current Relationship with Mengniu Group — Business Partnership."

**Supply Agreements with Yili Group**

In July 2013, we entered into raw milk supply agreements with Yili Group, pursuant to which we sell our raw milk to Yili Group. Set forth below are certain key aspects of these supply agreements.

- *Term*. These supply agreements have a term of one year. The parties may negotiate renewal upon expiration with a 30-day prior written notice.

- *Minimum quantity requirement*. We are committed to minimum supply requirement specified in the relevant supply agreements with exceptions of disease outbreaks or seasonal changes, in which case we will supply raw milk based on our actual output. In return, Yili Group agreed to purchase all the raw milk we are able to supply that meets its quality requirements.

- *Quality*. The raw milk sold to Yili Group is required to meet all the applicable national quality requirements as well as certain quality standards stated in the supply agreements. We are also required to meet Yili Group's policies relating to raw milk procurement, including as sanitary and quality control requirements, which must be provided to and confirmed by us. During the contract term, Yili Group has the right to conduct periodical on-site inspections of our premises and make recommendations on rectifications of any quality control deficiencies or defects. We will be held responsible for any substandard raw milk if we fail to rectify such deficiencies or defects. In addition, we are subject to liquidated damages for each occasion of contamination in the raw milk committed by us.

- *Pricing*. The supply price will be based on market prices of raw milk of the same quality determined based on a pre-agreed scale included in the agreements, adjustable in the case of market or seasonal changes.

- *Payment terms*. Yili Group is required to pay in the following month for all the raw milk purchased in the previous month.

- *Inspection*. Yili Group is required to complete the inspection and other procedures for acceptance of our raw milk within eight hours upon our delivery to the designated location, and bear any loss resulting from the prolonged waiting period. Yili Group has the right to reject any raw milk from us if it is tested to be substandard by Yili Group. The parties may submit samples to third-party laboratories for additional inspections to resolve any quality disputes.

- *Return policy*. Yili Group is entitled to reject the delivery of any substandard or spoiled products.

- *Termination*. Except in general, neither party may unilaterally terminate the supply agreements. We are entitled to unilaterally terminate the supply agreements if Yili Group (i) refuses to purchase the raw milk that meets its quality requirements on a timely basis or at all or arbitrarily changes the quality requirements, and repeatedly fails to rectify such breach upon our written notice, or (ii) fails to make payments pursuant to the agreements for up to a set time limit.

**Supply Agreements with Want Want**

In the first quarter of 2014, we entered into raw milk supply agreements with Want Want, pursuant to which we sell our premium non-organic and organic raw milk to Want Want. Set forth below are certain key aspects of these supply agreements.

- *Term*. These supply agreements have a term of one year. The party intending to renew these agreements upon the expiration must give a 10-day prior notice to the other party.

- *Minimum quantity requirement*. Want Want is committed to purchasing and we are committed to supplying a minimum daily quantity of raw milk from certain designated dairy farms. We are also obligated to submit to Want Want a monthly report on the number of milkable cows and the estimated milk output for the following month, and Want Want is entitled to conduct periodic on-site inspections to verify our number of dairy cows and daily quantity of supply.

- *Quality*. The raw milk sold to Want Want is required to meet all the applicable national quality requirements as well as certain quality standards stated in the relevant agreements and supplemental agreements, as applicable.

- *Pricing*. The supply price is fixed by the relevant agreements, adjustable in the case of local market price rise. If the parties cannot agree on the price adjustment, either party may unilaterally terminate the agreement without any liability. In addition, for any price adjustment proposed by Want Want, it must obtain our prior written consent. Otherwise we are entitled to discontinue the supply of raw milk at the adjusted price.

- *Payment terms*. Want Want is required to pay in the following month for all the raw milk purchased in the previous month.

- *Inspection*. Want Want may conduct sampling inspection of our raw milk, and has the right to reject any raw milk from us if it is tested to be substandard by Want Want. The parties may submit samples to third-party laboratories for additional inspections to resolve any quality disputes.

- *Return policy*. Want Want is entitled to reject the delivery of substandard or spoiled products.

- *Termination*. Except as otherwise allowed thereunder, neither party may unilaterally terminate the supply agreements. Want Want is entitled to unilaterally terminate the supply agreements if (i) we decline its entry into our premises for on-site inspections, or (ii) our supply of raw milk is sourced outside the designated dairy farms. In addition, we will be deemed to have unilaterally terminated the supply agreements without cause if we repeatedly fail to supply raw milk to Want Want, and as a result, we will be subject to liquidated damages.

## SALES, MARKETING AND DISTRIBUTION

### Sales and Marketing

We sell raw milk directly to our industrial customers. For our sales of liquid milk products to retail customers, we market our organic liquid milk products exclusively under the brand "Shengmu 圣牧." We or our distributors also engage in a variety of marketing and promotional campaigns tailored to different consumers groups to promote brand recognition of our products, including the following:

- Undertaking image advertising, which includes placing advertisements on the television and in inflight media. In 2013, we entered into advertisement placement agreements with advertising agent, to promote our organic concept and organic products on CCTV, the official and leading television station in China. In 2013, we also entered into advertisement placement arrangements with an advertisement agency to display promotional videos at certain airports and on Air China flights.

- Organizing open-house events at our dairy farms and production facilities to demonstrate our stringent safety control and advanced production processes.

- Establishing specialty shops to educate consumers about our "grass-to-glass" organic production model and the benefits of our organic milk and promote our brand image.

- Promoting our brand image and consumer loyalty through the Internet.

- Actively participating in philanthropic and public interest activities to further develop trust in our brand.

We continuously seek to develop our brand and product portfolio to meet evolving consumer preferences and target key growth markets. Our dedicated sales and marketing teams are regularly in contact with our customers and distributors to understand consumers' needs and market trends.

### Distribution Network

We sell our liquid milk products to consumers primarily through regional distributors. We believe that our distributor-based model provides us with the following benefits: (i) contributing to a faster expansion to markets nationwide and market penetration; (ii) enabling us to reach a wide range of points of sale, including department stores, supermarket chains and convenience stores; and (iii) allowing us to focus our management resources and attention on our core businesses. We believe that the use of distributors is generally in line with the industry practice in China. We have built a retail distribution network that now covers major cities in China. Sales to distributors accounted for substantially all of our total revenue of liquid milk business in 2012 and 2013. Our distribution network is structured to facilitate the sales of our liquid milk products in different geographic markets. Particularly, we use regional distributors to enter into new geographic markets in order to benefit from their established relationships with the local sales channels. We also sell a very small portion of our liquid milk products directly to end-consumers via VIP card membership and corporate wholesale in Hohhot and Beijing. See also "— Our Customers."

***Distribution coverage***

Geographically, we divide our distribution network into nine regions. The table below sets forth the geographic distribution of our distributors as of the date indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011(1) | 2012 | 2013 |
| Southwest China(2) | — | 2 | 31 |
| Northeast China(3) | — | 16 | 35 |
| North China(4) | — | 12 | 27 |
| East China(5) | — | 19 | 68 |
| South China(6) | — | 8 | 26 |
| Central China(7) | — | 13 | 27 |
| Shandong, Henan and Anhui | — | 26 | 69 |
| Northwest China(8) | — | 8 | 26 |
| Beijing | — | 1 | 3 |
| E-commerce channels(9) | — | 3 | 4 |
| Total | | 108 | 316 |

(1) We began selling liquid milk products to distributors in 2012.

(2) Consisting of Sichuan, Tibet, Chongqing, Guizhou and Yunnan.

(3) Consisting of Heilongjiang, Jilin, Liaoning and Inner Mongolia.

(4) Consisting of Hebei, Shanxi and Tianjin.

(5) Consisting of Jiangsu, Shanghai and Zhejiang.

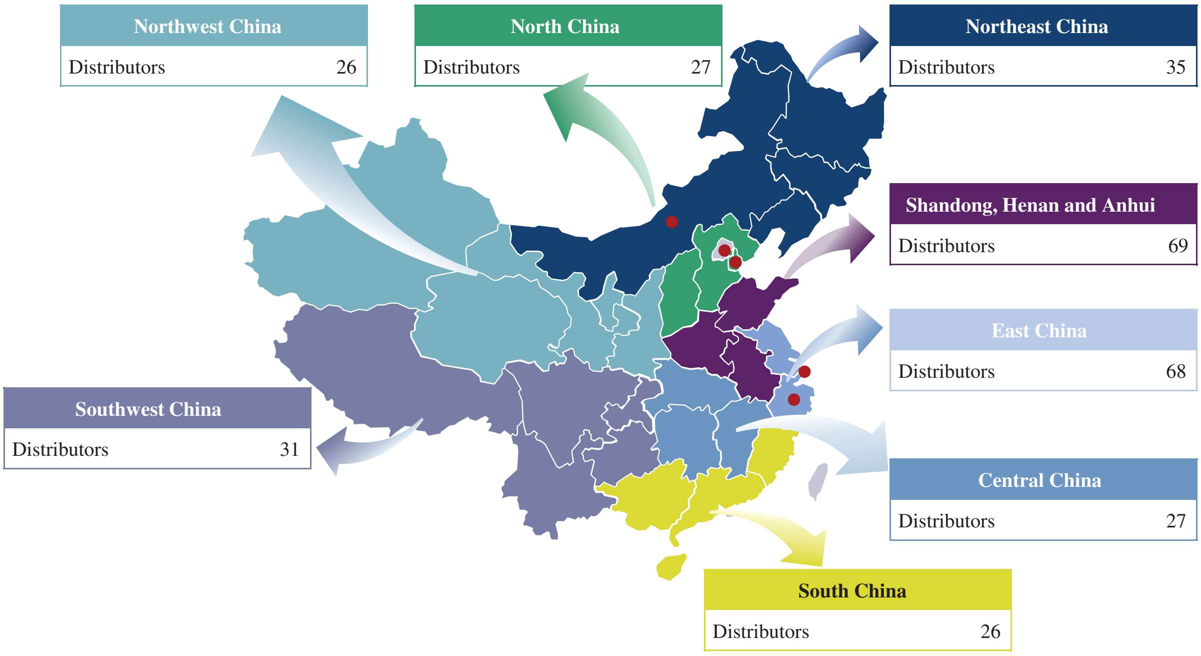
(6) Consisting of Fujian, Guangdong, Guangxi and Hainan.

(7) Consisting of Hunan, Hubei and Jiangxi.

(8) Consisting of Gansu, Ningxia, Qinghai, Xinjiang and Shaanxi.

(9) Represent distributors engaging in e-commerce sales.

The following map illustrates the number of distributors in our distribution network as of December 31, 2013.




As of December 31, 2013, our distribution network covered over 50,000 points of sale in China, growing from over 12,000 outlets as of December 31, 2012. Our distributors either sell the products directly to end-consumers or points of sale, or to their sub-distributors which in turn sell to end-consumers or points of sale. We believe that our distributors engage sub-distributors primarily to supplement and expand their sales networks in regions not covered by their own sales and marketing teams. We have no contractual relationship with and do not directly supervise or manage these sub-distributors.

We currently own minority equity interests in four distribution companies. We believe that our investment in these distribution companies could enable us to more closely monitor and manage their sales activities in certain key markets with great growth potentials. We have entered into standard distribution agreements with these distribution companies. For the principal terms, see "— Sales, Marketing and Distribution — Distributor Management."

***Distributor management***

We select regional distributors for our liquid milk products based on a number of criteria. We primarily choose candidates with established distribution network and regional expertise. We also require candidates to have adequate warehousing and transportation capabilities, as well as management capabilities.

We generally enter into standard distribution agreements with our distributors. Set forth below are certain key aspects of management of our distributors.

- *Term*. Our distribution agreements generally have a term of one year with a three-month probation period. We are entitled to immediately terminate the distribution agreements if the distributors' performance did not measure up to our expectations during the probationary period. Upon expiration of the contractual term, we may grant preference right of renewal to distributors who were in good standing and achieved satisfactory sales records during the previous term. Typically, our distributors will place purchase orders in accordance with their sales and inventory level.

- *Designated distribution channels and areas; competition*. The distribution agreements specify the designated distribution channels and areas for each of our distributors. We do not permit our distributors to market or sell our products outside their designated distribution channels and areas. Under the distribution agreements, we are entitled to terminate the distributorship for non-compliance with this term. We generally allow our distributors to carry competing products in line with market practice.

- *Pricing mechanism*. We generally price products based on a number of factors including the prices of competing products, high-end positioning strategy, as well as our cost of production. We supply our products at a uniform suggested retail price as specified in the purchase orders placed by distributors. Our distributors sell the products to end-consumers or points of sale, such as supermarkets and department stores. We have no contractual relationship with these points of sale. In addition, we require our distributors not to sell our products below cost which in turn may adversely affect our brand image and positioning. We have not discovered any instances of failure by our distributors to comply with our pricing policies. Our local manager periodically make on-site visits to points of sale to collect pricing information from our distributors as part of our sales and marketing activities.

- *Sales targets*. We generally have pre-set annual sales targets for our distributors. Failure to meet our sales targets may result in non-renewal of the distribution agreements and, in serious cases, immediate termination of the distributorship.

- *Retail and promotional campaigns*. The distributors are generally responsible for any entry fees, display fees, and/or marketplace management fees associated with the points of sale to which they on-sell our products. We will provide for any nationwide advertisement or large-scale regional promotional campaigns. We will also provide product logos and shop-front designs for promotional purposes.

- *Payment terms*. We generally dispatch shipment upon receiving the payment in full, and do not extend credit to distributors. We occasionally grant credit limits to distributors, which is negotiated on a case-by-case basis and approved by us.

- *Delivery and revenue recognition*. We are generally responsible for arranging delivery of products from our warehousing facilities in Dengkou, Inner Mongolia, to locations designated by our regional distributors. Third-party logistic providers are entirely responsible for products damaged in transit. We recognize revenue from sales to our distributors when we deliver our products and the significant risk and rewards of ownership of our products are transferred to them.

- *Returns and exchanges*. We do not allow returns or exchanges except for quality defects or spoilage. In practice, we require our distributors to sell out a batch of order within three months. During the Track Record Period, our distributors were generally able to comply with this requirement and we did not experience any product returns or exchanges from our distributors that had a material impact on our operations.

- *Product liability claims and after-sales services*. We are primarily responsible for any quality defects of our products and require our distributors to cooperate with us in resolving any product liability claims. Our distributors are responsible for the provision of after-sales services, and are entirely responsible for any escalation of claims or any other loss due to poor after-sales services.

- *Inventory management*. Our local managers periodically visit these points of sale and supervise promotional campaigns carried out by our distributors. The on-going active monitoring of our distributors and the points of sale enables us to efficiently manage their inventory levels. We generally allow our distributors and the points of sale to maintain inventories of up to three months.

- *Non-compliance with contractual requirements*. We generally require our distributors to post a performance bond. We are entitled to unilaterally deduct fines from the bond for sales outside its designated distribution area. We may terminate the distribution agreements for repeated breaches of these contractual requirements. During the Track Record Period, all of our regional distributors complied with the distribution agreements in all material aspects and the salient reason for non-renewal or termination of a distribution agreement is failure to meet our sales targets.

- *No agency and no liability*. The distribution agreements specify that the distributors are not the agents of our Company. The distributors are not authorized to enter into any agreement with any other parties in the name of our Company, nor is our Company liable for any dispute arising from such agreement between the distributors and such other parties.

- *Use of our "Shengmu 圣牧" brand*. The names of our distributors cannot include "Shengmu 圣牧" without our authorization. We may authorize our distributors to include our brand in their corporate names at our discretion. Our sales and marketing department and legal department are responsible for reviewing, approving and/or rejecting related applications by distributors. An authorization will expire upon the expiration of the relevant distributor's distribution agreement with us. If the distribution agreement is not renewed upon expiration, the distributor is required to remove our brand from its corporate name within three months.

As of December 31, 2013, we had approximately 316 distributors covering 31 provinces, municipalities and autonomous regions in China. Except for Beijing Shengmu and Shanghai Saihan, in which we held equity interests, all the other distributors as of December 31, 2013 were Independent Third Parties. We also acquired minority equity interests in two other distribution companies (i.e., Anhui Meilichen and Tianjin Mengmu) in April 2014. The following table sets forth the changes in the number of our regional distributors during the Track Record Period.

| | 2011(1) | 2012 | 2013 |
|---|---|---|---|
| As of January 1 | — | — | 108 |
| Addition of new distributors | — | 132 | 252 |
| Termination of distributors(2) | — | 24 | 44 |
| Net change in distributors | — | 108 | 208 |
| As of December 31 | — | 108 | 316 |

(1) We began selling liquid milk products to distributors in 2012.

(2) The termination was primarily due to our replacement of distributors with poor track records or voluntary termination of business dealings with us by the distributors.

## SUPPLIERS AND PROCUREMENT

The principal raw materials that we use are dairy cow feed, primarily including corn silage, alfalfa and concentrated feed. Currently we source organic feed primarily from our associate, Shengmu Forage and purchase various non-organic feed from multiple third-party suppliers. We have had generally three to four years of business relationships with our major feed suppliers.

Except for organic forage which is sourced substantially from Shengmu Forage, we typically maintain multiple suppliers for each type of our major raw materials to minimize any potential disruption of our operations, maintain sourcing stability and secure competitive prices from suppliers. We did not experience any raw material supply shortages and prices of our major raw materials were relatively stable during the Track Record Period.

The table below sets forth certain information of our raw materials and their respective external suppliers.

| Raw materials | Principal sources |
|---|---|
| **Organic feed** | |
| - Corn silage and alfalfa | Shengmu Forage |
| - Guinea grass | Multiple local suppliers |
| - Concentrated feed(1) | Shengmu Forage and multiple local suppliers |
| **Non-organic feed** | |
| - Corn silage, alfalfa and guinea grass | Multiple local suppliers and one supplier from the United States |
| - Concentrated feed | Multiple local suppliers |
| **Other raw materials** | |
| - Packaging materials | Tetra Pak (Sweden) and multiple domestic suppliers |
| - Frozen semen | North America |

(1) Since 2013, we have processed organic concentrated feed based on our own feed formulae from raw materials purchased primarily from Shengmu Forage.

**Organic Feed**

***Shengmu Forage***

Shengmu Forage has historically supplied substantially all the forage crops organically grown in its growing fields to us. Our transactions with Shengmu Forage were based on normal commercial terms and we were required to make prepayments on the orders. Our purchase from Shengmu Forage amounted to RMB0.7 million, RMB27.3 million and RMB111.8 million in 2011, 2012 and 2013, respectively.

Established in April 2010, Shengmu Forage is a company specialized in growing organic forage crops in the Ulan Buh desert without using any synthetic pesticides or synthetic fertilizers. Shengmu Holding, our PRC holding company, and Mr. WU Jianye were among the founding shareholders of Shengmu Forage. Our shareholding in Shengmu Forage decreased to 23.77% by the end of 2011 as a result of capital injections from certain individuals associated with Pangu Group, a company based in Inner Mongolia and controlled by Mr. WU Jianye's family. Shengmu Forage subsequently obtained additional equity investments from third-party investors to support its growth and, as a result, our shareholding in Shengmu Forage further decreased to 8.60% by the end of 2013. In December 2011, Shengmu Forage ceased to be a member of our Group. For further details, see "History, Reorganization and Group Structure — History and Development — Shengmu Forage."

As organic feed is an essential raw material in the production of organic milk, we sought to secure a stable supply of organic forages from Shengmu Forage through a long-term agreement. In March 2014, we entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage for a term of 20 years, under which Shengmu Forage undertakes to continue its exclusive supply arrangement for organic forages with us and support our future expansion plans. We were able to enter into a long-term agreement with Shengmu Forage because, among other reasons, (i) we have significant influence in Shengmu Forage; and (ii) our relationship with Shengmu Forage is one of mutual reliance as we are its exclusive customer. For further details, see "— Our Business — Dairy Farming Business — Organic Feed — Shengmu Forage" above. Our Directors believe that the Long-term Strategic Cooperation Agreement is necessary for securing us a stable supply of organic forages for years to come, which is mutually beneficial to both us and Shengmu Forage. The Joint Sponsors concur with the view of our Directors and are of the view that taking into account the business of our Company, the duration of the Long-term Strategic Cooperation Agreement entered into by our Company with Shengmu Forage is fair and reasonable and is in the interests of our Company and Shareholders as a whole.

Pursuant to the Long-term Strategic Cooperation Agreement, the price of Shengmu Forage's forage crops will be determined with reference to (a) the prevailing market prices for organic forage if there is a readily available market price, or (b) the prevailing market prices of imported premium non-organic forage (excluding transportation cost) or domestic premium non-organic forage plus a mark-up rate which will be not more than the lower of (i) the percentage difference in the average selling prices between our organic raw milk and premium non-organic raw milk, and (ii) the percentage difference in the average selling prices between organic raw milk and premium non-organic raw milk in the comparable segments of PRC market (if available), in the 12 months before the determination of the prices for the relevant forage crops. We do not have any profit sharing arrangements with Shengmu Forage. Furthermore, Shengmu Forage has covenanted not to operate dairy farms in competition with us without our prior written consent. Neither we nor Shengmu Forage may terminate the Long-term Strategic Cooperation Agreement, save in the case of, among others, compliance with applicable laws, regulations or the Listing Rules.

Shengmu Forage is expected to be able to increase its supply of organic forages to us in accordance with our expansion plan. Shengmu Forage currently grows organic forages on approximately 115,000 mu of growing fields in the Ulan Buh desert, which meet the E.U. organic standards and are certified organic under the PRC standards by the COFCC. By December 2014, Shengmu Forage expects to increase its growing fields in the Ulan Buh desert to approximately 180,000 mu which are able to supply the principal organic forages for approximately 53,000 dairy cows. In addition, Shengmu Forage has obtained the right, through cooperation with local government and other parties, to further develop an additional approximately 400,000 mu of growing fields for organic forages. By 2020, Shengmu Forage expects to develop a total of approximately 560,000 mu of growing fields to grow organic forages to support our cow herd growth. Shengmu Forage has received the local governments' support for its expansion plans, which are consistent with the government policies to develop a self-sustainable ecological economy.

We believe that Shengmu Forage will have sufficient funding to support our expansion plan taking into account the following:

- *Increasing forage production*. After the initial investment period, Shengmu Forage has significantly ramped up its production of organic forages since 2012. Our total purchases of organic forage from Shengmu Forage increased from RMB0.7 million in 2011 to RMB27.3 million in 2012, and to RMB111.8 million in 2013, and are expected to continue to increase in the future with the growth of our organic dairy farming business.

- *Continuing prepayment*. In 2013, we made prepayments of RMB57.5 million to Shengmu Forage to secure the supply of organic forages and support Shengmu Forage's operations. We expect such prepayments to continue in the near future.

- *Availability of bank financing*. As Shengmu Forage's expansion continues, it becomes better-positioned to obtain bank financing. In April 2014, Shengmu Forage obtained credit facilities totaling RMB100 million.

- *Additional capital contribution*. Shengmu Forage received significant capital contribution from its shareholders during the Track Record Period, with an aggregate of RMB146.4 million from 2011 to the Latest Practicable Date. We believe that a number of its major shareholders, including our Company and shareholders also holding Shares of our Company, would be willing to contribute further capital into Shengmu Forage to support its expansion, subject to the requirements under the letters of undertaking described below.

To establish a self-sustainable ecological cycle, in 2013, Shengmu Forage established and began the operation of modern organic fertilizer production facilities adjacent to our organic dairy farms to produce organic fertilizers. We supply the cow dung produced on our organic dairy farms free of charge to Shengmu Forage, which is responsible for collecting, transporting and processing the dung into organic fertilizers to be used on its growing fields.

In addition to the Long-term Strategic Cooperation Agreement, Shengmu Forage and its shareholders (except Shengmu Holding) have also undertaken to us not to issue, sell, transfer or otherwise dispose any equity interests in Shengmu Forage to any third party without our prior written consent for a term of 20 years unless all the equity interests in Shengmu Forage have been transferred to us prior to the expiration of this 20-year term. Furthermore, the existing shareholders of Shengmu Forage (except Shengmu Holding) have also undertaken to cause Shengmu Forage to perform all of its obligations under the Long-term Strategic Cooperation Agreement, including the obligation to continuously execute its own business plans to support our future expansion plans. For further details of these undertakings, see "Relationship with Controlling Shareholders — Major Retained Businesses of Our Ultimate Controlling Shareholders — Long-term Strategic Cooperation Agreement with Shengmu Forage and Undertakings from Shengmu Forage and Its Shareholders."

Further, in 2011, 2012 and 2013, Shengmu Forage leased a portion of its organic growing fields to local farmers to grow organic forages in accordance with its own organic dairy farming protocols and in compliance with applicable organic standards. These local farmers were required to supply all such organic forages that met our organic and quality requirements to us. For further details, see "— Our Business — Dairy Farming Business — Organic Feed — Shengmu Forage" above.

***Other Organic Feed Suppliers***

We also purchase organic feed from other qualified suppliers, which are Independent Third Parties to the best knowledge of our Directors. We purchase a small portion of guinea grass from qualified third-party suppliers to supplement our purchases of organic alfalfa and corn silage.

In 2011, we purchased organic forages primarily from other qualified suppliers as Shengmu Forage was in the early stage of its development and was only able to supply us with a limited amount of alfalfa. As Shengmu Forage expanded its operation, including the area of its growing fields and quantity of forages it grew, our purchases of feed for our organic dairy farming business from suppliers other than Shengmu Forage decreased as a percentage of our total purchases. In 2011 and 2012, we purchased a small amount of concentrated feed from qualified local suppliers in addition to Shengmu Forage. We started to purchase corn kernels and oil sunflower primarily from Shengmu Forage in 2012 and 2014, respectively and process concentrated feed based on our own feed formulae in our processing plant.

**Non-organic Feed**

We generally purchase non-organic feed for our non-organic dairy farms in Hohhot from multiple third-party suppliers in close proximity to our farms. In particular, we purchase alfalfa imported from the United States through both overseas sellers and domestic traders and concentrated feed from multiple local suppliers.

Our supply agreements impose specific quality requirements on the outsourced feed and allow us to reject or return a delivery if it fails to meet our quality requirements. We also impose minimum supply requirements on our suppliers under the penalty of liquidated damages. We are generally entitled to terminate the relevant supply agreement for a supplier's repeated failure to meet our quality requirements and/or prolonged delay of delivery. We generally make payments on the invoices when the aggregate batches of delivery exceed a certain amount specified in the supply agreements.

**Top Suppliers**

In 2011, 2012 and 2013, purchases from our largest supplier accounted for 12.2%, 11.2% and 10.7% of our total purchase, respectively, and purchases from our five largest suppliers together accounted for 37.2%, 31.0% and 24.6% of our total purchases, respectively. During the Track Record Period, our Directors confirm that other than Shengmu Forage, our five largest suppliers were Independent Third Parties and none of our Directors or their respective associates or our existing Shareholders (who, to the knowledge of our Directors, owned more than 5% of our issued share capital) held any interest in any of our five largest suppliers other than Shengmu Forage as disclosed above.

## LOGISTICS PROVIDERS

We primarily use third-party logistics providers to deliver our products. We select logistics providers via a competitive bidding process. We first send bidding invitations to qualified logistic providers. Upon receipt of bidding documents from each of the qualified logistics providers, our bidding committee will evaluate such bidding documents based on qualification verification, commercial review, technology review and price review. We then enter into contract with logistics providers that meet our bidding requirements. We have stringent criteria for the selection of logistics providers, such as price, scale, industry experience and track record. We require them to have a distribution network that is compatible with ours and implement a set of strict quality control standards for them to follow. For further details of our quality control over the delivery of raw milk, see "— Quality Control — Quality Control Management — Delivery of Raw Milk."

We require our logistics providers for raw milk delivery to have at least two insulation trucks to meet our output volume of raw milk on a timely basis and complete delivery within a pre-set timeframe. The logistics providers are entirely responsible for any quality or quantity-related issues due to the transportation. Our logistics providers for liquid milk product delivery are required to arrange loading with an eight-hour prior notice and dispatch within 24 hours; otherwise, we have the right to arrange substituting transportation services and the defaulting logistics providers must compensate us for any additional cost so incurred. We evaluate the performance of our liquid milk product logistics providers on a semi-annual basis. All of our logistics providers are required to make a deposit with us, from which we may make deductions for breach of contract terms. Their payment is calculated based on the actual transportation volume and settled on a monthly basis.

During the Track Record Period, we did not experience any material disruption or delay in the delivery of our products. We believe this outsourcing arrangement allows us to focus our resources on our core business and reduce our capital requirements and risk of liability for transportation accidents, delivery delays or losses. We also believe that alternative qualified logistics providers are readily available in the market, and we may substitute our current logistics providers with alternative logistics providers without causing material disruptions to our operations.

## INVENTORY MANAGEMENT

Our inventory comprises of raw materials we procure and produce, packaging materials and finished products. In accordance with our inventory policy, we typically keep three months of raw materials, except certain perishable raw materials such as raw milk, which is processed or delivered on the day of milking, and we typically maintain approximately seven days of concentrated feed. In addition, we typically make purchase for corn silage once a year to meet our annual needs and maintain six-month inventory of alfalfa. For finished products, our local managers periodically monitor the inventory level and performance of our distributors and the points of sale. Our distributors normally submit their purchase plans on a monthly basis, designed based on their inventory levels of the current month and confirmed by the inspection of our local managers. Due to the short shelf life of our liquid milk products, we generally allow our distributors and the points of sale to maintain inventories of up to three months.

## RESEARCH AND DEVELOPMENT

Since our establishment, we have focused our research and development efforts on organic dairy farming, enhancing milk yield and offering new products. In particular, we have been focusing our research and development efforts on feed formulae, dairy cows breeding, herd management and disease control. We have also devoted substantial efforts in developing new products to address the evolving consumer preferences and also to improve profitability. As of December 31, 2013, our research and development team consisted of 33 members, led by Ms. GAO Lingfeng, who has over 10 years of relevant experience with Mengniu Group. Our research and development team also serves quality control functions. For more details, see "— Quality Control" above. We incurred approximately RMB0.8 million, RMB1.1 million and RMB1.2 million as research and development expenses for the three years ended December 31, 2013.

We have also entered into a number of cooperation or joint development agreements with local universities and research companies, including the following:

- *Inner Mongolia University*. In January 2011, we entered into a cooperation agreement with an asset management company affiliated with Inner Mongolia University (內蒙古大學), or IMU Company, pursuant to which the parties agreed to incorporate a dairy-farm company, IMU-Shengmu Dairy, as business partners. IMU-Shengmu Dairy launched a research-oriented dairy farm by commercializing a proprietary know-how contributed by IMU Company and became the legal owner of such intellectual property rights. We are responsible for the day-to-day operations of IMU-Shengmu Dairy and our business partner is responsible for formulating development plans and providing technical support. As of its establishment, IMU-Shengmu Dairy was held as to 55% by Shengmu Holding and as to 45% by IMU Company. In March 2014, Shengmu Holding acquired a 15% equity interest in IMU-Shengmu Dairy from a then-existing shareholder. Subsequently, our shareholding in IMU-Shengmu Dairy increased to 70% while IMU Company's shareholding decreased to 30%.

- *Baolai-Leelai*. In November 2013, we entered into a joint development agreement with Baolai-Leelai Bio-tech Co., Ltd. (山東寶來利來生物工程股份有限公司), or Baolai-Leelai. Pursuant to this agreement, Baolai-Leelai agreed to help us set up a microbiology workshop and train technicians. This workshop focuses on the development and production of bio-fermented cow feed with the yeast strain and fermentation know-how provided by Baolai-Leelai. Bio-fermented feed with specially-designed supplements can support cow health and lower feed costs. For internal production and consumption, we are permitted to use for free Baolai-Leelai's intellectual property rights involved in this joint development program. Baolai-Leelai is a PRC-based high-tech company focused on ecological feeding and animal nutrition. For the production of such bio-fermented feed, we purchase yeasts and other ingredients from Baolai-Leelai at agreed-upon prices.

## COMPETITION

Competitive landscapes vary from segment to segment of the dairy market in China. We are the largest organic milk company in China with a 54.2% market share based on 2013 organic raw milk production volume, more than twice the market share of the second largest organic raw milk producer in China, according to the F&S Report. In addition, we were the only vertically integrated Chinese dairy farming company meeting E.U. organic standards as of May 31, 2014, which is among the highest standards in the world, according to the F&S Report. Together with our associate, Shengmu Forage, we are the only dairy company in China that applies a "grass-to-glass" organic ("全程有機") production model in China, with all major steps of the industry value chain, including forage, dairy farming and milk processing, meeting E.U. standards and PRC standards. Therefore, we believe that we are well positioned to successfully compete in the submarkets of organic raw milk and liquid milk products by capitalizing our market leadership and first mover advantages.

As a portion of our organic raw milk is sold to industrial customers, such as Mengniu Group, to be processed into liquid milk products and marketed and distributed under their respective brands and we sell organic liquid milk products under our "Shengmu 圣牧" brand, these industrial customers are also our competitors in the liquid milk product markets. As we expand our organic liquid milk business, we expect competition with our organic raw milk industrial customers to intensify.

## MANAGEMENT OF GROWTH

We plan to significantly expand our organic dairy farming operation to meet the increasing market demand. The market demand for organic raw milk is primarily driven by the demand for organic milk products which are produced solely or principally from organic raw milk. According to the F&S Report, market demand for organic milk products continues to increase rapidly as a result of growing concern for food safety and rising disposable incomes in China. As a result, demand for organic raw milk increased from 18,000 tonnes in 2009 to 187,000 tonnes in 2013 and is expected to reach 1.602 million tonnes in 2018. Although organic raw milk production volume experienced rapid growth from 17,000 tonnes in 2009 to 174,000 tonnes in 2013, with a CAGR of 79.6%, demand for organic raw milk has been under-served and the gap between demand and supply is expected to continue to increase from 13,000 tonnes in 2013 to 122,000 tonnes in 2018. In 2013, the top three organic raw milk producers, including us, accounted for 86.9% of the total organic raw milk production volume in China, according to the F&S Report. The total production volume of organic raw milk is expected to reach 1.48 million tonnes in 2018. Despite the comparatively small market size of organic milk in the overall raw milk market, we are well positioned to leverage on our market leadership in this niche segment to capitalize on the increasing shortage for organic milk through active expansion. Based on the foregoing, we believe that it is critical to expand our organic dairy farming operation to narrow the supply-demand gap for organic milk and further increase our market share.

Aside from the measures designed to expand our organic dairy farming operation in "— Business Strategy — Expand our organic dairy farming operations and ensure our product safety and quality," we also intend to focus our expansion efforts on the following areas to support and manage our growth.

- *Land resources*. We will continue to build more organic dairy farms to support our expansion plan and to increase our organic raw milk output. We have sufficient vacant land area near our existing organic dairy farms to build approximately nine additional farms. In addition, Shengmu Forage has obtained the right to develop approximately 400,000 mu of growing fields in the Ulan Buh desert. To further integrate our dairy farming operation with Shengmu Forage's forage growing operation, we may enter into leasing arrangements with Shengmu Forage to use the aforementioned land resources to build organic dairy farms in accordance with the applicable laws, regulations and the Listing Rules.

- *Production capacity*. We will continue to ramp up our utilization rate of the liquid milk production capacity as well as increase our daily liquid milk processing capacity to meet the increasing market demand for organic milk products. Our utilization rate for the production of liquid milk products increased significantly from 10.4% in 2012 to 38.1% in 2013, primarily due to production ramp-up and improved brand recognition.

- *Raw materials.* We will continue to closely coordinate with Shengmu Forage, our primary source of organic feed, to support our expansion plans. To this end, we and Shengmu Forage entered into the Long-term Strategic Cooperation Agreement for a term of 20 years, pursuant to which Shengmu Forage undertakes to continue its exclusive supply of organic forages to us and support our future expansion plans. In addition, Shengmu Forage expects to increase its growing fields in the Ulan Buh desert from approximately 115,000 mu at present to approximately 180,000 mu by December 2014 and has obtained the right, through cooperation with local government and other parties, to further develop approximately 400,000 mu of growing fields. By 2020, Shengmu Forage expects to develop a total of approximately 560,000 mu of growing fields to grow organic forages to support our cow herd growth through 2020.

- *Labor.* We will continue to expand through, among others, collaboration with local experienced dairy farmers and leverage on their experience in managing and operating dairy farms through the establishment of dairy-farm companies with these farmers being the minority shareholders. We will also continue to offer competitive compensation packages in order to maintain a sustainable workforce to support our growth.

- *Quality control.* We will continue to implement our quality control system across our existing and new dairy farms. In the second half of 2013, we established an organic production management center, which is charged with the responsibility of (i) designing organic certification protocols and procedures as internal guidance, (ii) managing and monitoring production quality and (iii) providing relevant trainings to new farm managers and quality control personnel. In respect of new organic dairy farms, we will assign experienced personnel and clone from our existing organic certification procedures so as to obtain organic certifications from the COFCC and ECOCERT S.A. as soon as practicable.

- *Distributors and consumers.* We will continue to devote marketing and promotional efforts designed to enhance our brand recognition and ultimately boost our sales, leveraging on the growing consumer preference on the "grass-to-glass" organic products. We also seek to expand our distribution network by adding new distributors and further explore direct-sales opportunities. Our distributors increased significantly from 108 as of December 31, 2012 to 316 as of December 31, 2013, and plan to further increase to over 400 by the end of 2014. As our current distribution network reaches mostly tier one and tier two cities, we seek to penetrate further into lower-tier cities.

- *Industrial customers.* We entered into long-term agreements with Mengniu Group in 2010 and 2011, and developed additional industrial customers, namely, Yili Group in 2013 and Want Want in 2014. These industrial customers are committed to minimum order requirements. We will continue to seek strategic cooperation opportunities with reputable industrial customers.

## PERMITS, APPROVAL AND PRODUCT CERTIFICATES

### Permits and Approval for Dairy Farming Activities

In addition to the usual licences, permits and approvals in relation to the operation of business on our properties, the undertaking of our dairy farming activities also require the animal epidemic prevention permit and raw milk permit. As advised by our PRC legal advisers, as of the Latest Practicable Date, all of our organic dairy farms and non-organic dairy farms which are required to obtain these two permits have obtained them to support their dairy farming operations. For details of the status of certain licences, permits and approvals in relation to the operation of business on our properties, see "— Properties" and "— Legal Proceedings and Compliance— Non-compliance Incidents" of this section.

### Product Certificates

For our organic dairy farming and liquid milk production operations, we have obtained organic certifications from ECOCERT S.A. under E.U. standards and/or the COFCC under the PRC standards. Our associate, Shengmu Forage, has obtained PRC organic certifications from the COFCC for its forage growing operations and is currently undergoing conversion periods for organic certification under E.U. standards.

The following table sets forth certain information about the ECOCERT S.A. organic certificates held by us.

| Certificate No. | Company | Product | Category of certificate | Issue date | Expiry date |
|---|---|---|---|---|---|
| 22119CN1300z2ec (EOS) | Shengmu Dairy | Liquid milk — organic milk for children | Organic product | January 27, 2014 | September 30, 2014 |
| | | Liquid milk — organic low-fat milk | Organic product | January 27, 2014 | September 30, 2014 |
| | | Liquid milk — organic whole milk | Organic product | January 27, 2014 | September 30, 2014 |
| 22349CN1300z1ec (EOS) | Shengmu Pangu | Raw milk | Organic product | December 10, 2013 | September 30, 2014 |
| 22282CN1300z1ec (EOS) | Shengmu Xintai | Raw milk | Organic product | November 20, 2013 | October 25, 2014 |
| 9010CN1300z1ec (EOS) | Shengmu Farming[(1)] | Raw milk | Organic product | November 20, 2013 | October 23, 2014 |
| 9010CN1400z1ec (EOS) | Shengmu Farming | Raw milk | Organic product | March 21, 2014 | April 27, 2015 |
| 22358CN1400z1ec (EOS) | Shengmu Liuhe | Raw milk | Organic product | March 24, 2014 | April 27, 2015 |
| 22357CN1400z1ec (EOS) | Shengmu Hateng | Raw milk | Organic product | March 24, 2014 | May 1, 2015 |
| 22359CN1400z1ec (EOS) | Shengmu Taohai | Raw milk | Organic product | March 24, 2014 | April 25, 2015 |
| 22371CN1400z1ec (EOS) | Shengmu Wuxing | Raw milk | Organic product | March 21, 2014 | April 24, 2015 |
| 22372CN1400z1ec (EOS) | Shengmu Xinhe | Raw milk | Organic product | March 21, 2014 | April 26, 2015 |

(1) Shengmu Farming currently operates five organic dairy farms.

Shengmu Forage first applied to ECOCERT S.A. for organic certification under the E.U. standards in 2012 and is currently undergoing conversion periods under E.U. organic standards. Such conversion periods are two years for growing fields for forages that live for one year (e.g. corn) and three years for forages that live for more than one year (e.g. alfalfa). If Shengmu Forage continues to comply with E.U. organic standards through the remainders of the conversion periods, it is expected to receive organic certification by ECOCERT S.A. upon the end of the conversion periods. According to ECOCERT S.A., forages produced by Shengmu Forage during the conversion periods meet E.U. organic standards.

The following table sets forth certain information about the COFCC organic certificates held by us and Shengmu Forage.

| Certificate No. | Company | Product | Category of certificate | Issue date | Expiry date |
|---|---|---|---|---|---|
| 100OP1300114 | Shengmu Dairy | Liquid milk — organic whole milk<br>Liquid milk — organic low-fat milk<br>Liquid milk — organic milk for children | Milk processing | January 15, 2014 | January 14, 2015 |
| 100OP1200139 | Shengmu Farming[(1)] | Raw milk | Dairy farming | July 21, 2013 | July 20, 2014 |
| 100OP1200140 | Shengmu Farming | Raw milk | Dairy farming | July 21, 2013 | July 20, 2014 |
| 100OP1200235 | Shengmu Farming | Raw milk | Dairy farming | October 27, 2013 | October 26, 2014 |
| 100OP1300941 | Shengmu Farming | Cows | Dairy farming | October 31, 2013 | October 30, 2014 |
| 100OP1301016 | Shengmu Farming | Guinea grass | Forage processing | December 10, 2013 | December 09, 2014 |
| 100OP1300950 | Shengmu Xintai | Corn silage | Forage processing | October 24, 2013 | October 23, 2014 |
| 100OP1300800 | Shengmu Xintai | Raw milk | Dairy farming | August 4, 2013 | August 3, 2014 |
| 100OP1300801 | Shengmu Pangu | Raw milk | Dairy farming | August 4, 2013 | August 3, 2014 |
| 100OP1400235 | Shengmu Taohai | Raw milk | Dairy farming | June 6, 2014 | June 5, 2015 |
| 100OP1400236 | Shengmu Liuhe | Raw milk | Dairy farming | June 6, 2014 | June 5, 2015 |
| 100OP1400237 | Shengmu Hateng | Raw milk | Dairy farming | June 6, 2014 | June 5, 2015 |
| 100OP1400238 | Shengmu Wuxing | Raw milk | Dairy farming | June 6, 2014 | June 5, 2015 |
| 100OP1400239 | Shengmu Xinhe | Raw milk | Dairy farming | June 6, 2014 | June 5, 2015 |
| 100OP1300894 | Shengmu Forage | Forage | Forage growing | August 1, 2013 | July 31, 2014 |
| 100OP1200214 | Shengmu Forage | Forage | Forage growing | August 1, 2013 | July 31, 2014 |
| 100OP1200215 | Shengmu Forage | Forage | Forage growing | October 10, 2013 | October 9, 2014 |
| 100OP1300932 | Alxa Forage | Forage | Forage growing | October 12, 2013 | October 11, 2014 |

(1) Shengmu Farming currently operates five organic dairy farms.

The organic certificates from ECOCERT S.A. and the COFCC are generally valid for one year. The certificate holder must apply for renewal with all necessary supporting documents three months prior to the expiration date, and the certification agency will arrange for on-site annual audit to determine whether the applicant's operation is in continued compliance with the relevant organic standards. During such annual audit, inspectors from these agencies will examine Shengmu Forage's growing fields and our dairy farms and production facilities and the scope of such examinations generally covers substantially all aspects of our operations, including the air quality, the water quality, the usage of synthetic fertilizers, the usage of GMOs, as well as the usage of antibiotics, synthetic pesticides and chemical detergent. These certificates are critical to our operations. We did not experience any material difficulty in obtaining or renewing our organic certificates and have not been admonished or penalized by the certificate-granting agencies for any material non-compliance. We cannot, however, assure you that we will be able to obtain or renew such certificates in the future. See "Risk Factors — Risks Relating to Our Business — Loss of or failure to obtain or renew certifications for organic dairy farming and processing could materially and adversely affect our business."

## INSURANCE

In general, insurance companies in the PRC could provide insurance coverage for dairy cows and heifers that are aged at or over 12 months and the amount of the insurance premiums would depend on factors such as the type, age and milk yield of the cows and heifers, as applicable. We have maintained insurance policies for all our milkable cows against losses caused by certain diseases, illnesses, accidents and natural disasters. The diseases covered by the insurance policies for our dairy cows and heifers, include foot-and-mouth disease, mad cow disease, bovine ephemeral fever, tuberculosis and brucellosis. Upon the occurrence of an insurable event, the maximum compensation under the insurance policies would generally cover some of our costs to purchase a replacement heifer. The insurance policies we purchased are renewable on an annual basis. Our Directors believe that our insurance coverage is in line with what is usual and common practice in the industry in China, including with respect to the terms of and the coverage provided by such insurance. As of the Latest Practicable Date, no significant claims have been made by us under these insurance policies.

We do not currently maintain insurance coverage for our products or production facilities and machinery units. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material product liability claims or material disruption to our business as a result of major equipment failures or other workplace accidents. Additionally, we maintain mandatory social insurance contribution plans for our employees in China pursuant to PRC laws. Our Directors believe that our insurance coverage currently in place is adequate and is in line with customary industry practice.

## INTELLECTUAL PROPERTY

We rely primarily on a combination of patents, copyrights, trademarks and trade secrets, as well as employee and third-party confidentiality agreements to protect our intellectual property.

As of the Latest Practicable Date, we had received a total of seven patents in China. With respect to, among others, proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements to safeguard our interests. We believe that certain elements in our operations are not covered by patents or copyrights, and we have taken security measures to protect these elements. All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues. In addition, under the PRC laws, we are the owner of all of the patentable inventions, utility models and designs developed by our employees during the course of their employment.

As of the Latest Practicable Date, we had 13 registered trademarks in China, including "圣牧," and had 19 trademark applications in China. As our brand name is rapidly gaining recognition, we are working to increase, maintain and enforce our rights in our trademark portfolio, the protection of which is important to our reputation and branding.

As of the Latest Practicable Date, we were the registered owner of three domain names, including our corporate website, www.youjimilk.com.

During the Track Record Period and as of the Latest Practicable Date, we had not been subject to any material infringement of our intellectual property rights or allegation of infringements by third parties.

## PROPERTIES

Our PRC principal executive offices are located in Bayannur, Inner Mongolia. We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our dairy farms, processing plants, offices, warehouses and employee dormitories.

As of December 31, 2013, each of our properties had a carrying amount below 15% of our combined total assets. On this basis, no property valuation report in respect of our Group's property interests is required in reliance upon the exemption provided by Rule 5.01A of the Listing Rules and Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Therefore, this prospectus is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

### Owned Properties

As of December 31, 2013, we had obtained the land use right for a parcel of land with a site area of 54,696 square meters, the land contract use right (承包經營權) for approximately 15 parcels of land with a total area of approximately 3,980,000 square meters (5,973 mu), and building ownership right for buildings and units with a total gross floor area of 12,354 square meters. Except as otherwise disclosed below and elsewhere in this prospectus we have obtained land use right, land contract use right or building ownership right for all of our land or buildings and units.

We had not obtained the title certificate of two parcels of land, operated by Shengmu Agriculture and Shengmu Dairy respectively, with a site area of approximately 17,500 square meters (26 mu) in Hohhot and approximately 30,671 square meters in Bayannur, respectively, as of the Latest Practicable Date.

***Shengmu Agriculture***

- *Title defects*. We had commenced construction on a parcel of land in Hohhot, Inner Mongolia, operated by Shengmu Agriculture, without first obtaining the land use right certificate and the planning and construction permits. We intend to use this land as office space designed for research and development purposes upon completion of construction.

- *Potential legal consequences*. As advised by our PRC legal advisers, the competent government authorities may order us to pay fines of up to 10% of the construction fees, cease construction and/or return the land if deemed illegally occupied if we cannot obtain the required permit and title certificate.

- *Latest status*. We entered into a binding agreement with Management Committee of Hohhot Economic and Technological Development Zone Ruyi Industrial Park (呼和浩特經濟技術開發區如意工業園區管理委員會) in April 2012 and made a prepayment totaling RMB262,550 to purchase this land. In addition, we obtained a no-action confirmation from Hohhot Economic and Technological Development Zone Ruyi Industrial Park Bureau of Land Planning, Construction and Environmental Protection (呼和浩特經濟技術開發區如意區規劃土地建設環保局) on March 25, 2014. This confirmation acknowledges the fact that Shengmu Agriculture is currently undergoing the procedures for obtaining the required planning and construction permits and therefore it is not subject to any administrative penalties. As advised by our PRC legal advisers, this bureau is a competent authority for purpose of issuing such confirmation. We are currently in the process of completing the public auction procedures to obtain the land use right certificate. We expect to expend a total of RMB0.1 million in connection with our applications and obtain the relevant permits and title certificates by the end of 2014. Our Directors believe that they do not expect any material legal impediment to obtaining such permits and title certificates. We currently have no intention to occupy the buildings under construction before obtaining the required permits and title certificates. Because we intend to use such office space under construction primarily for non-production purposes and comparable premises are readily available in close proximity, our Directors are of the view that this construction site is not crucial to our operations.

***Shengmu Dairy***

- *Title defects*. We had commenced construction on a parcel of land in Bayannur, Inner Mongolia, operated by Shengmu Dairy, we had commenced construction on this site without first obtaining the land use right certificate. We intend to use this land to expand our production facilities for organic yogurt upon completion of construction.

- *Potential legal consequences*. As advised by our PRC legal advisers, if we cannot obtain the land use right certificate, the competent government authorities may order us to return the land if deemed illegally occupied.

- *Latest status*. We are currently in the process of completing the land purchase procedures and expect to expend a total of RMB1.3 million for obtaining the land use right certificate. We obtained a no-action confirmation from Dengkou County State Land Resources Bureau (磴口縣國土資源局) on February 25, 2014, which stated that the local government had approved this construction site and acknowledged the fact that Shengmu Dairy was undergoing the required public auction procedures to purchase this land and therefore it was not subject to any administrative penalties. As advised by our PRC legal advisers, this bureau is a competent authority for purpose of issuing such confirmation. We currently have no intention to occupy the buildings under construction before obtaining the required title certificate. Based on the foregoing, our Directors believe that there is no material impediment to completing the land purchase procedures and obtaining the land use right certificate by the end of July 2014. Because we have not yet commenced operations at our existing production facilities for processing yogurt products and comparable premises are readily available in close proximity, our Directors are of the view that this construction site is not crucial to our operations.

For details on other incidents of non-compliance relating to our owned properties, see "Legal Proceedings and Compliance — Non-compliance Incidents" below.

Except for the land and buildings with title defects disclosed above and elsewhere in this prospectus, as confirmed by our PRC legal advisers, we are entitled to use all of our land and we legally own all of our buildings. Our PRC legal advisers have also advised us that we do not have proper ownership right in the two parcels of land mentioned above due to the existence of title defects, which will also prevent the relevant parcel of land from being sold or accepted by banks as securities for mortgages.

**Leased Properties**

As of December 31, 2013, we leased eight parcels of state-owned land with a total area of approximately 3,460,000 square meters and eight parcels of collectively-owned land with a total area of approximately 2,980,000 square meters for dairy farming. The lessor had not completed the relevant facility agricultural use land approval procedures (設施農用地審核手續) and the large-scale husbandry use land filing procedures (規模化畜禽養殖專案用地備案手續) from the competent land administration authorities with respect to three parcels of land with a total area of approximately 470,000 square meters in Hohhot. We operate Hohhot Farm No.10, Hohhot Farm No.11 and Hohhot Farm No.13 on these three parcels of land pursuant to certain lease agreements. The lessor is the entity required by law to obtain such approvals and filings. If the lessor fails to rectify these title defects, we may be ordered by the competent government authorities to cease operations and restore the conditions of the land. If we are required to cease operations at these farms, we intend to relocate the cows on these farms to our other non-organic dairy farms in Hohhot.

In March 2014, we received compliance confirmations from the county governments where we operate these leased farms. According to these confirmations, the local governments acknowledged that we, as the lessee, are in full compliance with the relevant legal and regulatory requirements with our operations of the leased farms and are not subject to any administrative penalties. As advised by our PRC legal advisers, these county governments are competent authorities to issue such confirmations. However, if we were required to cease operations on these three parcels of land, our Directors believe that the relocation costs would be immaterial and such relocation would not result in any material disruption in our operations as our other non-organic dairy farms have sufficient excess capacity. In 2011, 2012 and 2013, the aggregate revenue generated on these farms amounted to RMB72.2 million, RMB141.2 million and RMB160.0 million, respectively, representing 18.5%, 20.1% and 14.0% of the total revenue, respectively. As of December 31, 2013, there were approximately 7,000 dairy cows on these farms with an aggregate maximum capacity to house 9,000 dairy cows. As of December 31, 2013, these farms had an aggregate carrying amount of RMB14.3 million in terms of facilities and equipment.

## EMPLOYEES

We had 1,055, 1,596, 1,858 and 2,439 employees as of December 31, 2011, 2012 and 2013 and the Latest Practicable Date, respectively. The following table sets forth the number of employees categorized by function as of the Latest Practicable Date.

| Function | Number of employees | Percentage of total |
|---|---|---|
| Management | 120 | 4.9% |
| Farm personnel | 1,801 | 73.8% |
| Production | 86 | 3.5% |
| Sales and marketing | 120 | 4.9% |
| Quality control | 55 | 2.3% |
| Administration | 150 | 6.2% |
| Information management | 49 | 2.0% |
| Others | 58 | 2.4% |
| **Total** | 2,439 | 100.0% |

The following table sets forth the number of employees categorized by geographic location as of the Latest Practicable Date.

| Geographic Location | Number of employees | Percentage of total |
|---|---|---|
| Inner Mongolia | 2,341 | 96.0% |
| Other locations | 98 | 4.0% |
| **Total** | 2,439 | 100.0% |

We provide management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. The compensation we offer to our employees primarily includes base salary and bonuses. In general, we determine employee compensation based on each employee's performance, qualifications, position and seniority. We are subject to social insurance contribution plans organized by PRC local governments. We have paid, on behalf of our employees, monthly social insurance premiums covering pension insurance, medical insurance, unemployment insurance and housing reserve fund in accordance with the relevant national and local labor and social welfare laws and regulations.

We believe we have maintained good relationships with our employees. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We have not experienced significant labor disputes which have had or are likely to have a material adverse effect on our business operations.

## ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

We are subject to extensive PRC national and local environmental laws and regulations where we operate concerning, among others, emissions to the air, discharges to land, surface water and subsurface water, the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and the remediation of environmental pollution relating to our properties and operations. Such environmental laws and regulations levy fees for the discharge of waste substances above prescribed levels and impose fines for serious violations. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. See "Regulatory Overview" for additional information.

### Environmental Protection Facilities

Biowaste and wastewater are the primary wastes from our operations. Our associate, Shengmu Forage, cleans and collects the biowaste from our organic dairy farms and stores it in its organic fertilizer processing facilities adjacent to our dairy farms to allow the biowaste composting into organic fertilizers. Shengmu Forage uses these fertilizers on its growing fields only. Such biowaste processing facilities were sufficient to contain all the biowaste produced at our organic dairy farms during the Track Record Period. In respect to our non-organic dairy farms, we supply biowaste produced on these farms for free to our local feed suppliers that have the capabilities of collecting and processing the biowaste into fertilizers, and charge a fee for our provision of collection and processing services on the biowaste supplied to third-party feed suppliers without such capabilities.

We have installed various types of anti-pollution equipment in all our farms in operation to reduce, treat, and where feasible, recycle the wastes generated in our manufacturing process. We have also built appropriate facilities to filter and treat waste water and recycle it into our manufacturing process, as well as treat liquid waste to reduce contaminant levels to below the applicable environmental protection standard before emission. Our equipment and facilities for treatment of biowaste and sewage primarily consist of solid-fluid separator, solid-fluid separation tank, biowaste storage tank, sedimentation tank and oxidation pond. The biowaste generated by our dairy cows is generally kept at the storage tanks located at each of our dairy farms, then sent to the solid-fluid separation tank to be processed by the solid-fluid separator. After such processing, the solid biowaste is collected by Shengmu Forage if generated from our organic dairy farms or primarily by local feed suppliers if generated from our non-organic dairy farms. The fluid biowaste, together with our sewage, is drained into sedimentation tank for purification treatment and further placed in the oxidation pond for decomposition and fermentation.

Except as otherwise disclosed in this prospectus, according to written confirmations issued by local environmental protection bureaus, the environmental protection measures adopted by our dairy farms have complied with the relevant laws and regulations in all material aspects and there were no circumstances that would lead to administrative penalties. In addition, ECOCERT S.A. and the COFCC conducted on-site inspection on, among others, the environment within the close vicinity of our certified organic dairy farms annually according to their respective organic certification standards for the purpose of renewing the respective organic certificates. Neither ECOCERT S.A. nor the COFCC was aware of any circumstances that constituted material non-compliance or breach of any relevant organic certification standards that could lead to revocation or suspension of any of our organic certificates based on their respective annual inspections. We also obtained a certification from Inner Mongolia Department of Agriculture (內蒙古自治區農業廳) on May 12, 2014, which confirmed the legality of the organic certificates issued to us by the COFCC. According to this certification since the establishment of the companies operating our dairy farms and up to the date of this certification, there had been no penalty imposed on us due to non-compliance or breach of any relevant rules and regulations applicable to such organic certificates, and there were no circumstances that could lead to revocation of such organic certificates. As advised by our PRC legal advisers, Inner Mongolia Department of Agriculture is a competent authority for the purpose of issuing such certification.

Our annual cost of compliance with environmental protection rules and regulations was approximately RMB6.1 million, RMB6.5 million and RMB16.0 million for 2011, 2012 and 2013, respectively. We expect our annual cost of compliance with environmental protection rules and regulations for 2014 to be 30.0 million.

### Health and Safety Law Compliance

We are also subject to the PRC laws and regulations regarding labor, safety and work-related incidents. We provide our employees working on our dairy farms and in our processing facilities with adequate safety equipment and precautionary measures. In addition, we provide safety-related education to our employees to increase workplace safety awareness. During the Track Record Period and up to the Latest Practicable Date, there had not been any material workplace injury or fatality on our premises or our production facilities.

As advised by our PRC legal advisers, we have obtained all material environmental and work safety permits necessary to conduct our business and are currently in compliance with applicable environmental and work safety laws and regulations in all material respects except as disclosed in "— Legal Proceedings and Compliance" below. During the Track Record Period, no administrative sanctions or penalties that had a material and adverse effect on our financial condition or business operations had been imposed upon us for the violation of environmental protection or safety laws or regulations.

## RISK MANAGEMENT

We are exposed to various risks during our operation. For more details, see "Risk Factors." We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, fund management, compliance with applicable laws and regulations on environmental protection, production safety and product safety. Our Board oversees and manages the overall risks associated with our operations. We have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. Please refer to "Directors and Senior Management — Board Committees — Audit Committee" for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee.

We have prepared written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

## LEGAL PROCEEDINGS AND COMPLIANCE

We are subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. Except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, we were not involved in any material litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our business, financial condition or results of operations.

### Non-compliance Incidents

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC. We have, from time to time, been involved in regulatory non-compliance incidents. We set out below the details of our non-compliance incidents relating to Bayannur Farm No. 6 and the primary rectification measures we adopted in response to these incidents.

- *Non-compliance*. Shengmu Farming had failed to complete the following procedures before commencing operations on Bayannur Farm No.6 with a site area of 380,000 square meters, namely, (i) the facility agricultural use land approval procedures (設施農用地審核手續), and (ii) the environmental completion approval procedures (環保竣工驗收手續). These incidents of non-compliance were primarily due to employee oversight and our lack of communication with local regulatory authorities with respect to the regulatory requirements for setting up a dairy farm.

- *Potential legal consequences*. We may be ordered to (i) restore the conditions of the land if our operations do not conform to the regulatory requirements on facility agricultural use land and/or (ii) cease operations and complete the environmental impact assessment procedures within a time limit or pay a fine of up to RMB100,000 for failure to rectify such non-compliance within such time limit. As our Directors believe that the risk of administrative penalties would be immaterial, we did not make any provision for potential economic losses as a result of these incidents of non-compliance.

- *Latest status and rectification measures*. To the best of our knowledge, the local government may approve the establishment of a chemical plant close to Bayannur Farm No. 6, which could negatively affect its suitability for organic dairy farming. We are currently applying for the permits and certificates for the construction of a new farm at another location in the Ulan Buh desert and plan to relocate the dairy cows and other properties on Bayannur Farm No.6 to this new location in November 2014. We expect to expend approximately RMB36 million and RMB1 million on the construction of and relocation to the new farm, respectively. If we are required to suspend our operations at Bayannur Farm No. 6 before the construction of the new farm is completed, we intend to relocate the cows on this farm to our other organic dairy farms. We estimate the costs required for the relocation could be immaterial and such relocation would not result in any material disruption in our operations as our other organic dairy farms have sufficient excess capacity. In 2011, 2012 and 2013, the revenue generated from Bayannur Farm No.6 amounted to RMB24.1 million, RMB74.9 million and RMB97.0 million, respectively, representing 6.2%, 10.7% and 8.5% of the total revenue, respectively. As of December 31, 2013, there were approximately 3,400 dairy cows on this farm with a maximum capacity to house 3,500 dairy cows. As of December 31, 2013, this farm had a carrying amount of RMB35.0 million in terms of facilities and equipment. We obtained a no-action confirmation from the county government on March 18, 2014, which stated that the type, scope and scale of our use of this farm is in full compliance with the relevant land administrative rules and therefore we were not subject to any administrative penalties for non-compliance. As advised by our PRC legal advisers, the county government is a competent government authority for purpose of issuing such confirmation. We had not been subject to any material administrative penalties due to the non-compliance during the Track Record Period and up to the Latest Practicable Date. Since the respective dates of the issuance of the organic certificates of our dairy farms up to and including the Latest Practicable Date, there had been no chemical plants, industrial plants or any other potential sources of pollutants within the close vicinity of the Group's organic dairy farms that would lead to the revocation or suspension of any of our organic certificates. ECOCERT S.A. and the COFCC conducted on-site inspection on, among others, the environment within the close vicinity of our certified organic dairy farms annually according to their respective organic certification standards for the purpose of renewing the respective organic certificates. Neither ECOCERT S.A. nor the COFCC was aware of any circumstances that constituted material non-compliance or breach of any relevant organic certification standards that would lead to revocation or suspension of any of our organic certificates based on their respective annual inspections. The planned relocation of the dairy cows in Bayannur Farm No.6 was our proactive measure in anticipation for the possible approval of establishment for a chemical plant near that farm.

- *Inspection report*. At our request, the Inner Mongolia Green Food Development Center (內蒙古自治區綠色食品發展中心) conducted on-site inspections of certain of our organic dairy farms, including Bayannur Farm No.6, and concluded its findings in an inspection report dated October 15, 2013. According to this inspection report, (i) to the knowledge of the Inner Mongolia Green Food Development Center, we had not used any chemical fertilizer; (ii) we had developed and maintained a comprehensive quality management system and had been managing our organic dairy farms in accordance with the relevant standards applicable to organic dairy farming; and (iii) the relevant organic dairy farms met all the bio-safety disposal requirements and pollutant discharge standards for large-scale dairy farming set by the relevant environmental protection authorities. As advised by our PRC legal advisers, the Inner Mongolia Green Food Development Center is a provincial arm of the China Green Food Development Center (中國綠色食品發展中心), the latter of which is a specialized agency designated by PRC Ministry of Agriculture (農業部) to develop and manage green food in China.

**Internal Controls**

Our Directors are responsible for monitoring our internal control system and for reviewing its effectiveness. In accordance with the applicable PRC and Hong Kong laws and regulations, we have implemented internal procedures. Particularly, in view of the above issues in respect of the licenses and filings of our dairy farms and production sites, we will implement the following internal control procedures to reduce our exposure to risk of penalties from the PRC regulatory authorities in respect of dairy farms and production plants that we operate in the future:

- We have maintained a list of licenses and filings that are required in order for us to commence operation of a dairy farm and production plant and will update this list from time to time based on our experience with local authorities and advice from our external advisers.

- In determining the development plan and timetable for the development of a new dairy farm and production plant, we will prescribe specific timelines within which the various licenses and filings should be applied for and should be obtained so that our operation team will follow such timelines to make the necessary applications. A management personnel will be designated to review and monitor the progress of the license and permit applications.

- As an internal control measure, we will monitor the attainment of licenses and filings against the list referred to above and ensure that all relevant licenses and filings are obtained prior to the formal operation of any dairy farm or production plant.

- Before the commencement of formal operation of any dairy farm and production plant, a designated management personnel will perform an examination on the licenses and filings and ensure that all of the relevant licenses and filings are obtained and report the status to the farm manager or plant manager, as the case may be. The farm manager or plant manager, as the case may be, cannot approve the commencement of formal operation until all of the relevant licenses and filings have been obtained.

We have appointed an internal compliance officer, Mr. LI Tiejun (李鐵軍), a certified public accountant in China with eight-year relevant experience with Mengniu Group in respect of financial system monitoring, management and evaluation. Mr. LI Tiejun directly reports to our chief executive officer, Mr. YAO Tongshan, and oversees the application and maintenance of required registrations, licenses, permits, filings and approvals for our operations.

In addition, we will continue to engage external professional advisers as necessary and work with our internal audit and legal teams to conduct regular review to ensure that all registrations, licenses, permits, filings and approvals are valid and that the renewals of such documents are made in a timely manner. We have also appointed TC Capital Asia Limited as our external compliance adviser with effect from the date of the Listing to advise on on-going compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong. During the Track Record Period, our Directors did not identify any material internal control weaknesses or failures.

In light of the nature of, and reasons for, the incidents of non-compliance, and on the basis of the rectification measures taken, our Directors believe, and the Joint Sponsors have no reason to doubt, that the enhanced internal control measures are adequate and effective to address the incidents of non-compliance as set out above, and they are not aware of any facts or circumstances that might affect the suitability of our Directors and our suitability for listing.

## HISTORICAL RELATIONSHIPS WITH MENGNIU GROUP

Our founders, Mr. YAO Tongshan together with 21 other parties, founded Shengmu Holding, our PRC holding company, in October 2009. Before our establishment, Mr. YAO had spent eight years with Mengniu Group, a leading PRC dairy company, and served as its chief financial officer before he left. A majority of our founders, like Mr. YAO, had become acquainted with each other through employment, investment or business dealings related to Mengniu Group.

The following table sets forth the nature of significant relationships between our Ultimate Controlling Shareholders, our Directors and senior management members on the one hand, and Mengniu Group on the other.

| Name | Significant relationship with Mengniu Group | Year of commencement |
|---|---|---|
| **Ultimate Controlling Shareholders** | | |
| SHI Jianhong (史建宏) | Former business associate | 1999 |
| WANG Fuzhu (王福柱) | Former shareholder | 1999 |
| YAO Tongshan (姚同山) | Former employee | 2001 |
| GUO Yunfeng (郭運鳳) | Former employee | 1993 |
| WU Jianye (武建鄴) | None | N/A |
| WANG Zhenxi (王振喜) | Former shareholder | 1999 |
| GAO Lingfeng (高淩鳳) | Former employee | 1999 |
| YUN Jindong (雲金東) | None | N/A |
| YANG Yaping (楊亞萍) | Business associate | 2000 |
| LU Shunyi (蘆順義) | None | N/A |
| WANG Zhen (王鎮) | Son of WANG Jishan (王繼山), former shareholder | 1999 |
| YANG Yali (楊亞利) | Business associate | 2000 |
| ZHANG Junke (張俊科) | None | N/A |
| CUI Ruicheng (崔瑞成) | Former employee | 2003 |
| **Director and senior management** | | |
| YAO Tongshan (姚同山) | See above | See above |
| WU Jianye (武建鄴) | See above | See above |
| GAO Lingfeng (高淩鳳) | See above | See above |
| CUI Ruicheng (崔瑞成) | See above | See above |
| WU Jingshui (吳景水) | Employee | 1999 |
| FAN Xiang (范翔) | None | N/A |
| CUI Guiyong (崔桂勇) | Alternate director | 2009 |
| SUN Qian (孫謙) | None | N/A |
| WONG Kun Kau (黃灌球) | None | N/A |
| LI Changqing (李長青) | None | N/A |
| GE Xiaoping (葛曉萍) | None | N/A |
| YUAN Qing (袁清) | None | N/A |
| LI Yundong (李運動) | Former employee | 2000 |

## CURRENT RELATIONSHIP WITH MENGNIU GROUP

Because of our founders' historical relationships with Mengniu Group, after our Company was founded, Mengniu Group became a key business partner, an early investor, a major customer and, in our downstream business, a competitor.

### Business Partnership

#### *Framework Cooperation Agreement*

In March 2010, we entered into a binding framework cooperation agreement with Mengniu Group, with cooperation in the following areas:

- *Lease of dairy farms and equipment*. Mengniu Group agreed to lease dairy-farming facilities and equipment to our dairy farms located in Hohhot and Bayannur as well as its established dairy farms in Hohhot. As of December 31, 2011, 2012 and 2013 and as of the Latest Practicable Date, we leased seven, seven, four and four dairy farms from Mengniu Group, respectively.

- *Guarantees*. Mengniu Group agreed to support our purchase of dairy cows with credit facilities in the form of guarantee to assist the early development of our dairy farming business. As of December 31, 2011, 2012 and 2013 and as of the Latest Practicable Date, Mengniu Group provided guarantees on a total of RMB99.0 million, RMB79.0 million, nil and nil on our bank loans. Such loans had been fully repaid as of December 31, 2013.

- *Minimum quantity requirements*. We agreed to sell all the raw milk produced on the leased dairy farms to Mengniu Group, subject to certain minimum milk supply volume requirements. If we fail to meet such requirements, we would be subject to a 50% increase on our rent payment calculated on an annualized basis for the non-compliance period. In addition, if we fail to meet such minimum supply volume requirements as specified in the underlying lease agreements, Mengniu Group is entitled to lease the properties to other tenants. We have complied with these minimum quantity requirements during the Track Record Period and up to the Latest Practicable Date, and have not been subject to any contractual penalty under the underlying lease agreements.

- *Supply offtake*. Mengniu Group agreed to purchase on a priority basis all of our raw milk output that meets its quality standards from the leased dairy farms. With respect to pricing, Mengniu Group agreed to adopt a quality-based pricing system with reference to the prevailing market conditions.

We entered into this framework cooperation agreement with Mengniu Group at a time when we were at an early stage of growth and required significant funding for future growth, which coincided with Mengniu Group's need for premium raw milk. The guarantees provided by Mengniu Group facilitated our efforts to obtain bank funding, and all the bank loans guaranteed by Mengniu Group had been fully repaid as of December 31, 2013. In addition, other aspects of our cooperation agreement with Mengniu Group, such as lease of dairy farms and supply offtake, enabled us to expand our business operations more rapidly with relatively lower capital expenditure, and gain a major customer with stable demand and a favorable credit profile. In return, Mengniu Group also gained a major raw milk supplier of stable outputs and good qualifications. We have been advised by our PRC legal advisers that this framework cooperation agreement is legally binding under the PRC laws.

***Dairy Farm Lease Agreements***

As contemplated under our framework cooperation agreement with Mengniu Group, we entered into several lease agreements, under which we agreed to sell the premium non-organic raw milk produced by these farms exclusively to Mengniu Group during the lease terms. Set forth below are certain key aspects of these agreements:

- *Term.* The leases are valid for six years commencing from 2010 or 2011. We have a preferential right of renewal upon the expiry of the lease terms.

- *Rent.* The dairy farms are rent-free for a one-year "construction period" which commences when dairy cows are first placed on the farms. The annual rent for the remaining terms of the lease agreements is calculated based on the total investment amount of the relevant dairy farms.

- *Minimum quantity requirement.* Mengniu Group is committed to purchasing and we are committed to supplying a minimum annual quantity of raw milk. We are required to maintain a minimum annual milk output, depending on the relative size of the dairy farms, after the construction period. Mengniu Group is entitled to unilaterally terminate the relevant lease agreement and receive agreed-upon liquidated damages if we fail to meet the minimum milk output requirement.

- *Quality and pricing.* The raw milk sold to Mengniu Group is required to meet all the applicable national quality requirements. The supply price will be based on the quality of our raw milk and the market price of similar milk and may not be lower than certain minimum prices calculated based on market prices of certain concentrated feed. In addition, Mengniu Group is required to purchase our raw milk at a premium compared to purchases from milk stations if the protein and fat contents of our raw milk meet certain pre-set threshold. The pricing details are set out in a uniform pricing standard implemented by Mengniu Group.

- *Facilities and equipment.* Mengniu Group owns all the facilities and equipment, including barns and feeding and milking machinery. If Mengniu Group sells the facilities and equipment upon the expiry of the lease terms, we will have a right of first refusal to purchase them.

- *Termination.* Except as otherwise allowed thereunder, neither party may unilaterally terminate the lease agreements. Mengniu Group is entitled to unilaterally terminate the relevant lease agreements and receive agreed-upon liquidated damages if we fail to meet the minimum annual milk yield requirement or sublease the dairy farms or dairy-farm facilities to third parties without Mengniu Group's written consent. Mengniu Group may also unilaterally terminate the relevant lease agreement and have other claims against us if our operations result in losses to the dairy farms or we fail to meet the milk quality and quantity requirements from Mengniu Group for three consecutive months.

Mengniu Group is required to pay in the following month for all the raw milk purchased in the previous month. No return of raw milk is allowed; however, Mengniu Group is entitled to reject the delivery of any substandard or spoiled raw milk.

***Equipment Lease Agreements***

Also as contemplated under our framework agreement, in 2010 and 2012, we entered into two equipment lease agreements with Mengniu Group. Pursuant to these agreements, we leased dairy-farming equipment and machinery, including, among others, milking machines, tractors, generators, mixers and loaders, from Mengniu Group to be used on our dairy farms. Set forth below are certain key aspects of these agreements.

- *Term.* The leases are valid for five years commencing from the dates of the agreements. Mengniu Group retains the ownership right to the leased equipment and machinery, and the parties agreed to negotiate the disposition of the leased equipment and machinery upon the expiry of the lease terms.

- *Rent and payment terms*. The equipment is rent-free for the first two years. The annual rent for the remaining terms of the lease agreements is calculated based on procurement cost of the leased equipment and machinery, payable on a quarterly basis. We will be subject to liquidated damages for failure to make payments on a timely basis.

- *Maintenance*. We are responsible for the day-to-day maintenance of the leased equipment and machinery. Mengniu Group agreed to coordinate with us and the manufacturers for any maintenance issues within the warranty periods. We are also responsible for the outcome arising from any improper use of leased equipment and machinery.

- *Stock count*. Mengniu Group is entitled to conduct annual stock count of the leased equipment and machinery, so long as the process does not interfere with our normal operations of the dairy farms. We are required to use the leased equipment and machinery on the designated dairy farms and notify Mengniu Group in writing of our intention to change the service location of the leased equipment and machinery. We are also required to compensate Mengniu Group for the residual value of any missing equipment and machinery. However, we are entitled to liquidated damages if Mengniu Group transfers or leases the leased equipment and machinery to any third party during the lease terms.

**Early Investment**

In May 2011, Mengniu Investment, an investment company wholly owned by Mengniu Group, subscribed for a 5.44% equity interest in Shengmu Holding for a consideration of RMB104.4 million. Its equity investment in us at our early development stage helped us finance our fast-growing business and enabled us to quickly expand into organic dairy farming operations. Immediately following the completion of the Global Offering and assuming none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised, Mengniu Group will own 4.25% of the then issued share capital of our Company. For more information, see "History, Reorganization and Group Structure — History and Development — Investment by Mengniu Group."

**Declining Reliance**

Since we were founded, Mengniu Group has been our largest customer, accounting for RMB340.4 million, RMB662.8 million and RMB666.6 million in revenue in 2011, 2012 and 2013, respectively, or 87.4%, 94.6%, and 58.3% of our total revenue, respectively. We also sold raw milk to Mengniu Group through two individuals in 2011, which accounted for RMB46.8 million in revenue, or 12.0% of our total revenue in 2011.

Revenue derived from sales ultimately to Mengiu Group has continuously decreased from 99.4% in 2011 to 58.3% in 2013 of our total revenue. We believe that our reliance on sales to Mengniu Group has been reduced based on the following factors although historically our reliance had been high:

(a) *Customer diversification*. As our business operations expanded and as our reputation grew, other leading dairy companies such as Yili Group and other food companies such as Want Want also became our customers. We believe that we are able to attract more leading industrial customers based on growing brand recognition and demand for premium raw milk.

(b) *Business diversification*. In 2012, we expanded our operation by launching our liquid milk business which further diversified our customer base and revenue stream. We expect that our liquid milk business will grow rapidly given the fast-growing market of organic liquid milk products according to the F&S report. In addition, we also seek to expand our distribution network by adding new distributors and further explore direct-sales opportunities. The number of our distributors increased significantly from 108 as of December 31, 2012 to 316 as of December 31, 2013, and we plan to further increase this number to over 400 by the end of 2014.

(c) *Industry concentration.* According to the F&S Report, China's liquid milk market was highly concentrated and dominated by several large and well-known participants including Mengniu Group and Yili Group. Mengniu Group is a leading producer of liquid milk products and had the largest market share from 2011 to 2013 in terms of retail sales value. See "Industry Overview — China's Dairy Products Market — Overall Market Size and Growth" for further details. We expect that Mengniu Group will continue to be one of our major customers for our raw milk given its strong market position.

(d) *Mutual and beneficial reliance.* We believe that our relationship with Mengniu Group is mutually beneficial to us and to Mengniu Group. According to the F&S Report, the gap between organic raw milk supply and demand is expected to widen, reaching 0.12 million tonnes in 2018. Due to the high barriers to entry to the organic milk market, the supply of organic raw milk in China is highly concentrated and the top three organic raw milk producers including us accounted for 86.9% of the total organic raw milk produced in China in 2013. We believe that it is strategically important for Mengniu Group to secure stable supply of organic raw milk to support its organic dairy products business. By partnering with Mengniu Group, we believe that we are able to expand our organic raw milk business rapidly and further consolidate our market share in this segment. In addition, we are also able to maintain the growth of our premium non-organic milk business because of Mengniu Group's recognition of our commitment to producing high quality raw milk.

(e) *Favorable industry growth prospects.* Driven by the increasing demand for dairy products by Chinese consumers, China's raw milk shortage is expected to continue to increase from 2014 to 2018, according to the F&S Report. See "Industry Overview — Raw Milk Production in China" for further detail. The market size of organic raw milk in the overall raw milk market is expected to grow significantly in the foreseeable future. In addition, the retail market of organic liquid milk products, which grew at a CAGR of 93.2% from 2009 to 2013, is expected to increase from RMB1.9 billion in 2013 to RMB25.8 billion in 2018, representing a CAGR of 68.5% from 2013 to 2018, according to the F&S Report. We believe that we are well positioned to capture the growth in organic and premium non-organic dairy markets.

**Competition**

A portion of our organic raw milk is sold to industrial customers such as Mengniu Group to be processed into liquid milk products and marketed and distributed under their respective brands. In addition, we sell organic liquid milk products produced from our organic raw milk under our "Shengmu 圣牧" brand. As such, industrial customers of our organic raw milk such as Mengniu Group are also our competitors in the liquid milk product markets. As we expand our organic liquid milk business, we expect competition with our organic raw milk industrial customers to intensify in terms of both their organic liquid milk products and premium non-organic liquid milk products. See "Risk Factors — Risks Relating to Our Business — We rely on a major customer for the sale of our raw milk, which may adversely affect our operating results if it terminates its relationship with us or reduces its purchases."

## OUR ULTIMATE CONTROLLING SHAREHOLDERS ACTING IN CONCERT

Mr. YAO Tongshan (姚同山), Mr. WANG Fuzhu (王福柱), Ms. SHI Jianhong (史建宏), Mr. WANG Zhenxi (王振喜), Ms. YANG Yaping (楊亞萍), Ms. YANG Yali (楊亞利) (sister of Ms. YANG Yaping (楊亞萍)), Mr. LU Shunyi (盧順義), Ms. GUO Yunfeng (郭運鳳), Mr. YUN Jindong (云金東), Ms. GAO Lingfeng (高凌鳳), Mr. ZHANG Junke (張俊科) and Mr. WANG Zhen (王鎮) and Mr. CUI Ruicheng (崔瑞成) have acquainted with each other since 2001 through employment, investment or business dealings relating to Mengniu Group at the relevant time. As disclosed in "History, Reorganization and Group Structure," they (except for Mr. CUI Ruicheng (崔瑞成)) were founding shareholders holding a total of approximately 56.27% equity interests in Shengmu Holding, the then holding company of our business in PRC, ("**Initial Controlling Shareholders**") upon its establishment in October 2009.

Since the time of the establishment of Shengmu Holding, our Initial Controlling Shareholders have reached a consensus among themselves that each of them (other than Mr. YAO) shall support Mr. YAO's decisions in relation to the operation and management of Shengmu Holding, including the appointment of directors to the board of Shengmu Holding, by exercising their voting rights at the meetings of the shareholders of Shengmu Holding in accordance with the decision of Mr. YAO.

Mr. YAO acquainted with Mr. WU Jianye (武建鄴) through business dealings. In view of Mr. WU's extensive experiences business management, Mr. YAO invited Mr. WU to invest in Shengmu Holding and participate in its management. Mr. WU accepted the invitation and subscribed for approximately 2.98% equity interest in Shengmu Holding by a combination of cash contribution to the registered capital of Shengmu Holding in the amount of RMB4.58 million and acquisition of equity interest from certain initial shareholders totaling RMB4 million in August 2010. When Mr. WU invested in Shengmu Holdings, he was aware of the acting-in-concert arrangement among our Initial Controlling Shareholders and willingly agreed to be bound by such arrangement.

Mr. CUI Ruicheng (崔瑞成) has been a senior management of Shengmu Holding since its establishment in October 2009. In March 2011, he contributed RMB2.96 million to the registered capital of Shengmu Holding and became a shareholder holding approximately 1.02% equity interest of Shengmu Holding.

On October 18, 2010, our Initial Controlling Shareholders, Mr. WU and Mr. CUI (in anticipation of his proposed investment in Shengmu Holding as mentioned above) entered into a written agreement to confirm such acting-in-concert arrangement among themselves. In view of expected change in the structure of our Group as the result of the Reorganization, on March 24, 2014, our Initial Controlling Shareholders, Mr. WU and Mr. CUI (together, our "**Ultimate Controlling Shareholders**") entered into a supplemental agreement to extend the acting-in-concert arrangement to the management of our Group upon completion of the Reorganization. Accordingly, upon completion of the Reorganization, our Ultimate Controlling Shareholders (other than Mr. YAO) shall support Mr. YAO's decisions in relation to the operation and management of our Group, including the appointment of directors, by exercising their voting rights at the meetings of the shareholders of the member companies of our Group in accordance with the decision of Mr. YAO.

Immediately following the completion of the Global Offering and Capitalization Issue (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), our Ultimate Controlling Shareholders will be interested in, through World Shining, approximately 56.56% of the post offering enlarged issued share capital of our Company. As such, our Ultimate Controlling Shareholders, through World Shining (together, our **"Controlling Shareholders"**), as a group of shareholders entitled to exercise more than 30% of the voting rights at general meeting of our Company, are together regarded as our Controlling Shareholders as defined under the Listing Rules.

## MAJOR RETAINED BUSINESSES OF OUR ULTIMATE CONTROLLING SHAREHOLDERS

### Shengmu Forage

As disclosed in "History, Reorganization and Group Structure" in this prospectus, Shengmu Holding and Mr. WU Jianye (武建鄴) were among the founding shareholders of Shengmu Forage. Our dairy farming business and Shengmu Forage, both in their early development stage, required significant capital and other resources. We chose to allocate our resources to our dairy farming business and helped obtain funding for Shengmu Forage from third party investors.

As of the Latest Practicable Date, Shengmu Holding held 8.60% equity interest in Shengmu Forage. Certain of our Ultimate Controlling Shareholders, namely, Mr. YAO Tongshan (姚同山), Ms. GAO Lingfeng (高凌鳳), Mr. WU Jianye (武建鄴), Mr. WANG Fuzhu (王福柱), Ms. SHI Jianhong (史建宏), Ms. YANG Yaping (楊亞萍) and Mr. WANG Zhenxi (王振喜), together with Mr. WANG Jishan (王繼山) (father of Mr. WANG Zhen (王鎮)) and Ms. QIN Yuan (秦源) (wife of Mr. WU Jianye (武建鄴)) held approximately 33.82% equity interest in Shengmu Forage. Mr. WU Jianye (武建鄴) and Ms. GAO Lingfeng (高凌鳳) are the directors of Shengmu Forage. Mr. CUI Ruicheng (崔瑞成) is the supervisor of Shengmu Forage.

Pursuant to a confirmation and undertaking letter dated March 22, 2014 signed by Mr. WU Jianye (武建鄴), Ms. GAO Lingfeng (高凌鳳) and Shengmu Holding, Mr. WU and Ms. GAO confirmed that, since June 25, 2012, they have acted in concert with Shengmu Holding in relation to the decision making, operation, management and financial matters of Shengmu Forage. Mr. WU and Ms. GAO have exercised their voting rights at the shareholders and board meetings of Shengmu Forage in accordance with the decisions of Shengmu Holding. Mr. WU and Ms. GAO further undertake to continue to comply with such arrangement until such arrangement is terminated by all of them in writing. As a result of such acting-in-concert arrangement, Shengmu Holding controls 23.03% equity interest in Shengmu Forage and accordingly, Shengmu Forage is accounted for as an associate of our Company.

Pursuant to its financial statements (prepared according to the PRC accounting principles and audited by PRC certified public accountants) which are adjusted to be in line with the accounting policies of our Company, Shengmu Forage had total asset of approximately RMB313.0 million as of December 31, 2013 and recorded revenue of approximately RMB111.8 million and profit for the year of approximately RMB3.1 million for the year ended December 31, 2013.

**Xinjiang Shenghe**

Ms. YANG Yaping (楊亞萍) and her sister Ms. YANG Yali (楊亞利) hold in aggregate 90% equity interest in Xinjiang Shenghe Dairy Company Limited (新疆盛和乳業有限公司) ("**Xinjiang Shenghe**"). Xinjiang Shenghe has been processing liquid milk products for Mengniu Group under its "Mengniu" brand on an exclusive basis. Pursuant to a processing agreement dated January 1, 2013 entered into between Xinjiang Shenghe and Inner Mongolia Mengniu Dairy (Group) Company Limited (內蒙古蒙牛乳業(集團)股份有限公司) ("**Inner Mongolia Mengniu**"), the entire operation of Xinjiang Shenghe, covering purchase of raw materials, production and sales of products, is managed and controlled by the management staff assigned by Inner Mongolia Mengniu to Xinjiang Shenghe. In addition, during the term of this agreement, namely, from January 1, 2013 to December 31, 2015, without written consent of Mengniu, Xinjiang Shenghe shall only process dairy products for Mengniu and shall not process dairy products for any other parties.

Pursuant to its unaudited financial statements (prepared according to the PRC accounting principles), Xinjiang Shenghe had total asset of approximately RMB176.5 million as of December 31, 2013 and recorded revenue from principal operations of approximately RMB177.6 million and net profit for the year of approximately RMB8.7 million for the year ended December 31, 2013.

**Reasons for the Exclusion of Retained Businesses**

Shengmu Forage, Xinjiang Shenghe and their businesses mentioned above (the **"Retained Businesses"**) were excluded from our Group because our Directors were of the view that (i) the business of Shengmu Forage do not constitute our core business (namely, dairy farming and liquid milk production) and there is a clear delineation between such business and our core business; (ii) unlike us, Xinjiang Shenghe does not engage in dairy farming. It only engages in processing liquid milk products for Mengniu Group under "Mengniu" brand on an exclusive basis. Furthermore, apart from Ms. YANG Yaping (楊亞萍) and Ms. YANG Yali (楊亞利), none of our Ultimate Controlling Shareholders holds equity interest in Xinjiang Shenghe; (iii) such businesses would not compete, directly or indirectly, with our core business; and (iv) the business of Shengmu Forage requires significant amount of capital injection for land and other resources and it would be in the interests of our Group to devote our resources to our dairy farming business.

**Long-term Strategic Cooperation Agreement with Shengmu Forage and Undertakings from Shengmu Forage and Its Shareholders**

On March 26, 2014, we entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage, under which Shengmu Forage has undertaken to continue the exclusive supply arrangement for organic forages with us and support our expansion plans. For details, please see "Business — Suppliers and Procurement — Organic Feed — Shengmu Forage."

On April 16, 2014, Shengmu Forage and all its shareholders (except Shengmu Holding) entered into letters of undertaking in favor of our Company, respectively.

Pursuant to the letter of undertaking provided by Shengmu Forage, at any time within 20 years thereafter or before all the equity interests in Shengmu Forage have been transferred to us, whichever is earlier, without our prior written consent and save for the issue of shares in Shengmu Forage solely to us, Shengmu Forage shall not (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interest in the shares or any other equity securities of Shengmu Forage, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any shares of Shengmu Forage), or deposit any shares or any other securities of Shengmu Forage with a depositary in connection with the issue of depositary receipts; (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of shares or any other equity securities of Shengmu Forage, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any shares of Shengmu Forage); or (c) enter into any transaction with the same economic effect as any transaction described in foregoing paragraph (a) or (b).

Pursuant to the letter of undertaking provided by all the shareholders (except Shengmu Holding) of Shengmu Forage, they shall procure Shengmu Forage to comply with its undertakings set out above. Furthermore, at any time within 20 years thereafter or before all the equity interests held by such shareholders in Shengmu Forage have been transferred to us, whichever is earlier, without our prior written consent and save for his/her sale or transfer of shares in Shengmu Forage solely to us or among themselves, none of the shareholders shall (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any shares or any other securities of Shengmu Forage or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any shares or any other securities of Shengmu Forage) held by him/her, or deposit any shares or any such other securities of Shengmu Forage held by him/her with a depositary in connection with the issue of depositary receipts; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (c) enter into any transaction with the same economic effect as any transaction described in foregoing paragraph (a) or (b).

In addition, if Shengmu Forage were to terminate the Long-term Strategic Cooperation Agreement within its term for any reason other than specifically allowed thereunder, we will have an exclusive right to purchase from its shareholders (except Shengmu Holding) their equity interests in Shengmu Forage. We currently do not have any intention to acquire further interest in Shengmu Forage.

On May 10, 2014, the existing shareholders of Shengmu Forage (except Shengmu Holding) entered into another letter of undertaking in favor of our Company, pursuant to which these shareholders have undertaken to cause Shengmu Forage to perform all of its obligations under the Long-term Strategic Cooperation Agreement, including the obligation to continuously execute its own business plans to support our future expansion plans, during the term of the Long-term Strategic Cooperation Agreement unless all the equity interests in Shengmu Forage have been transferred to us prior to the expiration of such term.

## INDEPENDENCE FROM THE COMPANIES CONTROLLED BY OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders after the Listing.

### Management Independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises four executive Directors, four non-executive Directors and four independent non-executive Directors. Our senior management team comprises our executive Directors and Mr. LI Yundong (李運動), our vice president and joint company secretary. Our four executive Directors are also our Ultimate Controlling Shareholders.

Save for Mr. WU Jianye (武建鄴) and Ms. GAO Lingfeng (高凌鳳) who are directors of Shengmu Forage, and Mr. CUI Ruicheng (崔瑞成) who is supervisor of Shengmu Forage, none of our Directors also holds directorship or management position in Shengmu Forge. Notwithstanding the positions of Mr. WU Jianye (武建鄴), Ms. GAO Lingfeng (高凌鳳) and Mr. CUI Ruicheng (崔瑞成) in Shengmu Forage, they do not involve in the daily management of Shengmu Forage.

Our Board meets regularly to consider major matters affecting our operations. Each of our Directors is aware of his/her fiduciary duties as a director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of our Directors (including our executive Directors who are also our Ultimate Controlling Shareholders), the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum for the relevant Board meeting. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only.

In particular, pursuant to the provisions of our Articles and the Listing Rules, all of our executive Directors shall abstain from voting at the board meetings in respect of the transactions with Shengmu Forage and such transactions shall be submitted to our non-executive Directors and independent non-executive Directors for their consideration and approval.

In the event that a transaction (including a transaction with Shengmu Forage) is submitted to our non-executive Directors and independent non-executive Directors for their consideration and approval, they have extensive experiences and knowledge to review such a transaction from different aspects. All of our non-executive Directors, namely, Mr. WU Jingshui (吳景水), Mr. FAN Xiang (范翔), Mr. CUI Guiyong (崔桂勇) and Mr. SUN Qian (孫謙) has extensive knowledge and experience in financial investment and management. Among our independent non-executive Directors, Mr. WONG Kun Kau (黃灌球) has more than 21 years of experience in investment banking and corporate finance. He is also the independent non-executive director of several companies listed on the Stock Exchange. Mr. LI Changqing (李長青) is widely recognized for his research in business management and contribution in the management education sector. Ms. GE Xiaoping (葛曉萍) has over 30 years of experience in auditing and accounting. She is a certified public accountant in PRC and certified public valuer (as recognized by China Appraisal Society (中國資產評估協會)) in China. Ms. GE is currently a partner and branch chief representative (Xiamen branch) for BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)). She is also an independent director of a company listed on the Shenzhen Stock Exchange. Mr. YUAN Qing (袁清) has over 25 years of experience in academic research on the subject of grassland resources. Based on the above, we believe our non-executive Directors and independent non-executive Directors have sufficient experience, knowledge and qualifications to review our continuing connected transactions, including those with Shengmu Forage.

Accordingly, we believe we are able to manage our operations independently of the Retained Businesses.

**Operational Independence**

All our operating subsidiaries hold all relevant licenses that are material in relation to our business operations in their own names. We have sufficient operational capacity in terms of capital, plants and machinery equipment, facilities, premises and employees to operate our business independently. We rely on our own independent sales and distributors network. We also have independent access to customers and our day-to-day operations are handled by an independent management team.

We source organic forage feed, our principal raw material, substantially from Shengmu Forage. Shengmu Forage primarily grows forage crops in the Ulan Buh desert without using any synthetic pesticides or synthetic fertilizers, which enables it to effectively control the source and quality of such crops. These crops provide organic, nutritious feed for our dairy cows, allowing them to produce organic, nutritious milk. Shengmu Forage supplied substantially all the forage crops organically grown in its growing field to us during the Track Record Period and up to the Latest Practicable Date. To ensure stable and sufficient supplies of organic feed, we have also entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage, pursuant to which, Shengmu Forage undertakes to supply all its organic feed to us on an exclusive basis. For details, please see "Business — Suppliers and Procurement- Organic Feed." We have also entered into the Forage Supply Framework Agreement with Shengmu Forage to ensure that such transactions will be carried out on normal commercial terms. For details, please see "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Forage — Purchase of Forage — Forage Supply Framework Agreement." Furthermore, as set out above under

"Long-term Strategic Cooperation Agreement with Shengmu Forage and Undertakings from Shengmu Forage and its Shareholders" of this section, both Shengmu Forage and its shareholders (except Shengmu Holding) have provided us with undertakings not to issue or transfer any shares of Shengmu Forage to any third party without our prior written consent for a term of 20 years unless all the equity interests in Shengmu Forage have been transferred to us prior to the expiration of this 20-year term. Furthermore, the existing shareholders of Shengmu Forage (except Shengmu Holding) have also undertaken to cause Shengmu Forage to perform all of its obligations under the Long-term Strategic Cooperation Agreement, including the obligation to continuously execute its own business plans to support our future expansion plans. Such undertakings further strengthen our ability to control Shengmu Forage and its organic feed supply.

During the Track Record Period, our purchases of organic feed from Shengmu Forage (excluding local farmers leasing from Shengmu Forage) amounted to RMB0.7 million, RMB27.3 million and RMB111.8 million, respectively. Such increase was primarily due to the expansion of Shengmu Forage's operations. Shengmu Forage's organic growing fields increased from approximately 56,800 mu as of December 31, 2011 to approximately 64,000 mu as of December 31, 2012, and further to approximately 115,000 mu as of December 31, 2013. In addition, the types of organic forages supplied by Shengmu Forage also increased from alfalfa only in 2011 to alfalfa, corn silage and corn kernel in 2012. We expect our purchase of organic feed from Shengmu Forage will continue to increase as Shengmu Forage expands its operations. During the Track Record Period, we have also purchased feed for our organic dairy farming business from other qualified suppliers in addition to Shengmu Forage. In 2011, 2012 and 2013, our purchases of feed for our organic dairy farming business from other qualified suppliers (including local farmers leasing from Shengmu Forage) accounted for 13.1%, 10.1% and 9.3%, respectively, of our total purchases. We do not expect such percentage to increase due to the expected increase in purchase from Shengmu Forage. However, we expect that we will continue to purchase feed for our organic dairy farming business from other qualified suppliers. We have independent access to the suppliers of our other raw materials. For details regarding the purchases from Shengmu Forage and other qualified suppliers, see "Business — Suppliers and Procurement."

We believe that our relationship with Shengmu Forage is in line with industry practice and may be properly managed because of the following:

- *Market concentration*. According to the F&S Report, the supply of certified organic feed (including primarily alfalfa, corn silage and corn kernel, the principal feed for dairy cows) in China is dominated by a few players with the top three players commanding a total market share of approximately 85.9% in 2013 in terms of certified annual output volume of organic feeds in China, of which Shengmu Forage accounted for a 60.5% market share as the market leader, followed by Yunhai Qiulin (22.0%) and Yili Group (3.3%). Although there is another organic feed supplier in Ulan Buh desert area, according to the F&S Report, it is a standard industry practice for organic alfalfa producer to supply for their internal use or for their affiliated dairy farms. Hence, we believe our exclusive supply arrangement with Shengmu Forage is in line with market practice, and the risk of reliance is not specific to us.

- *Reliance*. We believe our relationship with Shengmu Forage is mutual and complementary. Shengmu Forage relies on us in the following aspects:

  - Financial. Under the Long-term Strategic Cooperation Agreement, Shengmu Forage has agreed to supply all of its organic feed to us on an exclusive basis, i.e. we are and will continue to be its only customer. We have made and will continue to make significant prepayment to Shengmu Forage to support its operations.

  - Location. Our organic dairy farms are located in close proximity to Shengmu Forage's growing fields in the Ulan Buh desert, which makes it naturally more cost-effective to supply to us than to third parties.

  - Organic fertilizer. All of the biowaste (i.e. cow dung) produced at our organic dairy farms are supplied to Shengmu Forage to be processed into organic fertilizer. Similar volume of supply of such biowaste from third parties would be more difficult and less economically attractive.

  - Commercial benefit. We are a fast-growing organic dairy company with solid foundation and rapid expansion plans on both dairy farming scale and downstream production. Our purchase volume of organic feed is expected to continue to increase significantly to support our cow herd expansion in the foreseeable future. See "Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Forage — Purchase of Forage — Estimated Annual Caps." We expect Shengmu Forage to benefit significantly from our growth.

- *Ability to build a self-owned forage business*. Despite the significant influences that we have over the management and operations of Shengmu Forage, in the unlikely event that we are required to seek alternative sources of organic forages, we believe that we have the capability to build our own forage business to supply to our dairy farms within a relatively short period of time, due to the following:

  - Management experience. A number of Shengmu Forage's major shareholders, such as Mr. WU Jianye and Ms. GAO Lingfeng, are our management members. They were instrumental in formulating and implementing Shengmu Forage's successful growth strategy. In particular, Mr. WU has extensive experience in desert plantation. Before joining us, he was with Pangu Group and was involved in a large-scale greening effort by Pangu Group from 1997 to plant tens of million trees in the Ulan Buh desert. His expertise in desert plantation would be a valuable asset to us if we were to independently conduct our own forage business. In addition, Ms. GAO is highly experienced in the organic certification process which is critical for the operation of organic forage business. Ms. GAO also has over 14 years of experience in the dairy industry and 15 years of management experience in production and product quality. Leveraging the experience gained in building Shengmu Forage's business, we believe that we are able to replicate that success within a reasonably short period of time if needed.

- Improved eco-environment. Because of Pangu Group's development efforts, the eco-environment in the area surrounding our organic dairy farms in the Ulan Buh desert is much improved, which we can capitalize on in building our organic forage business if needed.

- Organic fertilizer. We have sufficient biowaste (i.e. cow dung) produced at our organic dairy farms to support the growth and development of organic forage growing fields if needed.

- Financial resources. In the earlier days of our development, we made a strategic decision to focus our financial resources on the development of our dairy farming business. As a result, Shengmu Forage received funding from third party investors and we were no longer its controlling shareholder since the end of 2011. We are now significantly larger in scale and stronger financially. As of the Latest Practicable Date, we had credit facilities of RMB428.0 million that have not been utilized. In addition, assuming an Offer Price of HK$2.67 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), we estimate that the net proceeds of Global Offering will be approximately HK$1,121 million. In addition to the financial resources as described above, we may utilize our operating cash and/or our unutilized credit facilities if we were to develop our own organic forage business.

Based on our capabilities and resources as described above, we believe that we are able to grow our own organic alfalfa within eight to 14 months and organic corn silage and kernel within 10 to 17 months including (i) the time required for identifying and developing suitable land and (ii) the expected time to grow and produce them in accordance with the requirement for organic certification under the relevant organic standards; after which, subject to the preliminary inspection by the organic certification institutions, we may feed our organic dairy cows with such forages produced even though they need to undergo the required conversion periods and the milk so produced can qualify as organic under relevant organic standards. Upon completion of the required conversion periods, our own organic forage business, if developed, would be expected to receive relevant organic certification. The conversion periods typically last two or three years, depending on the type of forages undergoing conversion. For more information, see "— Permits, Approval and Product Certificates — Product Certificates" above.

- *Other immediate back-up supply plans*

  We have been proactively seeking alternative sources of organic forage in order to secure sufficient feed for our organic cows in emergency circumstances. In the highly unlikely event of a sudden unforeseen mass contamination or pollution or natural disaster that cause Shengmu Forage's land, in part or in whole, in Ulan Buh desert to be unsuitable for organic forage growing, our immediate back-up supply plans may include the following:

  - *Exceptional approved use of non-organic feed.* According to the relevant PRC organic standard (GB/T 19630.1-2011) as amended in March 2014 in relation to organic products production issued by the Standardization Administration of PRC and the E.U. organic standards, in the event of loss of forage production as a result of exceptional circumstances such as contamination, diseases, meteorological conditions, subject to the approval of the organic certification institutions, we are permitted to use limited quantity of non-organic feed (without chemical solvents) to feed our organic dairy cows for a limited period.

- *Formula adjustments.* Without compromising the nutrition requirement of dairy cows and material deterioration to our profit margin, we may make certain adjustments to feed formulae for our organic dairy cows when we encounter supply shortage of certain types of feed. For example, corn silage, alfalfa, guinea grass and oat grass may be partially substituted by each other as major components of primary organic feed, according to the F&S Report. Corn kernel may be partially substituted by soy bean and wheat as concentrated organic feed for dairy cows, according to the same report.

- *Import of organic forage from overseas suppliers*. In addition to domestic suppliers of organic forages, we may seek to source the primary organic feed, such as organic alfalfa and corn silage, from United States, Europe and South East Asia that, according to the F&S Report, are available for exportation to China, subject to standard certification by registered inspection authorities for organic imported products pursuant to relevant PRC law and E.U. organic standards. Due to freight costs which translate into a cost premium, we will only consider importing from overseas suppliers in absolutely necessary circumstances.

- *Planting outside Ulan Buh desert.* With the involvement of our Company, Shengmu Forage is also exploring other suitable sites outside of the Ulan Buh desert for organic forage growing to support our expansion plans and to minimize potential impact on supply of organic forages due to material pollution or contamination of the existing growing fields operated by Shengmu Forage. For example, Shengmu Forage has entered into a strategic cooperation agreement with an agricultural development company, which is an Independent Third Party to the best knowledge of the Directors, to jointly develop a parcel of land with an expected total area of not less than 40,000 mu located in Inner Mongolia but outside Ulan Buh desert to grow organic alfalfa. In addition, Shengmu Forage and us have recently further entered into similar arrangements with another agricultural development company, which is an Independent Third Party to the best knowledge of the Directors, to jointly develop a parcel of land with an expected total area of approximately 30,000 mu located in Gansu Province for growing organic oat grass. It is expected that preliminary inspection procedures by each of ECOCERT S.A. and COFCC on the above new lands will be completed by the end of September 2014 after which Shengmu Forage will undergo the conversion periods with respect to such new lands. This preliminary inspection is in progress and the Company does not foresee any major obstacles in the completion of such inspection.

- *Temporary switch to non-organic dairy farming operations.* Our business model and farm management system offer us the flexibility and capability to adjust the split of organic and non-organic raw milk production. We operate all of our dairy farms in accordance with standardized operational procedures. Therefore, in the unlikely event that we fail to source sufficient organic feed for our organic dairy farming operation to an extent beyond the acceptable use of non-organic substitutes by the organic certification institutions, we may reduce or even temporarily cease the production of organic raw milk and instead produce premium non-organic raw milk at our organic dairy farms until we are able to restore normal supply of organic feed. Even though we have committed certain minimum quantity of supply to the distributors of our organic liquid milk products, pursuant to the terms of the contracts entered into with these distributors, we are free of any liability should there be any shortage of supply arising from events out of our control. With respect to the minimum quantity of supply committed to our major industrial customers, we did not specify in the contracts that such supply shall come solely from organic raw milk. In addition, in light of the widening gap between demand and supply for raw milk in China as disclosed in the section headed “Industry Overview — Raw Milk Production in China,” we believe that such premium non-organic raw milk, if so produced, can be readily absorbed by market demand.

Our employees have worked onsite in each stage of Shengmu Forage’s forage growing process. See “Business — Our Business — Dairy Farming Business — Organic Feed—Shengmu Forage” for further details. As a result, we believe that we are able to prevent, mitigate or detect incidents at any stage of Shengmu Forage’s forage growing process that could lead to material supply shortages in a particular type of organic forages, and immediately implement the above back-up plans accordingly. However, we may not be able to successfully implement the above back-up plans and these plans may not prove to be effective if implemented. See “Risk Factors — Risks Relating to Our Business — Failure to implement our contingency plans and source organic feed sufficient to meet our needs of forage supply for our organic dairy farming business on a timely basis could adversely affect our results of operations, financial position and prospects.”

Accordingly, we believe we are able to operate independently of our Ultimate Controlling Shareholders and their Retained Businesses.

**Financial Independence**

We have an independent financial system and make financial decisions according to our own business needs. During the Track Record Period, there were amounts due to certain of our Ultimate Controlling Shareholders and guarantees provided by certain of our Controlling Shareholders. All such amounts have been fully paid up or have been discharged as of the Latest Practicable Date. We are able to obtain banking facilities independently without guarantees provided by our Controlling Shareholders. Our Directors also confirm that we will not rely on our Controlling Shareholders for financing after the Listing as we expect that our working capital will be funded by our operating income and bank borrowings.

Accordingly, we have our own financial management system and ability to operate independently of our Controlling Shareholders from a financial perspective.

## NON-COMPETITION UNDERTAKING

Each of our Ultimate Controlling Shareholder and World Shining confirms that he/she/it does not have any interest in any business which competes or is likely to compete, directly or indirectly, with our core business and which would require disclosure under Rule 8.10 of the Listing Rules.

Our Ultimate Controlling Shareholders and World Shining (together the "**Covenantors**") have entered into a deed of non-competition (the "**Non-competition Deed**") in favor of us. Pursuant to the Non-competition Deed, the Covenantors have undertaken to us that they would not, and that their associates (except any member of our Group) would not, during the restricted period set out below, directly or indirectly, as a principal or agent, either on their own accounts or in conjunction with or on behalf of any person, firm or company, among other things, carry on, develop, operate, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with our existing core business (the "**Restricted Business**"), save for the business currently carried out by Xinjiang Shenghe.

Such non-competition undertaking does not apply in relation to:

(a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business which has first been offered or made available to our Company, and our Company, after review and approval by our Directors or shareholders as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, provided that the principal terms by which the Covenantors (or their respective associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favorable than those made available to our Company; or

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

(c) interests in the shares of a company whose shares are listed on a recognized stock exchange, provided that:

  (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

  (ii) the total number of the shares held by a Covenantor and any entity controlled by him/her does not exceed 5% of the issued shares of that class of the company in question and such Covenantor together with any entity controlled by him/her are not entitled to appoint a majority of the directors of that company.

The "restricted period" stated in the Non-competition Deed refers to the period during which (i) our Shares remain listed on the Stock Exchange; (ii) the Covenantors and any entity controlled by them, individually or jointly, are entitled to exercise or control the exercise of no less than 30% of the voting power at general meetings of our Company; and (iii) any of the Covenantors is a director of any member of our Group.

The Covenantors have further undertaken to procure that, during the restricted period, any business investment or other commercial opportunity which competes or is likely to compete either directly or indirectly with the core business of the Group (the "**New Opportunity**") identified by or offered to him or any entity controlled by him/her/it, is first referred to us in the following manner:

(a) the relevant Covenantor is required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice (the "**Offer Notice**") to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs; and

(b) Upon receiving the Offer Notice, the Company shall seek approval from the Board or a board committee (in each case comprising, among others, independent non-executive Directors) who do not have an interest in the New Opportunity (the "**Independent Board**") as to whether to pursue or decline the New Opportunity (any Director who has actual or potential interest in the New Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not count towards the quorum for, any meeting or part of a meeting convened to consider such New Opportunity);

  (i) the Independent Board shall consider the financial impact of pursuing the New Opportunity offered, whether the nature of the New Opportunity is consistent with the Group's strategies and development plans, the general market conditions of the Business; if appropriate, the Independent Board may appoint independent financial and legal advisers to assist in the decision-making process in relation to such New Opportunity;

  (ii) the Independent Board shall, within 15 days of receipt of the written notice referred to in (a) above, inform the relevant Covenantor in writing on behalf of the Company its decision whether to pursue or decline the New Opportunity;

  (iii) the relevant Covenantor shall be entitled but not obliged to pursue such New Opportunity if he or she or it has received a notice from the Independent Board declining such New Opportunity or if the Independent Board failed to respond within such 15 days period pursuant to (b)(ii) above ; and

  (iv) if there is any material change in the nature, terms or conditions of such New Opportunity pursued by the relevant Covenantor, he or she or it shall refer such New Opportunity as so revised to the Company in the manner as outlined in this Clause 3.3 as if it were a New Opportunity.

Our Directors consider that our independent non-executive Directors have sufficient experience in assessing whether or not to take up any New Opportunity. Our Independent Board Committee will also review, on an annual basis, the compliance with the Non-competition Deed by the Covenantors, the results of which will be disclosed in our annual reports. Furthermore, the Independent Board Committee may appoint financial advisors or professional experts to provide advice, at the cost of our Company, in connection with whether to take up any New Opportunity.

The Covenantors have further undertaken to:

(a) procure that all relevant information relating to the implementation of the Non-competition Deed in his possession and/or the possession of any of his associates be provided to us;

(b) allow, subject to confidentiality restrictions imposed by any third party, our representatives and those of our advisers to have access to his financial and corporate records as may be necessary for us to determine whether the non-competition undertakings in the Non-competition Deed have been complied with by our Ultimate Controlling Shareholders and their associates;

(c) provide us, within twenty (20) Business Days from the receipt of our written request, with a written confirmation in respect of his compliance and that of his associates with the non-competition undertakings in the Non-competition Deed and consent to the inclusion of such confirmation in our annual reports; and

(d) provide all information necessary for the annual review by our Board committee comprising only independent non-executive Directors, and the enforcement of the Non-competition Deed.

Each of the Covenantors hereby irrevocably and unconditionally, jointly and severally, warrants and undertakes to the Company, that he or she or it shall not, and that his, her or its associates (except any members of the Group Companies) shall not:

(a) induce or solicit any person, organization or company to induce any competition or suspension of the business of the Group;

(b) induce or solicit any of the then current employee to leave the Group Company, or employ, provide service to, or in any other forms employ the then employee;

(c) engage in any business or activity or jointly with any person, organization or company engage in business or activity, that uses any name or trademark (registered or non-registered) of the Group, or any name of the Group that is used in association with the Group's business or activity at intervals, or include all or any of the above material terms or any fraudulent imitations (except for circumstances, in which the Group is involved).

Each of the Covenantors hereby undertakes, jointly and severally, to indemnify and keep indemnified the Group against any damage, loss or liability suffered by the Company or any other Group Companies arising out of or in connection with any breach of its undertakings and/or obligations under the Non-competition Deed, including any costs and expenses incurred as a result of such breach provided that such indemnity shall be without prejudice to any other rights and remedies the Company is entitled to in relation to any such breach, including specific performance.

If a Covenantor breaches any clauses under the Non-competition Deed, subject to governing law and jurisdiction, one of the available options to the Company would be to initiate legal proceedings against such Covenantor for damages or indemnity should it consider it is in the best interest of the Group.

The Covenantors (for themselves and on behalf of their associates (except for any member of our Group)) have further acknowledged that we may be required by applicable laws, regulations, rules of stock exchange(s) on which we may be listed and relevant regulatory bodies, to disclose, from time to time, information on any New Opportunity, including but not limited to the disclosure in public announcements or our annual reports of decisions made by us to pursue or decline such New Opportunity and basis for such decisions. Accordingly, they have agreed to make such disclosure to the extent necessary to comply with any such requirement.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Mr. WU Jingshui (吳景水), a non-executive Director, is also a vice president (finance) of Inner Mongolia Mengniu, a non-wholly owned subsidiary of Mengniu Dairy, a company listed on the Stock Exchange. He is also a non-executive director of Yashili International Holdings Ltd. (雅士利國際控股有限公司) ("**Yashili**"), a company listed on the Stock Exchange (stock code: 1230) which is principally engaged in the production and sale of pediatric milk formula products and nutrition products. Yashili is a non-wholly owned subsidiary of Mengniu Dairy. Pursuant to their respective audited financial statements (prepared according to IFRS) contained in their published annual results announcement, Mengniu Dairy and Yashili had total asset of approximately RMB40,339.4 million and RMB4,516.7 million, respectively; and recorded revenue of approximately RMB43,356.9 million and RMB3,890.0 million and profit for the year of approximately RMB1,862.0 million and RMB439.3 million, respectively, for the year ended December 31, 2013.

Mr. WU is aware of his fiduciary duties as a Director which require, among others, that he must act for the benefit of and in the best interests of our Group and not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and Inner Mongolia Mengniu or Yashili, he shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum for the relevant Board meeting.

Save for Mr. WU's management position in Inner Mongolia Mengniu and directorship in Yashili, each of our Directors has confirmed that he/she is not engaged in any business which competes or is likely to compete, either directly or indirectly, with our business.

## OVERVIEW

We will continue to carry out certain transactions with certain connected persons (as defined under the Listing Rules) upon Listing. Such transactions will therefore constitute continuing connected transaction (as defined under the Listing Rules) of our Group under Chapter 14A of the Listing Rules.

## CONNECTED PERSONS

### Shengmu Forage and Alxa Forage

Certain of our Ultimate Controlling Shareholders, namely, Mr. YAO Tongshan (姚同山), Ms. GAO Lingfeng (高凌鳳), Mr. WU Jianye (武建鄴), Mr. WANG Fuzhu (王福柱), Ms. SHI Jianhong (史建宏), Ms. YANG Yaping (楊亞萍) and Mr. WANG Zhenxi (王振喜), together with Mr. WANG Jishan (王繼山) (father of Mr. WANG Zhen (王鎮)) and Ms. QIN Yuan (秦源) (wife of Mr. WU Jianye (武建鄴)) hold approximately 33.82% equity interest in Shengmu Forage. Mr. WU Jianye (武建鄴) and Ms. GAO Lingfeng (高凌鳳) are also directors of Shengmu Forage. As a result, Shengmu Forage is a connected person of our Company as defined under Rule 14A.11(4) of the Listing Rules.

Alxa Forage is the wholly-owned subsidiary of Shengmu Forage. As a result, Alxa Forage is a connected person of our Company as defined under Rule 14A.11(4) of the Listing Rules.

### Shengmu Pangu

Shengmu Pangu is a 55% owned subsidiary of our Group. The remaining 45% equity interest in Shengmu Pangu is owned by Mr. WU Jianye (武建鄴), one of our Ultimate Controlling Shareholders and an executive Director. As a result, Shengmu Pangu is a connected person of our Company as defined under Rule 14A.11(5) of the Listing Rules.

### Shengmu Xiwang

Shengmu Xiwang is a 65% owned subsidiary of our Group. Mr. WANG Zhen (王鎮), one of our Ultimate Controlling Shareholders, holds 17.5% equity interest in Shengmu Xiwang. As a result, Shengmu Xiwang is a connected person of our Company as defined under Rule 14A.11(5) of the Listing Rules.

## EXEMPT CONTINUING CONNECTED TRANSACTION

### Biowaste Cleaning Services

Pursuant to the Long-term Strategic Cooperation Agreement with Shengmu Forage, Shengmu Forage will provide biowaste (i.e., cow dung) cleaning services to our organic dairy farms for free. Such services include collecting and cleaning unprocessed biowaste from our farms. In return, we supply such unprocessed biowaste from our organic dairy farms to Shengmu Forage for free. Due to the proximity of our organic dairy farms to Shengmu Forage, we only supply biowaste generated from our organic dairy farms (but not our non-organic dairy farms) to Shengmu Forage.

According to general industry knowledge from Frost & Sullivan, there is no readily available market for the biowaste produced by dairy cows to form a market price, and the biowaste has extremely low value without further processing. Accordingly, it is in line with the prevailing market practice for dairy farms to allow other parties to clean and remove biowaste from the farms for free. The costs of removing and transporting biowaste range from RMB10 to RMB60 per tonne. Dairy farms would normally charge a fee within the range of between RMB10.5 and RMB63 per tonne. If third parties require removal and transportation services of biowaste from dairy farms, we charge a service fee of approximately RMB10 per cubic metre on the biowaste generated from our non-organic dairy farms which are supplied to farmers who require our collecting and initial processing services. Upon conversion, the service fee we charge on the biowaste generated on our non-organic dairy farms would be approximately RMB25 per tonne, which is within the market price range.

Based on our historical herd size, we estimate that the aggregate amount of biowaste generated from our organic herds was approximately 131,000, 207,000 and 447,000 tonnes for the years ended December 31, 2011, 2012 and 2013, respectively. Based on the general industry knowledge from Frost & Sullivan as described above, for the years ended December 31, 2011, 2012 and 2013, respectively, (i) we would have incurred removal and transportation costs of around RMB1.3 million to RMB7.9 million, RMB2.1 million to RMB12.4 million, and RMB4.5 million to RMB26.8 million; and (ii) if we had charged service fees on all such organic biowaste at the same rate as we charged on the non-organic biowaste, we might have been able to generate processing fees of around RMB3.3 million, RMB5.2 million and RMB11.2 million, respectively.[(1)]

We expect to grow our organic herd by a rate between 42% and 62% each year for the years ending December 31, 2014, 2015 and 2016. Assuming (a) growth rate for our organic herds of approximately 52% (being the mid-point of our expected growth rates) each year, (b) no change in the average biowaste generated by our organic dairy cows, (c) no change in the relevant estimated market costs and profit ranges based on the general industry knowledge from Frost & Sullivan as described above, for the years ending December 31, 2014, 2015 and 2016, respectively, we might be able to generate from our organic biowaste (i) service fees of around RMB7.1 million to RMB42.8million, RMB10.8million to RMB65.1million, and RMB16.5 million to RMB99.2 million, respectively, and (ii) profit of around RMB0.3 million to RMB2.0 million, RMB0.5 million to RMB3.1 million, and RMB0.8 million to RMB4.7 million, respectively.

However, the above discussion is purely hypothetical and for illustrative purpose only. We plan to supply all unprocessed biowaste generated from our organic dairy farms to Shengmu Forage for free only as we prefer and consider it more appropriate to concentrate our resources and management attention on the dairy farming business.

(1) Similarly, we estimate that the aggregate amount of biowaste generated from our non-organic herds was approximately 374,000, 515,000 and 436,000 tonnes for the years ended December 31, 2011, 2012 and 2013, respectively. We would have (i) incurred removal and transportation costs of approximately RMB3.7 million to RMB22.4 million, RMB5.2 million to RMB31.0 million and RMB4.4 million to RMB26.2 million for the years ended December 31, 2011, 2012 and 2013, respectively, and (ii) might have been able to generate processing fees of approximately RMB9.4 million, RMB12.9 million and RMB11.0 million, respectively, if we had charged service fees on all such non-organic biowaste.

Based on the applicable ratios, the transactions under the Long-term Strategic Cooperation Agreement with Shengmu Forage constitute a continuing connected transaction which is exempt from announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### Continuing Connected Transactions with Shengmu Forage

#### *Purchase of Forage*

*Background and Historical Transaction Amount*

Shengmu Forage and Alxa Forage grow organic forage (comprising primarily alfalfa, corn silage, corn kernel and oil sunflower) in the Ulan Buh desert where is in the proximity of our organic dairy farms. They have historically sold substantially all their organic forages to our Group. During the Track Record Period, our purchase of forage from Shengmu Forage and Alxa Forage amounted to approximately RMB0.7 million, RMB27.3 million and RMB111.8 million. In March 2014, we entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage for a term of 20 years, under which Shengmu Forage undertakes to continue its exclusive supply arrangement for organic forages with us and support our future expansion plans. For further details of such agreement, see "Business — Suppliers and Procurement — Organic Feed — Shengmu Forage."

*Forage Supply Framework Agreement*

On June 25, 2014, Shengmu Forage and Shengmu Holding entered into framework agreement in relation to the purchase of forage by our Group from Shengmu Forage and its subsidiaries (including Alxa Forage) (**"Forage Supply Framework Agreement"**). Major terms of such agreement are summarized below:

| | |
|---|---|
| Agreement period: | From January 1, 2014 to December 31, 2016. |
| Exclusive supply: | Shengmu Forage and its subsidiaries (including Alxa Forage) shall sell all the forage produced by it to us on an exclusive basis. |

| | |
|---|---|
| Purchase price and other terms: | The pricing of forage to be purchased by us from Shengmu Forage and its subsidiaries under the Forage Supply Framework Agreement shall be determined with reference to (a) the prevailing market prices for organic forage if there is a readily available market price, or (b) the prevailing market prices of imported premium non-organic forage (excluding transportation cost) or domestic premium non-organic forage plus a mark up rate ("**Mark-up**") which will be not more than the lower of (i) the percentage difference in the average selling prices between our organic raw milk and premium non-organic raw milk, and (ii) the percentage difference in the average selling prices between organic raw milk and premium non-organic raw milk in the comparable segments of PRC market (if available), in the 12 months before the determination of the prices for the relevant forage crops. To identify the relevant market prices, we will solicit quotes from at least two third party suppliers and ensure that our purchase price of forage from Shengmu Forage shall be no less favorable than the prices offered by third party suppliers.<br><br>Shengmu Holding shall provide Shengmu Forage in advance with the overall amount of forage requested for next year, in order for Shengmu Forage to prepare its planting plan.<br><br>Shengmu Forage shall deliver forage in batches as ordered by Shengmu Holding. Quality of forage supplied by Shengmu Forage shall comply with the specifications set by Shengmu Holding. Shengmu Forage shall be responsible for delivering forage to the farms of Shengmu Holding. |
| Payment and settlement: | We shall inform Shengmu Forage in advance our estimated total purchase amount for the next year (the "**Delivery Year**") in the last quarter of the current year (the "**Current Year**"). We shall also make advance payments for (a) not more than 15% of our estimated total purchase amount for the Delivery Year in the last quarter of the Current Year; and (b) in addition to the advance payments referred to in (a), not more than an additional 20% of our estimated total purchase amount during the forage crops' growing period in the Delivery Year. Settlement of or payment for forage delivered shall be made within 90 days upon each delivery. |
| Amendment and termination: | Any amendment to or the termination of the agreement shall be made in writing by the parties. |

Regarding the pricing terms under the Forage Supply Framework Agreement, there is no prevailing market price currently available for organic forage in China because the supply of certified organic feed in China is dominated by a few players with the top three players commanding a total market share of approximately 85.9% in 2013 in terms of certified annual output volume of organic feeds in China, of which Shengmu Forage accounted for a 60.5% market share as the market leader. Although there is another organic feed supplier in Ulan Buh desert area, according to the F&S Report, it is a standard industry practice for organic alfalfa producer to supply for their internal use or for their affiliated dairy farms.

In respect of the Mark-up referred to in the pricing terms, the Directors expect it to be not more than 15% for 2014 (subject to the type and quality of the forage) by reference to the difference in the average selling prices between our organic raw milk and premium non-organic raw milk for 2013; whilst there is no available reference to the comparable segments of the PRC market as of the Latest Practicable Date because we are the largest organic milk company in China with a 54.2% market share based on 2013 organic raw milk production volume, according to the F&S Report.

Such pricing terms are arrived at after our negotiations with Shengmu Forage on an arm's length basis. The purchase price of Shengmu Forage's forage crops will be determined with reference to the then prevailing market price, taking into account the price premium for organic feed and/or organic raw milk over its premium non-organic counterpart. In addition, measures are in place under the Forage Supply Framework Agreement to solicit third-party quotations to identify relevant market prices and to ensure purchase prices from Shengmu Forage shall be no less favorable than those offered by third-party suppliers. On such basis, our Directors are of the view that the pricing under the Forage Supply Framework Agreement is on normal commercial terms and is in the interest of our Company and Shareholders as a whole, and the Joint Sponsors concur with the view of our Directors.

*Reasons for and Benefits of the Transactions under the Forage Supply Framework Agreement*

Shengmu Forage and Alxa Forage grow organic forage without using any synthetic pesticides or synthetic fertilizers. All of the growing fields developed by Shengmu Forage and Alxa Forage meet the E.U. standards by ECOCERT S.A. and are certified organic under the PRC standards by the COFCC. We believe these crops provide organic, nutritious feed for our dairy cows, allowing them to produce organic, nutritious milk. In addition, farms of Shengmu Forage and Alxa Forage in the Ulan Buh desert are in the proximity of our organic dairy farms. As such, it is commercially beneficial to our Group to continue to purchase forage from Shengmu Forage and Alxa Forage in view of their stable and reliable supply of good quality forage and the proximity of its forage farms to our dairy farms.

*Estimated Annual Caps*

Our Directors estimate that the total annual purchase amount by our Group from Shengmu Forage and Alxa Forage under the Forage Supply Framework Agreement will not exceed RMB392 million, RMB630 million and RMB911 million for each of the years ending December 31, 2014, 2015 and 2016. In determining such annual caps, our Directors have considered the following factors:

(a) the anticipated significant increase in demand for organic forage by our Group for the three years ending December 31, 2016, having taken into account our dairy farming expansion plan. We plan to significantly expand our organic dairy farming operation from 2014 to 2016. We plan to construct an additional 18 organic dairy farms from 2014 to 2016 at the pace of six farms per year. The majority of such farms are expected to have a capacity to house between 2,500 to 4,500 dairy cows. We also plan to enhance the capacity and utilization of our existing dairy farms. As of December 31, 2013, we owned and operated 13 organic dairy farms with approximately 30,621 dairy cows and the capacity of housing a maximum number of 45,100 dairy cows. As a result, we plan to grow our organic herd from 30,621 dairy cows in 2013 to not less than 55,000 dairy cows in 2014, not less than 83,000 dairy cows in 2015 and not less than 120,000 dairy cows in 2016 through external purchase (domestically and from overseas) and organic growth;

(b) the continuous improvement of our feed formulae for the nutrition requirement of our dairy cows which will result in an increase of our average feed costs. Our Directors do not expect that the increase in average feed costs would materially deteriorate our profit margin since the improved feed formulae are expected to lead to higher milk yield and enhanced nutrition contents of our raw milk and hence a higher selling price;

(c) the historical market price (where available) and prevailing market price for the forage supplied by Shengmu Forage to us;

(d) the historical transaction volume of forage purchased by our Group from Shengmu Forage during the Track Record Period. Our purchase of forage from Shengmu Forage and Alxa Forage increased from RMB0.7 million in 2011 to RMB27.3 million in 2012 and RMB111.8 million in 2013, primarily as a result of the rapid and significant expansion of our herd of organic dairy cows during the same period. Our organic herd size increased from 8,982 cows in 2011 to 14,111 cows in 2012 and 30,621 cows in 2013;

(e) the expected expansion of Shengmu Forage's operations as a result of increase in the area of its growing fields;

(f) the expectation for Shengmu Forage to operate its organic growing fields primarily on its own without leasing material portion thereof to local farmers;

(g) the purchase of additional type of organic forage, oil sunflower, since 2014;

(h) the anticipated increase in the market prices for organic forage and imported or domestic non-organic premium forage; and

(i) the possible future inflation in the PRC dairy industry.

**Continuing Connected Transactions with Shengmu Pangu and Shengmu Xiwang**

***Purchase of Organic Raw Milk***

*Background and Historical Transaction Amount*

Shengmu Pangu was established in June 2012 to be engaged in dairy farming. It commenced production of raw milk in July 2013 and its production was not fully ramped up until November 2013. It sells its organic raw milk to Shengmu Dairy, another subsidiary of our Group which is the processing center of our Group, on a priority basis under our centralized raw milk sale system. Sales of organic raw milk by Shengmu Pangu to Shengmu Dairy amounted to approximately RMB26.7 million in 2013.

Shengmu Xiwang was established in August 2013 to be engaged in dairy farming. It is expected to commence production of organic raw milk in September 2014. Same as Shengmu Pangu, it will sell its organic raw milk to us on a priority basis under our centralized raw milk sale system.

*Milk Supply Framework Agreement*

On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the purchase of organic raw milk by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang (**"Milk Supply Framework Agreement"**). Major terms of such agreement are summarized below:

| | |
|---|---|
| Agreement period: | From January 1, 2014 to December 31, 2016. |
| Centralized sales management: | Organic raw milk of Shengmu Pangu and Shengmu Xiwang are subject to our centralized sales management. Both of them shall sell their organic raw milk to us on a priority basis to meet our requirement. Excessive organic raw milk can be sold to third parties as permitted and managed by Shengmu Holding. |
| Purchase price and other terms: | The price of organic raw milk to be purchased by us from Shengmu Pangu and Shengmu Xiwang under the Milk Supply Framework Agreement shall be determined pursuant to our pricing system and standards for intra-group purchase of organic raw milk by us from our other subsidiaries at the relevant time.<br><br>Quality of milk supplied by Shengmu Pangu and Shengmu Xiwang shall comply with the specifications set by Shengmu Holding. |

| | |
|---|---|
| | Shengmu Pangu and Shengmu Xiwang shall be responsible for delivering milk to the places designated by Shengmu Holding and/or its other subsidiaries. |
| Payment terms: | Payment for milk purchased in the current month shall be settled by the end of the following month. |
| Amendment and termination: | Any amendment to or the termination of the agreement shall be made in writing by the parties. |

*Reasons for and Benefits of the Transactions under the Milk Supply Framework Agreement*

We manage our sales of raw milk under a centralized system and Shengmu Dairy serves as the processing center of raw milk for all our subsidiaries. As subsidiaries of our Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized sales system.

*Estimated Annual Caps*

Our Directors estimate that the total annual purchase amount by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang under the Milk Supply Framework Agreement will not exceed RMB160 million, RMB250 million and RMB400 million for each of the years ending December 31, 2014, 2015 and 2016. In determining such annual caps, our Directors have considered the following factors:

(a) the historical and prevailing market price for organic raw milk;

(b) the historical transaction volume of organic raw milk purchased by our Group (excluding Shengmu Pangu) from Shengmu Pangu during the Track Record Period;

(c) the historical average annual milk yield of our Group;

(d) the anticipated significant growth in the production of organic raw milk of Shengmu Pangu and Shengmu Xiwang for the three years ending December 31, 2016, having taken into account our dairy farming and expansion plans of Shengmu Pangu and Shengmu Xiwang. As of December 31, 2013, Shengmu Pangu had approximately 3,000 organic milkable cows while Shengmu Xiwang has not completed the construction of its farm. We plan to expand the herd size of Shengmu Pangu and Shengmu Xiwang to no less than 8,000 organic milkable cows in 2016; and

(e) the possible future inflation in the PRC dairy industry.

***Sale and Purchase of Cows***

*Background and Historical Transaction Amount*

Shengmu Farming and IMU-Shengmu Dairy, both being our subsidiaries, commenced dairy farming earlier than Shengmu Pangu and Shengmu Xiwang. In 2013, Shengmu Farming and IMU-Shengmu Dairy sold cows bred and raised on their farms to Shengmu Pangu to set up its herd and support its dairy farming business. The amount of cows sold by Shengmu Farming and IMU-Shengmu Dairy to Shengmu Pangu in 2013 was approximately RMB41.1 million.

We manage our dairy farming on a centralized basis. Majority of our calves and heifers are raised by Shengmu Farming separately from milkable cows on other farms. Shengmu Farming further sells pregnant heifers to our other farms to replenish their herds.

As part of such centralized farming management, Shengmu Pangu sold majority of its calves and heifers bred on its farms to Shengmu Farming. The amount of cows sold by Shengmu Pangu to Shengmu Farming in 2013 was approximately RMB6.0 million.

Such arrangement with Shengmu Pangu will continue and will be also extended to Shengmu Xiwang from 2014.

*Framework Agreement for Sale and Purchase of Cows*

On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the sale and purchase of cows between our Group (excluding Shengmu Pangu and Shengmu Xiwang) and Shengmu Pangu and Shengmu Xiwang (**"Framework Agreement for Sale and Purchase of Cows"**). Major terms of such agreement are summarized below:

| | |
|---|---|
| Agreement Period | From January 1, 2014 to December 31, 2016. |
| Centralized farming management: | Majority of the calves and heifers shall be raised on a centralized basis and separately from milkable cows. |
| Sale and purchase price: | The sale and purchase price shall be the same as the cost of the cows set out in the accounts of the selling party. |
| Amendment and termination: | Any amendment to or the termination of the agreement shall be made in writing by the parties. |

*Reasons for and Benefits of the Transactions under the Framework Agreement for Sale and Purchase of Cows*

We manage our dairy farming on a centralized basis. As subsidiaries of our Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized management.

*Estimated Annual Caps*

Our Directors estimate that under the Framework Agreement for Sale and Purchase of Cows, (i) the total annual purchase amount by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang under the Framework Agreement for Sale and Purchase of Cows will not exceed RMB33 million, RMB62 million and RMB61 million, and (ii) the total sales amount by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang will not exceed RMB65 million, RMB55 million and RMB75 million, for each of the years ending December 31, 2014, 2015 and 2016. In determining such annual caps, our Directors have considered the following factors:

(a) the historical market price of cows;

(b) the historical transaction amounts of cows sold and purchased between our Group (excluding Shengmu Pangu) and Shengmu Pangu during the Track Record Period;

(c) our dairy farming expansion plan for Shengmu Pangu and Shengmu Xiwang for the three years ending December 31, 2016. As of December 31, 2013, Shengmu Pangu had 4,363 dairy cows while Shengmu Xiwang has not completed the construction of its farm. We plan to expand the herd size of Shengmu Pangu and Shengmu Xiwang to a total of no less than 11,500 cows in 2016. Shengmu Pangu and Shengmu Xiwang will expand, replenish and replace their herds mainly by purchasing pregnant heifers from us. On the other hand, as a result of our centralized farming, calves and heifers bred on the farms of Shengmu Pangu and Shengmu Xiwang will be sold to and raised by Shengmu Farming separately; and

(d) the possible future inflation in the PRC dairy industry.

***Financial Assistance***

*Background and Historical Transaction Amount*

Both Shengmu Pangu and Shengmu Xiwang are newly established companies and their farms are at their early stage. As a result, it would be difficult to obtain commercial loans and borrowings without guarantees provided by our other established subsidiaries, such as Shengmu Holding and Shengmu Farming. In 2013, Shengmu Holding provided guarantees for a total of RMB18 million loans of Shengmu Pangu, which has been released as at the Latest Practicable Date.

*Financial Assistance Framework Agreement*

On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement for a term from January 1, 2014 to December 31, 2016 in relation to the provision of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang (**"Financial Assistance Framework Agreement"**). Pursuant to such agreement, our Group will provide financial assistances (in the form of guarantees) to Shengmu Pangu and Shengmu Xiwang on normal commercial terms.

*Reasons for and Benefits of the Transactions under the Financial Assistance Framework Agreement*

It would be difficult for our newly established subsidiaries, including Shengmu Pangu and Shengmu Xiwang, to obtain commercial loans and borrowings without guarantees of our other established subsidiaries. Even if they could obtain such loans and borrowings on their own, they would incur higher financial cost on commercial loans and borrowings without guarantees by our other established subsidiaries. As such, it is commercially beneficial to our Group to continue to provide financial assistances to Shengmu Pangu and Shengmu Xiwang, which will also lower our overall financial cost.

*Estimated Annual Caps*

Our Directors estimate that the maximum daily balance of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang shall not exceed RMB60 million, RMB100 million and RMB120 million for each of the years ending December 31, 2014, 2015 and 2016. Such caps are determined mainly based on the expansion plans and corresponding financing requirements of Shengmu Pangu and Shengmu Xiwang. As mentioned above, we plan to expand herd size of Shengmu Pangu and Shengmu Xiwang from 4,363 cows in 2013 to a total of no less than 11,500 dairy cows in 2016. To achieve such plan, Shengmu Pangu and Shengmu Xiwang will require substantial funds to purchase forage and dairy cows, which will be financed out of their internal resources and bank borrowings. The amount of financial assistance (in the form of guarantee) required of us will increase accordingly.

## DIRECTORS' VIEW

Our Directors (including our independent non-executive Directors) are of the view that (a) it is in the interests of our Group to continue the transactions under the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and Financial Assistance Framework Agreement; (b) such transactions are entered into in the ordinary and usual course of business of our Group; (c) the terms of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement are on normal commercial terms which are fair, reasonable and in the interests of our Shareholders as a whole; and (d) the annual caps for the transactions under each of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement are fair and reasonable and in the interests of our Shareholders as a whole.

## JOINT SPONSORS' VIEW

The Joint Sponsors are of the view that (a) the continuing connected transactions under each of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement are entered into in the ordinary and usual course of business of our Group and on normal commercial terms, and are fair and reasonable and in the interests of our Shareholders as a whole; and (b) the annual caps for such transactions are fair and reasonable and in the interests of our Shareholders as a whole.

## APPLICATION FOR WAIVER

Based on the applicable ratios, the transactions under each of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement constitute continuing connected transactions which are subject to announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As these transactions will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement and independent shareholders' approval requirements in relation to the transactions within the annual caps set out above would be burdensome and impractical. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with the announcement and independent shareholders' approval requirements under the Listing Rules in respect of the transactions under each of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement for the three years ending December 31, 2016.

## THE REVISED LISTING RULES GOVERNING THE CONTINUING CONNECTED TRANSACTIONS

The new Listing Rules governing the continuing connected transactions of the Company will be effective on July 1, 2014. We will, after the Listing, comply with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions set out in this section of the prospectus, including but not limited to the reporting and annual review requirements.

## DIRECTORS

Our Board of Directors currently consists of 12 Directors, comprising four executive Directors, four non-executive Directors and four independent non-executive Directors. The following table sets forth certain information regarding the Directors.

| Name | Age | Position with our Company | Description of role | Time of joining the Group | Date of Appointment as Director | Relationship with the other Directors and senior management |
|---|---|---|---|---|---|---|
| Mr. YAO Tongshan (姚同山) | 57 | Chairman, Chief Executive Officer and executive Director | Strategic planning and overall management, Chairman of Nomination Committee | October 2009 | February 14, 2014 | N/A |
| Mr. WU Jianye (武建鄴) | 41 | President and executive Director | Operational management | September 2010 | March 26, 2014 | N/A |
| Ms. GAO Lingfeng (高淩鳳) | 44 | Vice President and executive Director | Performance planning and control | October 2009 | March 26, 2014 | N/A |
| Mr. CUI Ruicheng (崔瑞成) | 32 | Vice President, Chief Financial Officer and executive Director | Finance and accounting | October 2009 | March 26, 2014 | N/A |
| Mr. WU Jingshui (吳景水) | 48 | Non-executive Director | Supervision | April 2011 | March 26, 2014 | N/A |
| Mr. FAN Xiang (范翔) | 38 | Non-executive Director | Supervision | December 2013 | March 26, 2014 | N/A |
| Mr. CUI Guiyong (崔桂勇) | 52 | Non-executive Director | Supervision, Member of Audit Committee | December 2013 | March 26, 2014 | N/A |
| Mr. SUN Qian (孫謙) | 40 | Non-executive Director | Supervision, Member of Remuneration Committee | March 2014 | March 26, 2014 | N/A |

| Name | Age | Position with our Company | Description of role | Time of joining the Group | Date of Appointment as Director | Relationship with the other Directors and senior management |
|---|---|---|---|---|---|---|
| Mr. WONG Kun Kau (黃灌球) | 53 | Independent non-executive Director | Supervision, Chairman of Remuneration Committee, Member of Nomination Committee | June 2014 | June 18, 2014 | N/A |
| Mr. LI Changqing (李長青) | 58 | Independent non-executive Director | Supervision, Member of Audit Committee, Member of Remuneration Committee | June 2014 | June 18, 2014 | N/A |
| Ms. GE Xiaoping (葛曉萍) | 51 | Independent non-executive Director | Supervision, Chairman of Audit Committee | June 2014 | June 18, 2014 | N/A |
| Mr. YUAN Qing (袁清) | 57 | Independent non-executive Director | Supervision, Member of Nomination Committee | June 2014 | June 18, 2014 | N/A |

For the table that sets forth certain information regarding the senior management, please refer to the section headed "Senior Management."

### Executive Directors

**Mr. YAO Tongshan** (姚同山), aged 57, is the founder of our Group, chairman of the Board, chief executive officer and executive Director of the Company. He is primarily responsible for our Company's strategic planning and long term business planning, overall business, market development and operation management, annual budgets, business plan, and other significant matters arising from business operation. Mr. YAO was appointed to our Board in February 2014. For positions with other members of the Group, Mr. YAO is also the director of Shengmu Holding, IMU-Shengmu Dairy, Shengmu Farming, Shengmu Dairy, Shining Investment, Fortune Globe, Saint Investment (Cayman), Credence Global and Elite Noble. He has over 12 years of experience in the dairy industry, with extensive industry and management experiences. In March 2014, Mr. YAO was honored as one of the top 10 economic figures in Inner Mongolia (內蒙古經濟年度十大人物) of 2013 for his contribution to the development of local economy jointly by Inner Mongolia Daily (內蒙古日報社), Inner Mongolia Federation of Industry and Commerce (General Chamber of Commerce) (內蒙古自治區工商聯(總商會)) and Inner Mongolia Association of Entrepreneurs (內蒙古企業家聯合會).

Mr. YAO was the chief financial officer and executive director of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) which is listed on the Stock Exchange (stock code: 2319) (principally engaged in manufacture of liquid milk, ice cream and other dairy products) from July 2008 to March 2010. Mr. YAO served as chief financial officer, financial vice president and director of Inner Mongolia Mengniu (i.e. Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司), a subsidiary of China Mengniu Dairy Company Limited, which is also principally engaged in manufacturing of liquid milk, ice cream and other dairy products, between October 2001 and January 2010.

Mr. YAO gained relevant finance and investment experience by serving as project manager (primarily responsible for identifying appropriate investment opportunities) of Inner Mongolia Investment Consultancy Company (內蒙古投資諮詢公司) (a subsidiary of China Construction Bank which is principally engaged in investment business) between July 1988 and January 1991; as head of international credit department (primarily responsible for overseeing international credit business) with the international business department of China Construction Bank (Inner Mongolia branch) between January 1991 and July 1995; and as manager of the credit department (primarily responsible for overseeing the loan transaction) of China Construction Bank (Inner Mongolia branch) between July 1995 and July 1999. Mr. YAO was also the general manager (mainly responsible for providing finance and accounting advice) of Inner Mongolia Jingtong Investment Consultancy Company (內蒙古景通投資顧問公司) (principally engaged in providing finance advisory) from September 1999 to September 2001.

Mr. YAO graduated from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) with a bachelor's degree in power engineering in August 1982 and Tianjin University (天津大學) with a master's degree in engineering in June 1988. Mr. YAO was awarded the qualification as a senior economist (高級經濟師) by China Construction Bank (formerly known as China People's Construction Bank (中國人民建設銀行)) in December 1995.

Mr. YAO did not hold directorships in any public listed companies in the last three years.

**Mr. WU Jianye** (武建鄴), aged 41, is the president and executive Director of the Company. He is primarily responsible for the management and operation of our Group such as the strategic management and implementing the key performance indicator of Shengmu Farming and Shengmu Dairy. Mr. WU was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. WU is also the director of Shengmu Holding, IMU-Shengmu Dairy and Shengmu Pangu. He has over 10 years of management experience in various different industries. Mr. WU joined our Group in September 2010 as an assistant to chief executive officer and was designated as the president of Shengmu Holding in August 2013.

Prior to joining our Group in September 2010, he was the chairman and president (mainly responsible for operational management) of Inner Mongolia Pangu Group Co., Ltd. (內蒙古盤古集團有限責任公司) (principally engaged in agricultural business) between May 2003 and August 2010. Mr. WU was the general manager (mainly responsible for overall management and sales) of Inner Mongolia Pangu Cashmere Co., Ltd (內蒙古盤古羊絨製品有限公司) (principally engaged in manufacture of cashmere) from January 2000 to May 2003.

Mr. WU graduated from the University of Inner Mongolia (內蒙古大學) in July 1995 and was awarded a college graduate certificate (專科) majoring in Chinese language and further obtained the bachelor's degree from University of Inner Mongolia (內蒙古大學) in January 2007 majoring in law (distance learning). Mr. WU also received his executive master of business administration in July 2009 from Tsinghua University in the PRC.

Mr. WU did not hold directorships in any public listed companies in the last three years.

**Ms. GAO Lingfeng** (高淩鳳), aged 44, is the vice president and executive Director of the Company. She is primarily responsible for setting up and implementing key performance indicators for various business units, production chain's quality management and organic certification management. In addition, Ms. GAO is primarily responsible for the evaluation, improvement and monitoring of our quality control system, and oversees the Group's overall administrative operation and the coordination between various business departments, and is also principally responsible for overseeing the management of Shengmu Farming. Ms. GAO was appointed to our Board on March 26, 2014. For position with other members of the Group, Ms. GAO is also the director of Shengmu Holding, IMU-Shengmu Dairy, Shengmu Agriculture and Shengmu Farming. She has over 14 years of experience in the dairy industry and 15 years of management experience in production and product quality.

Ms. GAO joined our Group since its establishment in October 2009 as vice president of Shengmu Holding. Prior to joining our Group, Ms. GAO has held various management positions with Inner Mongolia Mengniu (principally engaged in manufacturing of liquid milk, ice cream and other dairy products), including head of quality control department between October 1999 and April 2009. Ms. GAO received her master of business administration from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) in January 2011.

Ms. GAO did not hold directorships in any public listed companies in the last three years.

**Mr. CUI Ruicheng** (崔瑞成), aged 32, is the vice president, chief financial officer and executive Director of the Company. He is primarily responsible for the financial management of our Group. Mr. CUI was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. CUI is also the director of Shengmu Holding. He has over 10 years of experience in the dairy industry and financial management.

Mr. CUI joined our Group since its establishment in October 2009. He has served as the vice president (finance) and chief financial officer of Shengmu Holding since January 2014. Prior to joining our Group, Mr. CUI held various financial and accounting positions with Inner Mongolia Mengniu (principally engaged in manufacturing of liquid milk, ice cream and other dairy products), including accountant and listing administrator between July 2003 and August 2006, and was the finance department head with Inner Mongolia Mengniu Shengwu Zhineng Company Limited (內蒙古蒙牛生物質能有限公司) between August 2006 and September 2009.

Mr. CUI passed the final exams (self-learning) with Inner Mongolia University of Finance and Economics (內蒙古財經大學) (formerly known as Inner Mongolia Finance and Economics College (內蒙古財經學院)) and was awarded a college graduate certificate (專科) in December 2005 and obtained the bachelor's degree from China University of Geosciences (中國地質大學) in July 2009 majoring in business administration (on-line study). Mr. CUI is a qualified accountant in the PRC since May 2006.

Mr. CUI did not hold directorships in any public listed companies in the last three years.

**Non-executive Directors**

**Mr. WU Jingshui** (吳景水), aged 48, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. WU is also the director of Mengniu Investment (HK), and served as the director of Shengmu Holding since April 2011. Mr. WU has extensive experience in financial management.

Mr. WU was the executive Director of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) which is listed on the Stock Exchange (stock code: 2319) (principally engaged in manufacture of liquid milk, ice cream and other dairy products) from March 2010 to March 2014. Mr. WU is a vice president (finance) of Inner Mongolia Mengniu (a subsidiary of China Mengniu Dairy Company Limited, which is also principally engaged in manufacturing of liquid milk, ice cream and other dairy products) since April 2008. Before being appointed as the vice president (finance) of Inner Mongolia Mengniu, Mr. WU served as the deputy financial general manager of liquid milk division and the chief financial officer during his employment with Inner Mongolia Mengniu between November 1999 and April 2008. Mr. WU has been a non-executive director of Yashili International Holdings Ltd. (雅士利國際控股有限公司) which is listed on the Stock Exchange (stock code:1230) (principally engaged in production and sale of pediatric milk formula products and nutrition products) since July 2013.

Mr. WU graduated from Inner Mongolia Light Industry Institute (內蒙古輕工業學校) majoring in industrial enterprises financial accounting in July 1986, and received a master's degree from Inner Mongolia Agricultural University (內蒙古農業大學) majoring in agriculture advancement in December 2009. He also received his master of business administration from China Europe International Business School (中歐國際工商學院) in the PRC in September 2010. He was also awarded the senior PRC accountant qualification by the Leading Group for Professional Title Reform of Huhhot (呼和浩特市職務改革領導小組) in December 2001. In April 2010, Mr. WU was honored by Hohhot City Government as a "Labour Model (Advanced Staff) of Hohhot City" (呼和浩特市勞動模範(先進工作者)).

Save as disclosed above, Mr. WU did not hold directorships in any public listed companies in the last three years.

**Mr. FAN Xiang** (范翔), aged 38, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. FAN is also the director of Shengmu Holding since December 2013. In addition to his role with our Company, Mr. FAN is currently the Chairman and General Manager of Goldman Sachs Broad Street (Beijing) Equity

Investment Management Co., Ltd. (北京高盛寬街博華股權投資管理有限公司), a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (高盛集團有限公司) (collectively "Goldman Sachs") since January 2013. Prior to the relocation to Beijing in January 2013, Mr. FAN was with the Hong Kong principal investment area and the New York investment banking division of Goldman Sachs as managing director and executive director from August 2007 to December 2012. Mr. FAN was with KKR Asia Limited as an associate from March 2006 to July 2007.

Mr. FAN graduated with a bachelor's degree of arts from Yale University in the United States in May 1999 and received his master of business administration from the Wharton School, University of Pennsylvania in the United States in May 2004.

Mr. FAN did not hold directorships in any public listed companies in the last three years.

**Mr. CUI Guiyong** (崔桂勇), aged 52, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. CUI is also the director of Shengmu Holding since December 2013. In addition to his role with our Company, Mr. CUI is currently the managing director of Baring Private Equity Asia Limited since January 2012. Mr. CUI served as a managing director and subsequently a partner at HOPU Investment Management Co. Ltd. since May 2008. Prior to joining HOPU Investment Management Co., Ltd., he was an investment banker for 14 years, during which he served as the managing director of Morgan Stanley Asia Limited between April 2007 and April 2008, managing director of GIBA-Resources and Energy of HSBC Markets (Asia) Limited between March 2004 and April 2007, head of Investment Banking Division of ICEA Capital Limited from June 2002 to August 2003 and assumed various positions in N M Rothschild & Sons (Hong Kong) Limited from September 1994 to June 2002, including the position of the Chief Representative of China in its Beijing Office when he left the company in 2002.

Mr. CUI obtained his Doctor of Philosophy degree from the University of Oxford in the United Kingdom in May 1995, and Bachelor of Engineering and Master of Engineering degrees from the University of Science and Technology of Beijing (北京科技大學) in April 1982 and June 1987, respectively.

Mr. CUI served as a non-executive director of Winsway Coking Coal Holdings Limited which is listed on the Stock Exchange (stock code: 1733) from June 2010 to January 2012.

Save as disclosed above, Mr. CUI did not hold directorships in any public listed companies in the last three years.

**Mr. SUN Qian** (孫謙), aged 40, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014 and does not hold any position with other members of the Group. Mr. SUN is a managing director of Sequoia Capital China since 2006.

Mr. SUN was a director of Bona Film Group Limited (principally engaged in film distribution business), a company listed on NASDAQ, from 2007 to 2011 and a director of 500.com Limited (principally engaged in online sports lottery services) since October 2013. Mr. SUN has been a non-executive director in Dongpeng Holdings Company Limited (principally engaged in the design, production, marketing and sale of a wide variety of ceramic tile products and bathroom products), a company listed on the Stock Exchange (stock code: 3386) since December 2013.

Mr. SUN received a bachelor's degree in applied mathematics from Harvard University in the United States in June 1997, and master of business administration from Harvard University and a juris doctor from Harvard Law School in the United States both in June 2003.

Save as disclosed above, Mr. SUN did not hold directorships in any public listed companies in the last three years.

**Independent Non-executive Directors**

**Mr. WONG Kun Kau** (黃灌球), aged 53, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014 and does not hold any position with other members of the Group. Mr. WONG has more than 21 years of experience in investment banking and corporate finance. He is currently the founder and managing partner of Bull Capital Partners Ltd. ("**Bull Capital**"), a fund management company specializing in direct investment in the greater China region. Prior to joining Bull Capital, Mr. WONG held senior management positions with several multinational financial institutions including BNP Paribas Capital (Asia Pacific) Limited from August 1992 to November 2007, where he left as head of Asia investment banking. Mr. WONG is a non-executive director of Sun. King Power Electronics Group Limited, a company listed on the Stock Exchange (stock code: 580) (principally engaged in trading and manufacturing of power electronic components) since May 2010. He is also the independent non-executive director of West China Cement Limited (principally engaged in manufacture and sale of cement and cement products) since July 2010, Anhui Conch Cement Company Limited ("**Anhui Conch**") (principally engaged in manufacture and sales of clinker and cement products) since May 2012 and Lifestyle Properties Development Limited principally engaged in property development and property investment) since August 2013, all of which are listed on the Stock Exchange (stock code: 2233, stock code: 914 and stock code: 2183, respectively); Anhui Conch is additionally listed on The Shanghai Stock Exchange (stock code: 600585).

Mr. WONG received his bachelor's degree in social science of The University of Hong Kong in November 1982.

Save as disclosed above, Mr. WONG did not hold directorships in any public listed companies in the last three years.

**Mr. LI Changqing** (李長青), aged 58, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014 and does not hold any position with other members of the Group.

Mr. LI is currently a professor and tutor of doctoral students and has been appointed as the director of the academic committee of Inner Mongolia University of Technology (內蒙古工業大學), since 2010. Mr. LI started his career with Inner Mongolia University of Technology (內蒙古工業大學) in 1982, and has held various positions including serving as the director of business management department, deputy director of management engineering department, dean of school of international business school and founding dean of the college of management between 1982 and 2010. Mr. LI also served as a director to the Inner Mongolia Management Modernization Research Center (內蒙古管理現代化研究中心) since 2007, and a vice chairman to the Inner Mongolia Academy of Management (內蒙古管理學會) since 2006.

Mr. LI is widely recognized for his research and has received numerous awards in recognition of his exemplary work including Inner Mongolia outstanding talent award (內蒙古自治區傑出人才獎) by Inner Mongolia Autonomous Region Government in September 2012 and the first-class award of Inner Mongolia science and technology progress (內蒙古自治區科學技術進步一等獎) by Inner Mongolia Autonomous Region Government in January 2009, Wuyi-Worker Medal of the Autonomous Region (全區五一勞動獎章) by Inner Mongolia Autonomous Region General Worker Union (內蒙古自治區總工會) in April 2012 and received special allowance from the State Council in March 2009 in recognition of his outstanding contribution in the education sector.

Mr. LI graduated with a bachelor's degree in engineering from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) in January 1982, received a master's degree of engineering from Tianjin University (天津大學) in April 1995, and received his doctorate in management science from Huazhong University of Science and Technology (華中科技大學) in the PRC in June 2005.

Mr. LI did not hold directorships in any public listed companies in the last three years.

**Ms. GE Xiaoping** (葛曉萍), aged 51, is an independent non-executive Director of the Company. She was appointed to our Board on June 18, 2014 and does not hold any position with other members of the Group. Ms. GE has over 30 years of experience in auditing and accounting, she is a certified public accountant in PRC and certified public valuer (as recognized by China Appraisal Society (中國資產評估協會)) in China.

Ms. GE is currently a partner and branch chief representative (Xiamen branch) for BDO China Shu Lun Pan Certified Public Accountants LLP ("**BDO**") (立信會計師事務所(特殊普通合夥)) since March 2010. She was the accounting lecturer for the People's Liberation Army Necessities and Finance College (中國人民解放軍軍需財經高等專科學校) between June 1989 and January 1997, and she held various positions (including accountant) with Hubei Electronic Engines Factory (湖北電機廠) (principally engaged in manufacture of engines) between December 1980 and June 1989. Ms. GE was an independent director of Tsann Keun China Enterprise Co., Ltd. (厦門燦坤實業股份有限公司) (principally engaged in electronics engineering and instrument manufacturing), a company listed on the Shenzhen Stock Exchange (stock code: 200512) between May 2008 and May 2014.

Ms. GE received numerous awards and appointments in recognition of her exemplary work including: a member of the eleventh and twelfth Xiamen Chinese People's Political Consultative Conference (廈門市政協第十一屆、十二屆委員) (with the appointment term from 2007 to 2016), Outstanding Member of the People's Political Consultative Conference (2010-2011) (2010-2011年度優秀政協委員) and the vice president of the Certified Public Accountant Association (Xiamen branch) since October 2013.

Ms. GE graduated from Zhongnan University of Economics and Law (中南財經政法大學) (formerly known as Zhongnan University of Economics (中南財經大學)) in the PRC majoring in financial accounting in July 1995.

Save as disclosed above, Ms. GE did not hold directorships in any public listed companies in the last three years.

**Mr. YUAN Qing** (袁清), aged 57, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014 and does not hold any position with other members of the Group. Mr. YUAN has over 25 years of experience in academic research, on the subject of grassland resources.

Mr. YUAN has been engaged in research work with the Institute of Grassland Research Chinese Academy of Agricultural Sciences (中國農業科學院草原研究所) since 1986. Mr. YUAN was the vice president of the China Grassland Society of Grassland Resources and Professional Committee (中國草學會草地資源與利用專業委員會) from September 2007 to October 2013, the head of resources and environmental research office in the Institute of Grassland Research of Chinese Academy of Agricultural Sciences (中國農業科學院草原研究所資源與環境研究室) from 2002 to 2005 and currently a member of the academic committee of the Institute of Grassland Research of Chinese Academy of Agricultural Sciences (中國農業科學院草原研究所學術委員會). Mr. YUAN served as the standing director and deputy general-secretary of China branch of the Association of Remote Sensing Applications, Environmental Remote Sensing (中國遙感應用協會環境遙感分會) from December 2006 to August 2013.

Mr. YUAN is widely recognized for his research work, and was recognized as the Young Expert with Outstanding Contribution (中青年有突出貢獻專家), by the PRC's Ministry of Agriculture (中華人民共和國農業部) in December 2001. Mr. YUAN was awarded the special allowance (特殊津貼) from the State Council in April 1999.

Mr. YUAN received his master's degree of agriculture from the Chinese Academy of Agricultural Sciences (中國農業科學院) in PRC in November 1986.

Mr. YUAN is an independent non-executive director of Inner Mongolia Hotision and Monsod Drought Resistance Greening Co., Ltd. (內蒙古和信園蒙草抗旱綠化股份有限公司) (principally engaged in garden landscape), a company listed on the Shenzhen Stock Exchange (stock code: 300355) since August 2010.

Save as disclosed above, Mr. YUAN did not hold directorships in any public listed companies in the last three years.

## SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of our Group:

| Name | Age | Time of joining the Group | Date of appointment/ re-designation | Position with our Company | Description of role | Relationship with the other senior management and Directors |
|---|---|---|---|---|---|---|
| Mr. YAO Tongshan (姚同山) | 57 | October 2009 | March 27, 2014[(1)] | Chairman, Chief Executive Officer and executive Director | Strategic planning and overall management, Chairman of Nomination Committee | N/A |
| Mr. WU Jianye (武建鄴) | 41 | September 2010 | March 27, 2014 | President and executive Director | Operational management | N/A |
| Ms. GAO Lingfeng (高凌鳳) | 44 | October 2009 | March 27, 2014 | Vice President and executive Director | Performance planning and control | N/A |
| Mr. CUI Ruicheng (崔瑞成) | 32 | October 2009 | March 27, 2014 | Vice President, Chief Financial Officer and executive Director | Finance and accounting | N/A |
| Mr. LI Yundong (李運動) | 42 | October 2011 | March 27, 2014 | Vice president and joint company secretary | On-site supervision and management | N/A |

*Note 1: Mr. YAO was appointed as Director of the Company on February 14, 2014 and re-designated to the said positions on March 27, 2014*

**Mr. YAO Tongshan** (姚同山), aged 57, is the founder of our Group, chairman, chief executive officer and executive Director of our Company. His biographical details are set out under the paragraph "Directors" above.

**Mr. WU Jianye** (武建鄴), aged 41, is the president and executive Director of our Company. His biographical details are set out under the paragraph "Directors" above.

**Ms. GAO Lingfeng** (高凌鳳), aged 44, is a vice president and executive Director of our Company. Her biographical details are set out under the paragraph "Directors" above.

**Mr. CUI Ruicheng** (崔瑞成), aged 32, is the vice-president, chief financial officer and executive Director of our Company. His biographical details are set out under the paragraph "Directors" above.

**Mr. LI Yundong** (李運動), aged 42, is vice president and joint company secretary of our Company since March 27, 2014. For position with other members of the Group, Mr. LI is also the director of Shengmu Agriculture, Shengmu Farming and Shengmu Liuhe. Mr. LI has over 14 years of experience in the dairy industry with extensive management experience.

Mr. LI joined our Group in October 2011, and served as the general manager (primarily responsible for overseeing daily operation) of Shengmu Farming, one of the members of our Group from October 2011 to August 2013 and the general manager (primarily responsible for overseeing daily operation) and board secretary (overseeing secretarial matters) of Shengmu Holding since August 2013. Prior to joining our Group, Mr. LI has held various management positions with Inner Mongolia Mengniu (principally engaged in manufacturing of liquid milk, ice cream and other dairy products), including treasurer, head of finance department, vice-president (finance) of the ice cream business division, head of settlement department and deputy chief financial officer of the operation system from April 2000 to September 2011.

Mr. LI graduated with a bachelor's degree majoring in statistics from Inner Mongolia University of Finance and Economics (內蒙古財經大學) in July 1993 and received his master's degree in business management from Zhengzhou University (鄭州大學) in June 2009.

Mr. LI did not hold directorships in any public listed companies in the last three years.

For details of our Directors' interests in our Shares (within the meaning of Part XV of the SFO), please refer to the section headed "Statutory and General Information — C. Further Information About Our Directors and Substantial Shareholders" in Appendix IV to this prospectus.

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors and senior management, having made all reasonable enquiries, there was no additional matter with respect to the appointment of our Directors or senior management that needs to be brought to the attention of the shareholders and there was no additional information relating to our Directors or senior management that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

## JOINT COMPANY SECRETARIES

**Mr. LI Yundong** (李運動), aged 42, is a joint company secretary of our Company. He was appointed on March 27, 2014. Mr. LI is also a vice president. His biographical details are set forth in the paragraph headed "Senior Management" above.

**Mr. AU Wai Keung** (區偉強), aged 42, is a joint company secretary of our Company. Mr. AU was appointed on March 27, 2014. Mr. AU has more than 15 years of experience in the area of accounting. Currently, Mr. AU is a director, a shareholder and the founder of Arion & Associates Limited (亞利安會計事務所有限公司), a corporate secretarial and accounting services provider in Hong Kong. He also served as the company secretary of Baofeng Modern International Holdings Company Limited (寶峰時尚國際控股有限公司) which is listed on the Stock Exchange (stock code: 1121) from January 2011 to January 2014 and the company secretary of Honworld Group Limited (老恒和釀造有限公司) which is listed on the Stock Exchange (stock code: 2226) since December 2013.

Mr. AU was a consultant at Kennic L.H. Lui & Co., Certified Public Accountants, (呂禮恒會計師事務所) from October 2006 to May 2007. He served as the financial controller of IEFTS China Limited (上海致渝計算器科技有限公司) from August 2004 to August 2006 and as the chief financial officer of Universal Technologies Holdings Limited (環球實業科技控股有限公司) which is listed on the Stock Exchange (stock code: 1026), from February 2001 to June 2004.

Mr. AU received a bachelor's degree of Social Science from the Chinese University of Hong Kong in December 1993 and a master's degree in Business Administration from the City University of Hong Kong in November 1999. He is an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales.

## BOARD COMMITTEES

### Audit committee

We established an audit committee on June 18, 2014 with written terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of our Group.

The audit committee comprises Ms. GE Xiaoping, Mr. LI Changqing and Mr. CUI Guiyong, and is chaired by Ms. GE Xiaoping.

### Remuneration committee

We established a remuneration committee on June 18, 2014 with written terms of reference as suggested under the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary functions of the remuneration committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages for our Directors and senior management members.

The remuneration committee comprises Mr. WONG Kun Kau, Mr. LI Changqing and Mr. SUN Qian, and is chaired by Mr. WONG Kun Kau.

### Nomination committee

We established a nomination committee on June 18, 2014 with written terms of reference as suggested under the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

The nomination committee comprises Mr. YAO Tongshan, Mr. YUAN Qing and Mr. WONG Kun Kau, and is chaired by Mr. YAO Tongshan.

## CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. YAO Tongshan currently performs these two roles. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

As the Company was incorporated on December 11, 2013 and has not commenced any business or operation apart from the Reorganization, it did not appoint any director, chief executive officer or independent non-executive Director during the Track Record Period. There was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the Track Record Period.

The aggregate amount of fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind paid to our five highest paid individuals of our Company, including Directors, during each of 2011, 2012 and 2013 was approximately RMB710,000, RMB1,567,000 and RMB1,527,000, respectively.

Under the arrangements currently in force, we estimate the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2014 to be approximately RMB1,560,000.

No remuneration was paid to our Directors or the five highest paid individuals of our Group as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of 2011, 2012 and 2013. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of 2011, 2012 and 2013 by the Group to the Directors.

Each of our executive Directors has entered into a service contract with our Group and our Group has also entered into letters of appointment with each of our non-executive Directors and independent non-executive Directors. Further details of the terms of the above service contracts and letters of appointment are set out in "Statutory and General Information — C. Further Information About Our Directors and Substantial Shareholders" in Appendix IV to this prospectus.

## COMPLIANCE ADVISER

We have appointed TC Capital Asia Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## PRE-IPO SHARE OPTION SCHEME

In order to assist us in attracting, retaining and motivating our key employees and senior management, we adopted a Pre-IPO Share Option Scheme on April 30, 2014, details of which are set out in the paragraph headed "Statutory and General Information — D. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

## SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the paragraph headed "Statutory and General Information — E. Share Option Scheme" in Appendix IV to this prospectus.

The following is a description of the authorized share capital and share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the Capitalization Issue and Global Offering.

| | | Nominal Value |
|---|---|---|
| *Authorized share capital:* | | **HK$** |
| 30,000,000,000 | Shares | 300,000.00 |
| *Issued share Capital:* | | |
| 143,839,020 | Shares in issue as of the date of this prospectus | 1,438.39 |
| *Shares to be issued* | | |
| 5,765,760,980 | Shares to be issued under the Capitalization Issue | 57,657.61 |
| 444,800,000 | Shares to be issued pursuant to the Global Offering assuming no exercise of the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme | 4,448.00 |

*Total issued share capital upon completion of the Capitalization Issue and the Global Offering and assuming no exercise of the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme:*

| | | |
|---|---|---|
| 6,354,400,000 | Shares | 63,544.00 |
| *Shares to be issued:* | | |
| 66,720,000 | Shares to be issued upon full exercise of the Over-allotment Option | 667.20 |

*Total issued share capital upon completion of the Capitalization Issue and the Global Offering and assuming full exercise of the Over-allotment Option but no exercise of any option granted under the Pre-IPO Share Option Scheme:*

| | | |
|---|---|---|
| 6,421,120,000 | Shares | 64,211.20 |
| *Shares to be issued:* | | |
| 504,480,000 | Shares to be issued upon full exercise of all the options granted under the Pre-IPO Share Option Scheme | 5,044.80 |

*Total issued share capital upon completion of the Capitalization Issue and the Global Offering and assuming full exercise of the Over-allotment Option and all the options granted under the Pre-IPO Share Option Scheme:*

| | | |
|---|---|---|
| 6,925,600,000 | Shares | 69,256.00 |

## ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued or repurchased pursuant to the general mandate granted to our Directors to issue or repurchase Shares as described below.

## RANKINGS

The Shares are ordinary shares in the share capital of our Company and will rank *pari passu* with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

## GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed "Structure and Conditions of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

(a) a rights issue;

(b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our By-laws;

(c) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of:

    (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and

    (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the section headed "— General Mandate to Repurchase Shares" below.

This general mandate to issue Shares will expire:

(1) at the conclusion of our next annual general meeting; or

(2) at the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or

(3) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section "Statutory and General Information — A. Further Information About Our Group — Resolutions in Writing of the Shareholders of Our Company Passed on April 30, 2014 and June 18, 2014" in Appendix IV to this prospectus.

## GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed "Structure and Conditions of the Global Offering — Conditions of the Hong Kong Public Offering," our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which have been issued granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

This general mandate relates only to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section "Statutory and General Information — A. Further Information About our Group — Repurchases of Our Own Shares" in Appendix IV to this prospectus.

This general mandate to repurchase Shares will expire:

(i) at the conclusion of our next annual general meeting; or

(ii) at the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section "Statutory and General Information — A. Further Information About Our Group — Resolutions in Writing of the Shareholders of Our Company Passed on April 30, 2014 and June 18, 2014" in Appendix IV to this prospectus.

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the Global Offering (assuming no exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), without taking into account the Offer Shares which may be taken up under the Global Offering, the following persons will have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will 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 our Company or any other member of our Group and are therefore regarded as substantial shareholders of our Company or any other member of our Group under the Listing Rules:

## SUBSTANTIAL SHAREHOLDERS OF OUR COMPANY

| Name | Capacity/Nature of interest | Number of Shares/underlying Shares | Percentage |
|---|---|---|---|
| World Shining[1] | Beneficial Owner | 3,594,221,600 | 56.56% |
| SHI Jianhong (史建宏)[1] | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| ZHU Jianhua (朱建華)[2] | Interests of spouse | 3,594,221,600 | 56.56% |
| WANG Fuzhu (王福柱)[1] | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| HOU Bo (侯波)[3] | Interests of spouse | 3,594,221,600 | 56.56% |
| YAO Tongshan (姚同山)[1] | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 70,419,200 | 1.11% |
| ZHANG Junli (張軍力)[4] | Interests of spouse | 3,664,640,800 | 57.67% |
| GUO Yunfeng (郭運鳳)[1] | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| WANG Zhizhong (王志忠)[5] | Interests of spouse | 3,594,221,600 | 56.56% |

| Name | Capacity/Nature of interest | Number of Shares/underlying Shares | Percentage |
|---|---|---|---|
| WU Jianye (武建鄴)[1] .............. | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 64,876,800 | 1.02% |
| QIN Yuan (秦源)[6] .................... | Interests of spouse | 3,659,098,400 | 57.58% |
| WANG Zhenxi (王振喜)[1].......... | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| WANG Ning (王寧)[7] ................ | Interests of spouse | 3,594,221,600 | 56.56% |
| GAO Lingfeng (高淩鳳)[1] ......... | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 31,992,000 | 0.50% |
| YUN Zhongping (雲中平)[8]....... | Interests of spouse | 3,626,213,600 | 57.06% |
| YUN Jindong (雲金東)[1] .......... | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| GUO Haimei (郭海梅)[9] ........... | Interests of spouse | 3,594,221,600 | 56.56% |
| YANG Yaping (楊亞萍)[1] .......... | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| TENG Jie (騰傑)[10] .................. | Interests of spouse | 3,594,221,600 | 56.56% |
| LU Shunyi (蘆順義)[1]................ | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |

| Name | Capacity/Nature of interest | Number of Shares/underlying Shares | Percentage |
|---|---|---|---|
| ZHAO Lizhen (趙麗珍)[11] ......... | Interests of spouse | 3,594,221,600 | 56.56% |
| WANG Zhen (王鎮)[1] ............... | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 11,160,000 | 0.18% |
| YANG Yali (楊亞利)[1] .............. | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| YANG Feng (楊峰)[12] ............... | Interests of spouse | 3,594,221,600 | 56.56% |
| ZHANG Junke (張俊科)[1] .......... | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| ZHENG Yueqin (鄭月琴)[13] ....... | Interests of spouse | 3,594,221,600 | 56.56% |
| CUI Ruicheng (崔瑞成)[1] .......... | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 31,992,000 | 0.50% |
| LI Liying (李麗英)[14] ............... | Interests of spouse | 3,626,213,600 | 57.06% |
| Greater Honour[15] .................... | Beneficial Owner | 514,242,400 | 8.09% |
| JIANG Jinzhi (蔣錦志)[15] .......... | Interest of a controlled corporation | 514,242,400 | 8.09% |
| TANG Hua[16] .......................... | Interests of spouse | 514,242,400 | 8.09% |
| Greenbelt Global[17] .................. | Beneficial Owner | 395,235,200 | 6.22% |
| Sequoia Capital[18] .................... | Beneficial Owner | 378,320,000 | 5.95% |
| The Goldman Sachs Group, Inc.[19] .................................. | Beneficial Owner | 395,235,200 | 6.22% |

*Notes:*

(1) Pursuant to the acting-in-concert agreement dated October 18, 2010 and a supplementary agreement dated March 24, 2014, our Ultimate Controlling Shareholders (other than Mr. YAO) shall support Mr. YAO's decisions in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders of the member companies of our Group in accordance with the decision of Mr. YAO upon completion of the Reorganization. For more details, please refer to the section on "Relationship with Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" of this prospectus. As such, our Ultimate Controlling Shareholders together control 56.56% interest in the issued share capital of our Company through World Shining. As a result of the acting-in-concert agreement, each of our Ultimate Controlling Shareholders is deemed to be interested in such 56.56% interest in the issued share capital of the Company.

(2) ZHU Jianhua is the spouse of SHI Jianhong. Under the SFO, ZHU Jianhua is deemed to be interested in the same number of Shares in which SHI Jianhong is interested.

(3) HOU Bo is the spouse of WANG Fuzhu. Under the SFO, HOU Bo is deemed to be interested in the same number of Shares in which WANG Fuzhu is interested.

(4) ZHANG Junli is the spouse of YAO Tongshan. Under the SFO, ZHANG Junli is deemed to be interested in the same number of Shares in which YAO Tongshan is interested.

(5) WANG Zhizhong is the spouse of GUO Yunfeng. Under the SFO, WANG Zhizhong is deemed to be interested in the same number of Shares in which GUO Yunfeng is interested.

(6) QIN Yuan is the spouse of WU Jianye. Under the SFO, QIN Yuan is deemed to be interested in the same number of Shares in which WU Jianye is interested.

(7) WANG Ning is the spouse of WANG Zhenxi. Under the SFO, WANG Ning is deemed to be interested in the same number of Shares in which WANG Zhenxi is interested.

(8) YUN Zhongping is the spouse of GAO Lingfeng. Under the SFO, YUN Zhongping is deemed to be interested in the same number of Shares in which GAO Lingfeng is interested.

(9) GUO Haimei is the spouse of YUN Jindong. Under the SFO, GUO Haimei is deemed to be interested in the same number of Shares in which YUN Jindong is interested.

(10) TENG Jie is the spouse of YANG Yaping. Under the SFO, TENG Jie is deemed to be interested in the same number of Shares in which YANG Yaping is interested.

(11) ZHAO Lizhen is the spouse of LU Shunyi. Under the SFO, ZHAO Lizhen is deemed to be interested in the same number of Shares in which LU Shunyi is interested.

(12) YANG Feng is the spouse of YANG Yali. Under the SFO, YANG Feng is deemed to be interested in the same number of Shares in which YANG Yali is interested.

(13) ZHENG Yueqin is the spouse of ZHANG Junke. Under the SFO, ZHENG Yueqin is deemed to be interested in the same number of Shares in which ZHANG Junke is interested.

(14) LI Liying is the spouse of CUI Ruicheng. Under the SFO, LI Liying is deemed to be interested in the same number of Shares in which CUI Ruicheng is interested.

(15) Greater Honour is wholly owned by JIANG Jinzhi.

(16) TANG Hua is the spouse of JIANG Jinzhi. Under the SFO, TANG Hua is deemed to be interested in the same number of shares in which JIANG Jinzhi is interested.

(17) Greenbelt Global is held as to approximately 99.4% by The Baring Asia Private Equity Fund V, L.P.. Baring Private Equity Asia GP V, L.P. is the general partner of The Baring Asia Private Equity Fund V, L.P.. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited (the general partner of Baring Private Equity Asia GP V, L.P.). Jean Eric Salata disclaims beneficial ownership of such Shares, except to the extent of his economic interest in such entities. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P. , Baring Private Equity Asia GP V Limited and Jean Eric Salata is therefore deemed to be interested in the Shares held by Greenbelt Global under the SFO.

(18) Sequoia Capital is owned by Sequoia Capital China Growth 2010 Fund, L.P. as to 85.53%, Sequoia Capital China Growth 2010 Partners Fund, L.P. as to 7.10% and Sequoia Capital China Growth 2010 Principals Fund, L.P. as to 7.37%, or collectively, SCC 2010 Growth Funds. The SCC 2010 Growth Funds' general partner is SC China Growth 2010 Management, L.P., whose general partner is SC China Holding Limited, a company incorporated in the Cayman Islands. SC China Holding Limited is wholly owned by SNP China Enterprises Limited, a company wholly owned by SHEN Nanpeng. SHEN Nanpeng disclaims beneficial ownership of the Shares held by Sequoia Capital, except to the extent of his pecuniary interest therein. Each of Sequoia Capital China Growth 2010 Fund, L.P., SC China Growth 2010 Management, L.P., SC China Holding Limited, SNP China Enterprises Limited and SHEN Nanpeng is therefore deemed to be interested in the shares held by Sequoia Capital under the SFO.

(19) Each of Saint Investment (Mauritius) and Broad Street is interested in 197,617,600 Shares, representing in aggregate 6.22% of the total issued share capital of our Company. Saint Investment (Mauritius) is a GBL1 (Global Business License Category 1) entity registered in Mauritius. Saint Investment (Mauritius)'s capital is derived from funds or monies managed and/or controlled by subsidiaries of The Goldman Sachs Group, Inc. Broad Street is an exempted limited partnership registered in the Cayman Islands. Its general partner is Broad Street (Cayman) GP Limited, a wholly-owned subsidiary of The Goldman Sachs Group, Inc. Its limited partner is Shanghai Broad Street Investment Center Limited Partnership, a subsidiary of Broad Street (Beijing) 2011 Investment Center (Limited Partnership), an investment fund managed and controlled by affiliates of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc. is therefore deemed to be interested in the number of Shares in which Saint Investment (Mauritius) and Broad Street are collectively interested. The Goldman Sachs Group, Inc. is an Independent Third Party.

(20) Interests in options granted pursuant to Pre-IPO Share Option Scheme.

**Substantial Shareholders of other Members of Our Group**

| Name | Name of other member of our Group | Percentage of interest |
|---|---|---|
| WU Jianye (武建鄴) | Shengmu Pangu | 45.0% |
| Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司) | IMU-Shengmu Dairy | 30.0% |
| WANG Jinliang (王金良) | Shengmu Xintai | 45.0% |
| CHEN Qingjun (陳慶軍) | Shengmu Hateng | 35.0% |
| LI Yongqiang (李永強) | Shengmu Taohai | 45.0% |
| LI Yundong (李運動) | Shengmu Liuhe | 35.0% |
| WANG Qiang (王強) | Shengmu Wuxing | 35.0% |
| WANG Zhen (王鎮) | Shengmu Xiwang | 17.5% |
| SUN Xiyao (孫喜耀) | Shengmu Xiwang | 17.5% |
| LI Ruijun (李瑞軍) | Shengmu Qixing | 35.0% |
| YANG Bin (楊斌) | Shengmu Beidou | 35.0% |
| WANG Lixin (汪立新) | Shengmu Xinhe | 35.0% |
| CHANG Zhiba (常志拔) | Shengmu Zhenghe | 35.0% |
| HOU Liubin (侯留斌) | Shengmu Weiye | 35.0% |
| GUO Yongfeng (郭永豐) | Shengmu Zhaofeng | 35.0% |
| REN Junmin (任俊明) | Shengmu Sanli | 35.0% |
| HAO Kaiyun (郝凱雲) | Shengmu Shajin | 35.0% |

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering (assuming no exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme), without taking into account the Offer Shares that may be taken up under the Global Offering, have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will 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 our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

## THE CORPORATE PLACING

We have entered into a cornerstone investment agreement with the following cornerstone investor, who agreed to (subject to certain conditions) subscribe at the Offer Price for such number of Shares with certain investment amount. Assuming an Offer Price of HK$2.39, HK$2.67 and HK$2.95 per Offer Share, being the low-end, mid-point and high-end of the indicative Offer Price range stated in this prospectus, the total number of Shares to be subscribed for by such cornerstone investor would be 96,433,000, 86,320,000 and 78,127,000 Shares, representing approximately 1.52%, 1.36% and 1.23% of our total issued share capital after the Global Offering (after Capitalization Issue and assuming that none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised), respectively. The cornerstone placing forms part of the International Offering and none of such cornerstone investor will subscribe for any Offer Share under the Global Offering (other than and pursuant to the cornerstone investment agreement). The Shares to be subscribed for by such cornerstone investor will not be affected by any reallocation of the Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section entitled "Structure and Conditions of the Global Offering — The Hong Kong Public Offering" in this prospectus. Details of the allocation to such cornerstone investor will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on or about July 14, 2014.

The subscription obligation of the below cornerstone investor is subject to, among other things, the following conditions precedent:

(1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into, become effective and having become unconditional (in accordance with their respective original terms, or as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) by no later than the time and date as specified in these underwriting agreements;

(2) the Hong Kong Underwriting Agreement and the International Underwriting Agreement not having been terminated;

(3) no laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions;

(4) the listing committee of the Hong Kong Stock Exchange having granted approval for the listing of, and permission to deal in, the Shares and such approval and permission not having been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange; and

(5) the respective representations, warranties, undertakings, acknowledgments and confirmations of the cornerstone investor and our Company in the cornerstone investment agreement are accurate and true in all material respects and not misleading and that there is no breach of the cornerstone investment agreement on the part of the cornerstone investor and our Company.

## OUR CORNERSTONE INVESTOR

### Bao Hua Investments

Bao Hua Investments Limited, or Bao Hua Investments, has agreed to subscribe for such number of Shares which may be purchased with an aggregate amount of US$30 million (inclusive of brokerage, SFC transaction levy, the Hong Kong Stock Exchange trading fee and other related expenses) at the Offer Price. Assuming an Offer Price of HK$2.39, HK$2.67 and HK$2.95, being the low-end, mid-point and high-end of the indicative Offer Price range stated in this prospectus, Bao Hua Investments will subscribe for 96,433,000, 86,320,000 and 78,127,000 Shares, representing approximately 1.52%, 1.36% and 1.23% of the total share capital of our Company immediately upon completion of the Global Offering (after Capitalization Issue and assuming that none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised), respectively.

Bao Hua Investments is a company incorporated in the BVI. It is a company wholly owned by COFCO (Beijing) Agricultural Industrial Equity Investment Fund (A Limited Partnership). COFCO (Beijing) Agricultural Industrial Equity Investment Fund (A Limited Partnership) is jointly established in the PRC by COFCO Corporation, China Jianyin Investment Limited, Louis Dreyfus Commodities Asia Pte Ltd, Sumitomo Mitsui Banking Corporation, Horley Investments Limited and COFCO Agricultural Industrial Investment Fund Management Co., Ltd., and is principally engaged in investment of private enterprises in agriculture and food industries and related management and consulting services.

To the best knowledge of our Company, the above cornerstone investor is an independent third party of our Company, not our connected person, and not an existing shareholder of our Company. Accordingly, the shareholdings of such cornerstone investor in our Company will be counted towards the public float of our Shares. Immediately following completion of the Global Offering, the above cornerstone investor will not have any board representation in our Company, nor will it become a substantial shareholder of our Company.

## RESTRICTIONS ON THE CORNERSTONE INVESTOR'S INVESTMENT

The abovementioned cornerstone investor has agreed that, without the prior written consent of our Company and the Joint Global Coordinators, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of any of the Shares subscribed by it or any interest in any company or entity holding any such Shares, including any securities convertible into or exchangeable or exercisable for or that represent the right to receive any of the forgoing securities, nor shall it agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of such Shares, save that, subject to certain conditions, the cornerstone investor may transfer the Shares subscribed by it in the International Offering to its wholly-owned subsidiary(ies) during such six months' lock-up period.

*You should read the following discussion and analysis of our financial condition and results of operations together with our combined financial statements as of and for each of the years ended December 31, 2011, 2012 and 2013 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. Our combined financial statements have been prepared in accordance with IFRS. Potential investors should read the accountants' report in Appendix I in its entirety and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.*

## OVERVIEW

We are the largest organic dairy company in China and the only vertically integrated organic dairy company in China that meets E.U. organic standards, according to the F&S Report. We have a 54.2% market share in China based on 2013 organic raw milk production volume, according to the F&S Report. Together with our associate, Shengmu Forage, our unique vertically integrated "grass-to-glass" organic ("全程有機") production model covers the entire dairy industry value chain, meeting E.U. organic standards for all major stages of the dairy production process: forage growing, dairy farming to produce raw milk, and processing to produce liquid milk products. We are also a major player in premium non-organic raw milk market in China based on 2013 production volume, also according to the F&S Report.

We classify our businesses into the following two segments:

- *Dairy farming*. This segment consists of (i) sales of organic raw milk which accounted for 45.3% of our total raw milk sales volume in 2013. Out of the organic raw milk sales volume in 2013, 74.2% was sold to external customers including Mengniu Group, while the remaining 25.8% was used for downstream processing into our "Shengmu 圣牧" branded organic liquid milk products; (ii) sales of premium non-organic raw milk which accounted for 54.7% of total raw milk sales volume in 2013.

- *Liquid milk*. This segment engages in (i) processing our organic raw milk into packaged organic whole milk, low fat milk, and children's milk which are marketed under our own "Shengmu 圣牧" brand; (ii) selling our organic dairy products to consumers in China primarily through distributors.

As of December 31, 2013, we had a total of 30,621 organic dairy cows and 29,836 non-organic dairy cows. As of that date, all of our 13 organic dairy farms were located in the Ulan Buh desert while all of our 12 non-organic dairy farms were located in Hohhot, Inner Mongolia. A majority of our farms have a capacity to house between 2,500 to 4,500 cows. Our average annual milk yield in 2013 was 8.5 tonnes.

We have experienced rapid growth over the Track Record Period. Our revenue increased from RMB389.4 million in 2011 to RMB1,143.7 million in 2013, or a CAGR of 71.4%. Our profit for the year before biological fair value adjustments increased from RMB106.1 million in 2011 to RMB365.0 million in 2013, or a CAGR of 85.5%. Our gross margin was 29.4%, 33.4% and 42.9% in 2011, 2012 and 2013, respectively.

## FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected by the following factors:

- *Production volume of raw milk.* In line with our strategy to focus on expanding our organic raw milk and liquid milk businesses, we expect that our production volume of organic raw milk will grow significantly while our production volume of premium non-organic raw milk will increase at a slower pace. Our production volume is primarily driven by the size of our cow herd. As of December 31, 2011, 2012 and 2013, we had four, seven and 13 organic dairy farms, respectively, and 8,982, 14,111 and 30,621 organic dairy cows, respectively. We plan to build an additional 18 organic dairy farms by 2016 and grow our herd of organic dairy cows to approximately 120,000 organic dairy cows by that time. Production volume of raw milk is also affected by average annual milk yield, which we intend to increase by continuing to improve the animal welfare of our cows and operational efficiencies. The growth of our herd of dairy cows is affected by the availability of feed at commercially acceptable prices. As part of our strategic cooperation agreement with Shengmu Forage, our primary supplier of organic forage, Shengmu Forage, has agreed to supply organic forage to us on an exclusive basis, and plans to develop at least approximately 60,000, 65,000, and 65,000 mu of additional growing fields of organic forage in 2014, 2015 and 2016, respectively, to support the growth of our cow herd. See "Business — Suppliers and Procurement — Organic Feed."

- *Production of liquid milk products.* The production volume of our organic liquid milk products significantly depends on our processing capacity. We currently have three production lines in our organic liquid milk processing facility with a maximum daily processing capacity of 330 tonnes of organic liquid milk. We plan to increase our daily liquid milk processing capacity to 1,150 tonnes, including 380 tonnes of yogurt and 440 tonnes of other liquid milk products in addition to our current 330-tonne capacity, by the end of 2016. Expansion of processing capacity is capital intensive. We currently plan to allocate an aggregate of RMB360 million from 2014 to 2016 towards expansion of our processing capacity. See "Business — Business Strategy."

- *Average selling price.* The price of milk products is market driven. Currently there is a significant shortage in the supply of raw milk, particularly organic raw milk, in China, according to the F&S Report. Market demand for organic milk products has increased continually, driven by a combination of the growing concern for food safety and rising disposable income in China. The growth of organic milk supply, however, has significantly lagged the growth of demand, due to a combination of factors such as an often long and stringent organic product certification process and relatively large capital expenditures required for establishing large scale organic dairy farms. In addition, the average selling price of our organic milk products is affected by the dynamics between our pricing power and our efforts to increase market penetration through more flexible pricing policies. Our pricing power depends on our ability to maintain and improve the recognition of our "Shengmu 圣牧" brand (which we introduced only recently in June 2012) and educate consumers on the benefits of our "grass-to-glass" organic milk products.

- *Distribution network.* We began building our distribution network of liquid milk products in 2011 and generating revenue from liquid milk products in 2012. In 2013, 26.5% of our revenue was derived from sales of liquid milk products. We plan to focus on increasing sales of liquid milk products going forward and expanding our distribution network is a key component of our plan. As of December 31, 2012 and 2013, our distribution network had 108 and 316 distributors, respectively, which we plan to increase to over 400 by the end of 2014. Furthermore, our distribution network currently reaches mostly tier one and tier two cities, and we will seek to penetrate further into tier three and tier four cities. We intend to continue to focus on expanding sales channels such as supermarket chains, department stores, and convenience store chains. The level of success we experience in implementing these expansion strategies will significantly affect our revenue growth.

- *Product mix.* Product mix may affect our revenue, gross and net margins. In 2013, sales of premium non-organic raw milk and organic milk products, including organic raw milk and liquid milk products, constituted 42.7% and 57.3% of our total revenue, respectively. Sales of raw milk, including premium non-organic raw milk and organic raw milk, and liquid milk products constituted 73.5% and 26.5% of our total revenue, respectively. We expect that our future revenue growth will primarily be driven by increases in sales of organic raw milk and liquid milk products. In 2013, after elimination of internal profit from inter-segment sales, our gross margin of liquid milk products was 54.0%, as compared to 43.0% for organic raw milk and 35.9% for premium non-organic raw milk. The gross margin of our liquid milk products has been increasing as a result of the increase in our production scale. We expect our gross margin of liquid milk products to increase further as our production scale continues to increase. In addition, we expect sales of liquid milk products to increase as a percentage of our total sales. Both of these trends would positively impact our overall gross margin. On the other hand, our selling and distribution expenses have also increased primarily due to our increased sales of liquid milk products (particularly expenses to promote our "Shengmu 圣牧" brand and our products), representing 1.6%, 3.3% and 6.3% of our total revenue in 2011, 2012 and 2013, respectively. In terms of our product mix, we plan to offer yogurt in the third quarter of 2014 and develop and market additional new liquid milk products in the longer term. New products will generate additional revenue, but the profit margins of new products will likely be relatively low when we first market them, and increase if sales of these products become successful.

- *Cost of sales.* Feed is the largest component of our cost of sales, representing 78.4%, 76.3% and 78.4% of the total cost of sales for our dairy farming business in 2011, 2012 and 2013, respectively. Our feed primarily consists of forages and concentrated feed. Currently, we source our organic forages and principal raw materials (in terms of volume) for concentrated feed for our organic cows substantially from Shengmu Forage, with which we have an exclusive supply arrangement. The prices of these organic forages and principal raw materials are determined with reference to market price. See "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Forage" for more details. Historically, these prices have not fluctuated significantly. Shengmu Forage has agreed to plant and supply sufficient organic forages to us to support our future expansion plans. But if Shengmu Forage fails to supply sufficient organic forages to us, we will have to purchase from third parties which may be more expensive or even to develop our own forage growing business as supply of organic forages is limited in China. Our feeds for non-organic dairy cows are purchased from third parties. Compared to organic feeds, non-organic feeds are more widely available on the market, and market prices have historically not fluctuated significantly. Any significant change in feed price will have a significant impact on our cost of sales and profit margins. In addition, we will continuously improve our feed formulae for our dairy cows to receive better nutrition which may lead to an increase in our average feed costs.

- *Availability of capital.* A majority of our dairy farms are designed to house 2,500 to 4,500 dairy cows, which cost approximately RMB50 million to RMB90 million to purchase based on the current market prices of domestic and imported dairy cows in China. A dairy farm requires additional investments of approximately RMB30 million to RMB55 million for construction and purchase of equipment and approximately six to eight months between commencement and completion of construction. Therefore, dairy farming is capital intensive and the growth of our herd size and hence production volume will depend on availability and cost of funding.

- *Change in fair value of biological assets.* Our results of operations are affected by changes in fair value less cost to sell of biological assets in respect of our dairy cows. We are required under IFRS to recognize such changes under "Gain/(loss) arising from changes in fair value less cost to sell of biological assets." "Gain/(loss) arising from changes in fair value less costs to sell of biological assets" represents fair value changes on our dairy cows due to the changes in physical attributes and market prices of and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milking is higher than the selling price of heifer. Further, when a milkable cow is culled and sold, its value decreases. During the Track Record Period, our biological assets were revalued at each reporting date. We recorded net gains arising from changes in fair value less costs to sell of biological assets totaling RMB117.1 million, RMB4.4 million and RMB9.5 million in 2011, 2012 and 2013, respectively. The fair value of the heifers and calves is determined with reference to their market prices and breeding costs, while the fair value of milkable cows represents the present value of expected net cash flows from such milkable cows discounted at a current market rate. In applying these valuation methods, our independent qualified professional valuer has relied on a number of assumptions related to, among other things, raw milk prices, milk yield, culling rates, feed costs and discount rates. Therefore, the fair value of our dairy cows could be affected by, among other things, the accuracy of these assumptions. Any changes in the estimates may affect the fair value of the dairy cows significantly. Upward adjustments do not generate any cash inflow for our operations. The independent qualified professional valuer and our management review the assumptions and estimates periodically to identify any significant changes in fair value of dairy cows. We expect that our results will continue to be affected by changes in the fair value of our cow herd. For more information about the valuation methods applied in valuing our dairy cows, see Note 18 of the Accountants' Report included as Appendix I to this prospectus.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations are set forth in details in Note 3 to the Accountants' Report included in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgment relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below the accounting policies that we believe involve the most significant estimates and judgment used in the preparation of our financial statements.

### Withholding Taxes Arising From the Distribution of Dividends

Our determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgment on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiaries. During the Track Record Period, we did not incur any deferred tax liabilities arising thereon.

### Fair Value of Dairy Cows

Our dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as of the end of 2011, 2012 and 2013 adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and our management review the assumptions and estimates periodically to identify any significant changes in fair value of dairy cows. Further details are given in note 18 to the Accountants' report.

### Impairment of Receivables

We assess doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. We base the estimates on the assessment of recoverability of individual receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

**Impairment of Non-financial Assets (Other than Goodwill)**

We assess whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an impairment indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. We review the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

## PRINCIPAL STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME COMPONENTS

The following table sets forth a summary of our combined results of operations for the period indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | (RMB in thousands, except percentages) | | | | | |
| Revenue | 389,417 | 100.0% | 700,763 | 100.0% | 1,143,709 | 100.0% |
| Cost of sales | (274,816) | (70.6)% | (466,704) | (66.6)% | (653,284) | (57.1)% |
| Gross profit. | 114,601 | 29.4% | 234,059 | 33.4% | 490,425 | 42.9% |
| Gain/(loss) arising from changes in fair value less costs to sell of biological assets | 117,139 | 30.1% | 4,406 | 0.6% | 9,484 | 0.8% |
| Other income and gains | 10,854 | 2.8% | 7,939 | 1.1% | 6,868 | 0.6% |
| Selling and distribution expenses | (6,395) | (1.6)% | (22,869) | (3.3)% | (71,821) | (6.3)% |
| Administrative expenses | (7,845) | (2.0)% | (12,563) | (1.8)% | (25,436) | (2.2)% |
| Loss on disposal of a subsidiary | (444) | (0.1)% | — | — | — | — |
| Finance costs | (4,669) | (1.2)% | (12,389) | (1.8)% | (32,821) | (2.9)% |
| Share of profits and losses of associates | — | — | 320 | 0.0% | (1,349) | (0.1)% |
| Profit before tax | 223,241 | 57.3% | 198,903 | 28.4% | 375,350 | 32.8% |
| Income tax expense | — | — | — | — | (852) | (0.1)% |
| Profit and total comprehensive income for the year | 223,241 | 57.3% | 198,903 | 28.4% | 374,498 | 32.7% |
| Attributable to: | | | | | | |
| Owners of parent | 223,268 | 57.3% | 195,782 | 27.9% | 327,309 | 28.6% |
| Non-controlling interests | (27) | 0.0% | 3,121 | 0.4% | 47,189 | 4.1% |
| Other financial data: | | | | | | |
| Adjusted EBITDA[(1)]/Adjusted EBITDA margin[(2)] | 113,669 | 29.2% | 218,458 | 31.2% | 427,590 | 37.4% |
| Profit and total comprehensive income for the year before biological asset fair value adjustments[(3)] | 106,102 | 27.2% | 194,497 | 27.8% | 365,014 | 31.9% |

(1) Adjusted EBITDA refers to our profit and total comprehensive income for the year before income tax expense, finance costs, depreciation of items of property, plant and equipment, amortisation of prepaid land lease payments, amortisation

of other intangible assets and gain arising from changes in fair value less costs to sell of biological assets. Adjusted EBITDA is not a standard measure under IFRS. Adjusted EBITDA is a widely used financial indicator of a company's ability to service and incur debt. Adjusted EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating adjusted EBITDA, we believe that investors should consider, among other things, the components of adjusted EBITDA such as selling and distribution expenses and administrative expenses and the amount by which adjusted EBITDA exceeds capital expenditures and other charges. We have included adjusted EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our adjusted EBITDA to adjusted EBITDA presented by other companies because not all companies use the same definition.

The following table reconciles our profit and other comprehensive income for the year under IFRS to our definition of adjusted EBITDA for the period indicated:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Profit and total comprehensive income for the year | 223,241 | 198,903 | 374,498 |
| Gain arising from changes in fair value less costs to sell of biological assets | (117,139) | (4,406) | (9,484) |
| Income tax expense | — | — | 852 |
| Finance costs | 4,669 | 12,389 | 32,821 |
| Depreciation of items of property, plant and equipment | 2,486 | 10,736 | 28,003 |
| Amortisation of prepaid land lease payments | — | 35 | 71 |
| Amortisation of other intangible assets | 412 | 801 | 829 |
| Adjusted EBITDA | 113,669 | 218,458 | 427,590 |

(2) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenue.

(3) Represents profit and total comprehensive income for the year minus gain/(loss) arising from changes in the fair value less costs to sell of biological assets, which is not a standard measure under the IFRS.

## Revenue

During the Track Record Period, our revenue was generated from two operating segments: (i) dairy farming business, under which we produce and sell raw milk, both organic and premium non-organic; and (ii) liquid milk business, under which we produce and sell liquid milk products under the "Shengmu 圣牧" brand. All of our liquid milk products are produced from organic raw milk supplied internally by our organic dairy farms. Our total revenue is presented after elimination of inter-segment sales.

The following table sets forth the components of our revenue by operating segments for the period indicated.

| For the year ended December 31, | Dairy farming business: Segment revenue | Dairy farming business: Inter-segment sales[1] | Dairy farming business: External sales | Dairy farming business: External sales as % of total revenue | Liquid milk business: Segment revenue | Liquid milk business: Inter-segment sales | Liquid milk business: External sales | Liquid milk business: External sales as % of total revenue | Total revenue (after elimination of inter-segment sales[1]) |
|---|---|---|---|---|---|---|---|---|---|
| | (RMB in thousands, except percentages) | | | | | | | | |
| 2011 | 389,417 | — | 389,417 | 100.0% | — | — | — | — | 389,417 |
| 2012 | 682,179 | 15,345 | 666,834 | 95.2% | 33,929 | — | 33,929 | 4.8% | 700,763 |
| 2013 | 972,308 | 131,561 | 840,747 | 73.5% | 302,962 | — | 302,962 | 26.5% | 1,143,709 |

(1) Represents internally produced organic raw milk sold to our liquid milk business.

Our business began in the dairy farming business, and expanded into the liquid milk business in 2012. Our liquid milk business has grown rapidly since then, representing 26.5% of our total revenue in 2013. We expect revenue from our liquid milk business to increase both in absolute amounts and as a percentage of our total revenue for the foreseeable future.

***Dairy farming business***

The following table sets forth the sales amount, sales volume and average selling price per tonne of our raw milk for the period indicated.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Sales amount | Sales volume | Average selling price | Sales amount | Sales volume | Average selling price | Sales amount | Sales volume | Average selling price |
| | RMB | Tonnes | RMB/ tonne | RMB | Tonnes | RMB/ tonne | RMB | Tonnes | RMB/ tonne |
| | (in thousands except sales volume and average selling price) | | | | | | | | |
| **Organic raw milk** | | | | | | | | | |
| External sales | 82,774 | 21,484 | 3,853 | 168,096 | 33,397 | 5,033 | 352,918 | 68,518 | 5,151 |
| Inter-segment sales(1) | — | — | — | 15,345 | 2,708 | 5,667 | 131,561 | 23,813 | 5,525 |
| Subtotal | 82,774 | 21,484 | 3,853 | 183,441 | 36,105 | 5,081 | 484,479 | 92,331 | 5,247 |
| **Premium non-organic raw milk** | | | | | | | | | |
| External sales | 306,643 | 81,165 | 3,778 | 498,738 | 121,300 | 4,112 | 487,829 | 111,465 | 4,377 |
| **Total** | 389,417 | 102,649 | 3,794 | 682,179 | 157,405 | 4,334 | 972,308 | 203,796 | 4,771 |

(1) Represents internally produced organic raw milk sold to our liquid milk business.

Sales volume of both organic raw milk and premium non-organic raw milk increased significantly throughout the Track Record Period primarily due to increases in the number of our dairy cows and average annual milk yield. The number of dairy cows at our organic dairy farms increased from 8,982 as of December 31, 2011 to 30,621 as of December 31, 2013.

The average selling prices of both organic raw milk and premium non-organic raw milk also increased throughout most of the Track Record Period. Our selling prices of organic raw milk for inter-segment sales are set with reference to our selling prices for external sales.

***Liquid milk business***

The following table sets forth the sales amount, sales volume and average selling price per tonne of our liquid milk products for the period indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| Sales amount *(RMB in thousands)*...................... | — | 33,929 | 302,962 |
| Sales volume *(Tonnes)*....................................... | — | 2,246 | 20,715 |
| Average selling price *(RMB/tonne)*.................... | — | 15,106 | 14,625 |

We began to offer organic whole-milk products in gift pack and environmentally friendly pack in June 2012 and further added organic low-fat milk and organic milk for children products in 2013. Sales volume of liquid milk products increased significantly during the Track Record Period due to our increased organic raw milk production volume, our continued efforts to expand our liquid milk business and increased market recognition of our "Shengmu 圣牧" brand. The average selling price of our liquid milk products decreased from 2012 to 2013 primarily due to a combination of (i) our efforts to incentivize distributors to drive sales and increase market penetration through more flexible pricing policies; and (ii) changes in product mix, as we introduced organic milk for children and sales of environmentally friendly packed whole milk as a percentage of our total sales increased significantly in 2013, both of which had lower selling prices as a result of lower packaging cost.

## Cost of Sales and Gross Margin

The following table sets forth our gross profit and gross margin for each of our segments both before and after the elimination of internal profit from inter-segment sales for the period indicated. We use a portion of our organic raw milk to produce our liquid milk products. Such internal supply of organic raw milk is recorded as revenue under our dairy farming business and cost of sales under our liquid milk business with a reference to the price of organic raw milk sold to our external customers in the same period. These inter-segment sales were eliminated during consolidation of our results of operations.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Cost of sales | Gross profit | Gross margin | Cost of sales | Gross profit | Gross margin | Cost of sales | Gross profit | Gross margin |
| | Amount | Amount | % | Amount | Amount | % | Amount | Amount | % |
| | (RMB in thousands, except percentages) | | | | | | | | |
| **Dairy farming business** | | | | | | | | | |
| Organic raw milk | | | | | | | | | |
| Before elimination | 64,829 | 17,945 | 21.7% | 125,144 | 58,297 | 31.8% | 271,176 | 213,303 | 44.0% |
| After elimination(1) | 64,829 | 17,945 | 21.7% | 115,758 | 52,338 | 31.1% | 201,237 | 151,681 | 43.0% |
| Premium non-organic raw milk | 209,987 | 96,656 | 31.5% | 331,712 | 167,026 | 33.5% | 312,670 | 175,160 | 35.9% |
| Subtotal: | | | | | | | | | |
| Before elimination | 274,816 | 114,601 | 29.4% | 456,856 | 225,323 | 33.0% | 583,846 | 388,462 | 40.0% |
| After elimination(1) | 274,816 | 114,601 | 29.4% | 447,470 | 219,364 | 32.9% | 513,907 | 326,841 | 38.9% |
| **Liquid milk business** | | | | | | | | | |
| Before elimination | — | — | N/A | 25,193 | 8,736 | 25.7% | 200,998 | 101,964 | 33.7% |
| After elimination(2) | — | — | N/A | 19,235 | 14,694 | 43.3% | 139,377 | 163,585 | 54.0% |

(1) Represents gross profit after elimination of internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in our liquid milk business and (ii) the production costs for such organic raw milk calculated as the product of (a) total cost of sales of organic raw milk and (b) the volume of organic raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.

(2) Represents gross profit after adding back the internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in this segment and (ii) the production costs for such organic raw milk calculated using the formula in note (1) above.

*Dairy farming business*

The following table sets forth the major components of our cost of sales (before elimination of related costs of inter-segment sales) both in absolute terms and as a percentage of our cost of sales for the period indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Amount | % of total | Amount | % of total | Amount | % of total |
| | (RMB in thousands, except percentages) | | | | | |
| Feeds | 215,533 | 78.4% | 348,606 | 76.3% | 457,817 | 78.4% |
| Salary, welfare and social insurance | 21,707 | 7.9% | 34,579 | 7.6% | 49,321 | 8.4% |
| Others[(1)] | 37,576 | 13.7% | 73,671 | 16.1% | 76,708 | 13.2% |
| **Total** | 274,816 | 100.0% | 456,856 | 100.0% | 583,846 | 100.0% |

(1) Consists primarily of veterinary cost, frozen semen, depreciation, utilities, repairs and maintenance, rental expenses and consumables.

Feed costs for milkable cows account for the majority of costs for our dairy farming business. In 2011, 2012 and 2013, feed costs accounted for 78.4%, 76.3% and 78.4%, respectively, of the cost of sales of our dairy farming business. We feed our cows forages including corn silage, alfalfa and guinea grass, and concentrated feed.

The cost of sales related to inter-segment sales of organic raw milk was nil, RMB9.4 million and RMB69.9 million in 2011, 2012 and 2013, respectively, which accounted for nil, 2.1% and 12.0% of our cost of sales.

The following table sets forth the gross profit and gross margin of our organic raw milk by product type both before and after elimination of internal profit from inter-segment sales and premium non-organic raw milk for the period indicated.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Cost of sales | Gross profit | Gross margin | Cost of sales | Gross profit | Gross margin | Cost of sales | Gross profit | Gross margin |
| | Amount | Amount | % | Amount | Amount | % | Amount | Amount | % |
| | (RMB in thousands, except percentages) | | | | | | | | |
| Organic raw milk | | | | | | | | | |
| Before elimination | 64,829 | 17,945 | 21.7% | 125,144 | 58,297 | 31.8% | 271,176 | 213,303 | 44.0% |
| After elimination[(1)] | 64,829 | 17,945 | 21.7% | 115,758 | 52,338 | 31.1% | 201,237 | 151,681 | 43.0% |
| Premium non-organic raw milk | 209,987 | 96,656 | 31.5% | 331,712 | 167,026 | 33.5% | 312,670 | 175,160 | 35.9% |

(1) Represents gross profit after elimination of internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in our liquid milk business and (ii) the production costs for such organic raw milk calculated as the product of (a) total cost of sales of organic raw milk and (b) the volume of organic raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.

Gross margin of our organic raw milk business has increased significantly during the Track Record Period primarily due to the continuing increase in the average selling price of organic raw milk. The increase in gross margin of our premium non-organic raw milk business was primarily due to the continuing increase in the average selling price of premium non-organic raw milk.

***Liquid milk business***

Cost of sales of our liquid milk products primarily consists of costs of procurement of raw milk, costs of packaging and auxiliary materials, salary and welfare of employees directly involved in production activities and other costs.

The following table sets forth the major components of our cost of sales both in absolute terms and as a percentage of our cost of sales for the period indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Amount | % of total | Amount | % of total | Amount | % of total |
| | (RMB in thousands, except percentages) | | | | | |
| Raw milk(1) | — | — | 12,846 | 51.0% | 115,951 | 57.7% |
| Packages | — | — | 7,383 | 29.3% | 62,559 | 31.1% |
| Salary, welfare and social insurance | — | — | 1,373 | 5.4% | 3,836 | 1.9% |
| Others(2) | — | — | 3,591 | 14.3% | 18,652 | 9.3% |
| **Total** | — | — | 25,193 | 100.0% | 200,998 | 100.0% |

(1) Before elimination of internal profit generated from inter-segment sales to liquid milk business.

(2) Consists primarily of other raw materials, depreciation, utilities, repairs and maintenance, consumables and service fee.

We began sale of our liquid milk products in June 2012. Cost for internal procurement of organic raw milk and cost of packaging materials historically represented a substantial majority of our cost of sales in the liquid milk business.

The gross margin of our liquid milk business increased significantly in 2013 from 2012, primarily due to an increase in our production scale and efficiency.

**Gain Arising from Changes in Fair Value Less Costs to Sell of Biological Assets**

Gain/(loss) arising from changes in fair value less costs to sell of biological assets represents fair value changes in our dairy cows, due to the changes in physical attributes and market prices of and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milking is higher than the selling price of heifers. Further, when a milkable cow is culled and sold, its value decreases. During the Track Record Period, the biological assets were revalued at each reporting date.

During the Track Record Period, the valuer for dairy cows has adopted the following principal valuation assumptions:

- *Calves and heifers*. The fair value of the heifers purchased within six month prior to each reporting date is determined with reference to the actual purchase price, with adjustment by adding the feed costs from the purchase date to the reporting date. For the remaining heifers, the fair value of 14-month-old heifers is determined by referring to the market price of the actively traded market and adjusted by the potential milk yield. The fair value of heifers older than 14 months is determined by adding the breeding costs required to raise the heifers from 14 months of age to their respective ages plus the estimated margins that would be required by a raiser. The fair value of the calves and heifers younger than 14 months of age and the fair value of the calves is determined by subtracting the breeding costs required to raise the calves or heifers from their respective ages to 14 months of age and the estimated margins required by a raiser.

- *Milkable cows*. The fair value of milkable cows is determined using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.

We recorded net gains arising from changes in fair value less costs to sell of biological assets of RMB117.1 million, RMB4.4 million and RMB9.5 million in 2011, 2012 and 2013, respectively. See "— Results of Operations" for analyses on the fluctuation of the gains arising from changes in fair value less costs to sell of biological assets.

When disposing of our dairy cows, we write off the carrying amount of the dairy cows from our biological assets, and the difference between the carrying amount of the dairy cows disposed and the proceeds from the disposal is recorded as change in fair value less costs to sell of our biological assets. The cash proceeds are recorded under investment cash inflow. The cash proceeds from disposal of biological assets amounted to RMB22.9 million, RMB39.0 million and RMB159.6 million in 2011, 2012 and 2013, respectively.

For more information, see "— Discussion of Certain Statements of Financial Position Items — Biological Assets."

### Other Income and Gains

Other income and gains include government grants, bank interest income and other income. Government grants, which totaled RMB6.3 million, RMB3.7 million and RMB5.5 million in 2011, 2012 and 2013, respectively, are unconditional grants and subsidies and are a part of PRC government's policy to support China's dairy farming business.

### Selling and Distribution Expenses

The following table sets forth our selling and distribution expenses by business segment for the period indicated.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Amount | % of total revenue | % of segment revenue | Amount | % of total revenue | % of segment revenue | Amount | % of total revenue | % of segment revenue |
| | (RMB in thousands, except percentages) | | | | | | | | |
| Dairy farming business | 6,183 | 1.6% | 1.6% | 9,007 | 1.3% | 1.3% | 11,157 | 1.0% | 1.1% |
| Liquid milk business | 212 | — | N/A | 13,862 | 2.0% | 40.9% | 60,664 | 5.3% | 20.0% |
| **Total** | 6,395 | 1.6% | N/A | 22,869 | 3.3% | N/A | 71,821 | 6.3% | N/A |

#### *Dairy farming business*

Substantially all of the selling and distribution expenses of our dairy farming business consisted of transportation and logistics expenses associated with the delivery of raw milk to our customers.

***Liquid milk business***

The following table sets forth the components of the selling and distribution expenses of our liquid milk business as a percentage of segment revenue for the period indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Amount | % of segment revenue | Amount | % of segment revenue | Amount | % of segment revenue |
| | (RMB in thousands, except percentages) | | | | | |
| Promotion and advertisement | 212 | N/A | 5,213 | 15.4% | 20,625 | 6.8% |
| Logistics | — | — | 1,782 | 5.3% | 18,752 | 6.2% |
| Salary and welfare | — | — | 3,847 | 11.3% | 11,811 | 3.9% |
| Consumables, travel and others | — | — | 3,020 | 8.9% | 9,476 | 3.1% |
| **Total** | 212 | N/A | 13,862 | 40.9% | 60,664 | 20.0% |

Selling and distribution expenses of our liquid milk business increased significantly in 2013 primarily due to the significant increase in our sales of liquid milk products and expansion of distribution network. Promotion and advertisement expenses increased significantly in 2013 primarily due to our advertising campaign launched at China Central Television, or CCTV, to promote our products. Logistics expenses increased in 2013 primarily due to our increased sales volume.

**Administrative Expenses**

Our administrative expenses primarily consist of salary and welfare of management and administrative employees. During the Track Record Period, administrative expenses as a percentage of revenue were 2.0%, 1.8% and 2.2% in 2011, 2012 and 2013, respectively.

**Loss on Deemed Disposal of a Subsidiary**

We recorded a loss on deemed disposal of a subsidiary of RMB0.4 million in 2011 primarily due to the discontinued consolidation of Shengmu Forage as a result of investments by third party investors, and the resulting loss arising from the deemed disposal of Shengmu Forage. We did not record any loss on disposal of a subsidiary in 2012 and 2013.

### Finance Costs

Our finance costs represent interest expenses on bank borrowings less interest expenses capitalized into biological assets. Our net finance costs are primarily affected by the outstanding amount of borrowings and applicable interest rates.

### Share of Profits and Losses of Associates

Share of profits and losses of associates represent our interest in Shanghai Saihan and Beijing Shengmu, which are distributors of our liquid milk products in these regions, and in which we have 41.67% and 30% shareholding, respectively, as well as Shengmu Forage in which we have an 8.6% shareholding. Shengmu Forage is accounted for as an associate of our Group because we control more than 20% effective voting power of Shengmu Forage due to the acting-in-concert arrangement among Shengmu Holding and two of our Ultimate Controlling Shareholders. For details, please refer to "Relationship with Controlling Shareholders — Major Retained Businesses of Our Ultimate Controlling Shareholders — Shengmu Forage."

We recorded share of profits and losses of associates of nil, profits of RMB0.3 million and losses of RMB1.3 million in 2011, 2012 and 2013, respectively. The profits in 2012 were primarily due to the profits generated by Shengmu Forage from which we purchased our organic forages. The losses in 2013 were primarily due to the losses of Shanghai Saihan and Beijing Shengmu, which were in the early stages of developing a market for our liquid milk products that we introduced in June 2012.

### Income Tax Expense

Under the current laws of the Cayman Islands and the British Virgin Islands, we are not subject to income tax or capital gains tax in the Cayman Islands and the British Virgin Islands. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands and the British Virgin Islands.

No provision has been made for Hong Kong profits as we did not earn income that is subject to Hong Kong profits tax in 2011, 2012 and 2013. There is no withholding tax on the dividends distributed from our Hong Kong subsidiary.

Our subsidiaries in the PRC are generally subject to PRC Enterprise Income Tax rate of 25% for each of the years ended December 31, 2011, 2012 and 2013. According to the Enterprise Income Tax Law of the PRC (the "EIT Law"), our income arising from agricultural activities, such as dairy farming and processing of primary agricultural products, is exempt from income tax. Under the PRC tax laws and regulations, there is no statutory time limit for us to enjoy such tax exemption as long as our relevant PRC subsidiaries complete filings with the relevant competent tax authorities as required.

In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號), our taxable income arising from processing of non-primary agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Our income tax expenses were nil, nil and RMB0.9 million in 2011, 2012 and 2013, respectively, and our effective income tax rate was nil, nil and 0.2%. As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes with the applicable tax authorities.

**Profit For the Year**

As a result of the foregoing, our profit for the year was RMB223.2 million, RMB198.9 million and RMB374.5 million in 2011, 2012 and 2013, respectively. By comparison, our profit for the year before biological assets fair value adjustments was RMB106.1 million, RMB194.5 million and RMB365.0 million during the same periods.

**Profit Attributable to Non-controlling Interest**

We recorded profit/(loss) attributable to non-controlling interest of (RMB27,000), RMB3.1 million and RMB47.2 million in 2011, 2012 and 2013, respectively. Non-controlling interest during the Track Record Period primarily represented the minority interests in our dairy farms held by dairy farmers with whom we work in managing our farms.

## RESULTS OF OPERATIONS

### Year Ended December 31, 2012 Compared to Year Ended December 31, 2013

***Revenue***

Our revenue increased by 63.2% from RMB700.8 million in 2012 to RMB1,143.7 million in 2013, reflecting (i) a 42.5% increase in revenue from our dairy farming business; and (ii) a 793.8% increase in revenue from our liquid milk business.

*Dairy farming business*

Revenue from our dairy farming business increased by 42.5% from RMB682.2 million to RMB972.3 million, primarily reflecting the following factors:

- *Organic raw milk*. Total revenue from sales of organic raw milk (before elimination of inter-segment sales) increased from RMB183.4 million to RMB484.5 million, consisting of (i) an increase in external sales by 109.9% from RMB168.1 million to RMB352.9 million; and (ii) an increase in inter-segment sales to our liquid milk business from RMB15.3 million in 2012 to RMB131.6 million. From 2012 to 2013, as a result of our continuing investment in organic dairy farms, the number of our organic dairy cows increased from

14,111 as of December 31, 2012 to 30,621 as of December 31, 2013. As a result, total sales volume of organic raw milk increased from 36,105 tonnes in 2012 to 92,331 tonnes in 2013. In addition, the average selling price of our organic raw milk increased from RMB5,081 per tonne to RMB5,247 per tonne due to continuing strong demand.

- *Premium non-organic raw milk*. Revenue of premium non-organic raw milk remained relatively stable at RMB498.7 million and RMB487.8 million in 2012 and 2013, respectively, reflecting an increase in the average selling price from RMB4,112 per tonne to RMB4,377 per tonne as demand continues to rise, offset by a decrease in our external sales volume from 121,300 tonnes to 111,465 tonnes reflecting our strategy to shift focus to organic raw milk and liquid milk businesses.

*Liquid milk business*

We began selling our liquid milk products in June 2012. Revenue from sales of our liquid milk products increased by 793.8% from RMB33.9 million in 2012 to RMB303.0 million in 2013 as our sales volume increased from 2,246 tonnes in 2012 to 20,715 tonnes in 2013. The substantial increase primarily reflected a combination of (i) the first full-year sales of our liquid milk products after commencing sales in June 2012; (ii) continuing expansion of our distribution network, which totaled 108 and 316 distributors as of December 31, 2012 and 2013, respectively; (iii) continued rising demand for organic milk products in China generally as a result of factors such as consumers' continued focus on food safety and a general rise in disposable income; (iv) increased recognition of our brand as a result of increased advertising and promotional efforts such as those on CCTV and Air China flights. The increase in sales volume was partially offset by a decrease in the average selling price of our liquid milk products by 3.2% from RMB15,106 per tonne in 2012 to RMB14,625 per tonne in 2013 primarily due to a combination of (i) our efforts to incentivize distributors to drive sales and increase market penetration through more flexible pricing policies; and (ii) changes in our product mix as we introduced environmentally-friendly packaged whole milk product series and children's series which have lower selling prices as a result of lower packaging cost.

***Cost of sales***

Our cost of sales increased by 40.0% from RMB466.7 million in 2012 to RMB653.3 million in 2013, primarily as a result of a substantial increase in the production and sales volume of both raw milk from our dairy farming business and liquid milk products.

- *Dairy farming business*. Cost of sales of our dairy farming business increased by 27.8% from RMB456.9 million in 2012 to RMB583.8 million in 2013. Cost of sales of our dairy farming business (after elimination of related cost of inter-segment sales) increased by 14.8% from RMB447.5 million in 2012 to RMB513.9 million in 2013. The increase was primarily due to an increase in the production volume of raw milk. Feed costs remained the major component for the costs of sales of our raw milk.

- *Liquid milk business.* Cost of sales of our liquid milk products increased by 697.6% from RMB25.2 million in 2012 to RMB201.0 million in 2013. Cost of sales of our liquid milk products (after elimination of internal profit from inter-segment sales) increased by 626.0% from RMB19.2 million in 2012 to RMB139.4 million in 2013, primarily as a result of a significant increase in our production volume. The cost of internal procurement of organic raw milk remained the major component for the costs of sales of our liquid milk products.

***Gross profit and gross margin***

As a result of the foregoing, our gross profit increased by 109.5% from RMB234.1 million in 2012 to RMB490.4 million in 2013, and our gross margin increased from 33.4% in 2012 to 42.9% in 2013.

- *Dairy farming business.* The gross profit of our dairy farming business increased from RMB225.3 million in 2012 to RMB388.5 million in 2013. By comparison, after elimination of internal profit from inter-segment sales, the gross profit of our dairy farming business increased from RMB219.4 million in 2012 to RMB326.8 million in 2013. Gross margin of our dairy farming business increased from 33.0% in 2012 to 40.0% in 2013, or 32.9% in 2012 to 38.9% in 2013 (after elimination of internal profit from inter-segment sales), reflecting:

  (i) an increase in gross margin from 31.8% to 44.0% for our organic raw milk, or 31.1% to 43.0% (after elimination of internal profit from inter-segment sales) primarily due to (a) an increase in average milk yield (b) increased production scale and efficiency, and (c) and our increased average selling price as discussed above under "— Revenue;" and

  (ii) an increase in gross margin from 33.5% to 35.9% for our premium non-organic raw milk primarily due to our increased average selling price as discussed above under "— Revenue."

- *Liquid milk business.* The gross profit of our liquid milk business increased from RMB8.7 million in 2012 to RMB102.0 million in 2013, and the gross margin of our liquid milk business was 25.7% and 33.7%. By comparison, after elimination of internal profit from inter-segment sales, the gross profit of our liquid milk business increased from RMB14.7 million in 2012 to RMB163.6 million in 2013, and the gross margin of our liquid milk business was 43.3% and 54.0%. The increase in gross margin was primarily due to an increase in our production scale and efficiency. The increase in gross margin was partially offset by a decrease in the average selling price of our liquid milk products as discussed above under "— Revenue."

***Gain arising from changes in fair value less costs to sell of biological assets***

We recorded a gain arising from changes in fair value less costs to sell of biological assets of RMB4.4 million in 2012, as compared to a gain arising from changes in fair value less costs to sell of biological assets of RMB9.5 million in 2013. The higher gain in 2013 compared to 2012 was primarily due to an increase in the average selling price of non-organic raw milk, an increase in average milk yield, an increase in the number of our milkable cows, and change in the composition of cow herd. The gain in 2012 was primarily due to increases in the number of our milkable cows, milk yield and market price of raw milk.

***Other income and gains***

Our other income and gains decreased by 12.7% from RMB7.9 million in 2012 to RMB6.9 million in 2013, primarily due to a decrease in bank interest income. The decrease in bank interest income was primarily due to a decrease in the average balance of bank deposits as a result of increasing expenditures in dairy farm construction in 2013.

***Selling and distribution expenses***

Selling and distribution expenses increased by 213.5% from RMB22.9 million in 2012 to RMB71.8 million in 2013, and as a percentage of revenue, increased from 3.3% in 2012 to 6.3% in 2013. Selling and distribution expenses of our dairy farming business increased by 24.4% from RMB9.0 million in 2012 to RMB11.2 million in 2013, primarily due to increased transportation and logistics expenses as a result of the increase in sales volume of our organic raw milk. Selling and distribution expenses of our liquid milk business increased significantly from RMB13.9 million in 2012 to RMB60.7 million in 2013, primarily due to (i) increased logistics services as our sales volume increased; (ii) increases in salary and welfare of our employees engaging in sales, marketing and distribution; and (iii) an increase in promotional and advertising expenses as we increased efforts and resources in promoting our "Shengmu 圣牧" brand and our liquid milk products, which we introduced in June 2012.

***Administrative expenses***

Our administrative expenses increased by 101.6% from RMB12.6 million in 2012 to RMB25.4 million in 2013, and as a percentage of revenue, increased from 1.8% in 2012 to 2.2% in 2013. The increase primarily reflected an increase in employee headcount as our operations expanded significantly and an increase in average employee compensation.

***Finance costs***

Our finance costs increased by 164.5% from RMB12.4 million in 2012 to RMB32.8 million in 2013 due to our increased interest expenses on bank loans, which in turn was due to an increase in the average balance of our bank loans to fund our continuing investment in the construction of dairy farms and purchase of dairy cows.

*Share of profits and losses of associates*

We recorded share of profits of associates of RMB0.3 million in 2012 and share of losses of associates of RMB1.3 million in 2013. The profits in 2012 were primarily due to the profits of our associate, Shengmu Forage. The share of losses of associate in 2013 was primarily due to the losses of our associates, Shanghai Saihan and Beijing Shengmu, which distributed our liquid milk products, and in which we owned 41.7% and 30.0% interest, respectively. These distributors incurred losses in 2013 because they were still in the early stages of developing a market for our liquid milk products, which we introduced in June 2012.

*Income tax expense*

Our income tax expense increased from nil in 2012 to RMB0.9 million in 2013, respectively, primarily as a result of commencement of sales of liquid milk products subject to income tax in 2013.

*Profit for the year*

As a result of the foregoing, our profit for the year increased by 88.3% from RMB198.9 million in 2012 to RMB374.5 million in 2013, and our profit margin increased from 28.4% in 2012 to 32.7% in 2013. By comparison, our profit for the year before biological asset fair value adjustments increased by 87.7% from RMB194.5 million in 2012 to RMB365.0 million in 2013, and our profit margin before biological asset fair value adjustments increased from 27.8% in 2012 to 31.9% in 2013.

*Profit attributable to non-controlling interests*

Profit attributable to non-controlling interests totaled RMB3.1 million in 2012 and RMB47.2 million in 2013. The increase was primarily due to an increase in the number of our non-wholly owned subsidiaries, primarily dairy farms, and business expansion of existing dairy farms.

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2012**

*Revenue*

Our revenue increased by 80.0% from RMB389.4 million in 2011 to RMB700.8 million in 2012, reflecting (i) a 75.2% increase in revenue from our dairy farming business; and (ii) the launching of our liquid milk business.

*Dairy farming business*

Revenue from our dairy farming business increased by 75.2% from RMB389.4 million to RMB682.2 million, primarily reflecting the following factors:

- *Organic raw milk*. Total revenue from sales of organic raw milk (before elimination of inter-segment sales) increased from RMB82.8 million to RMB183.4 million, consisting of (i) a 103.0% increase in external sales from RMB82.8 million to RMB168.1 million; and (ii) an increase in internal sales to our liquid milk business from nil in 2011 to RMB15.3

million in 2012. From 2011 to 2012, as a result of our continuing investment in organic dairy farms, the number of our organic dairy cows increased from 8,982 as of December 31, 2011 to 14,111 as of December 31, 2012. As a result, total sales volume of organic raw milk increased from 21,484 tonnes in 2011 to 36,105 tonnes in 2012. The average selling price increased significantly from RMB3,853 per tonne in 2011 to RMB5,081 per tonne in 2012, primarily due to increased market acceptance of organic milk that contributed to higher selling prices of organic raw milk.

- *Premium non-organic raw milk*. Revenue of premium non-organic raw milk increased from RMB306.6 million in 2011 to RMB498.7 million in 2012, reflecting an increase in the average selling price from RMB3,778 per tonne to RMB4,112 per tonne as demand continued to rise.

*Liquid milk business*

We began selling liquid milk products in June 2012 and generated a total revenue of RMB33.9 million and a sales volume of 2,246 tonnes in 2012. Our liquid milk products were produced solely from the organic raw milk we produced internally.

***Cost of sales***

Our cost of sales increased by 69.8% from RMB274.8 million in 2011 to RMB466.7 million in 2012. The increase was primarily due to a substantial increase in the production and sales volume of our raw milk in our dairy farming business.

- *Dairy farming business*. Cost of sales of our dairy farming business increased by 66.2% from RMB274.8 million in 2011 to RMB456.9 million in 2012. By comparison, after elimination of related cost of inter-segment sales, cost of sales of our dairy farming business increased from RMB274.8 million in 2011 to RMB447.5 million in 2012. The increase was primarily due to an increase in our sales volume as a result of stronger market demand, which was met by an increase of our dairy cows. Feed costs remained the major component for the costs of sales of our raw milk.

- *Liquid milk business*. We recorded cost of sales of RMB25.2 million for sales of liquid milk products in 2012 which began in June 2012. By comparison, cost of sales of our liquid milk products (after elimination of internal profit from inter-segment sales) was RMB19.2 million in the same year. Cost of internal procurement of organic raw milk from our dairy farming business was the major component for the costs of sales of our liquid milk products.

***Gross profit and gross margin***

As a result of the foregoing, our gross profit increased significantly from RMB114.6 million in 2011 to RMB234.1 million in 2012.

- *Dairy farming business*. The gross profit of our dairy farming business increased by 96.6% from RMB114.6 million in 2011 to RMB225.3 million in 2012. By comparison, after elimination of internal profit from inter-segment sales, the gross profit of our dairy farming business increased by 91.4% from RMB114.6 million in 2011 to RMB219.4 million in 2012. Gross margin of our dairy farming business increased from 29.4% in 2011 to 33.0% in 2012, or 29.4% to 32.9% (after elimination of internal profit from inter-segment sales) reflecting (i) an increase in gross margin from 21.7% to 31.8%, or from 21.7% to 31.1% (after elimination of internal profit from inter-segment sales), for our organic raw milk business and an increase in gross margin from 31.5% to 33.5% for our premium non-organic raw milk business. The increase in gross margin for organic raw milk business was primarily due to the increase in average selling price as discussed under "— Revenue" above and our increased average annual milk yield.

- *Liquid milk business*. We began selling liquid milk products under the "Shengmu 圣牧" brand in June 2012. We recorded a gross profit of RMB8.7 million of our liquid milk business and our gross margin was 25.7%. By comparison, after elimination of internal profit from inter-segment sales, our gross profit of liquid milk business was RMB14.7 million, and our gross margin was 43.3%.

***Gain arising from changes in fair value less costs to sell of biological assets***

Our gain arising from changes in fair value less costs to sell of biological assets decreased significantly from RMB117.1 million in 2011 to RMB4.4 million in 2012. In 2010, we purchased our dairy cows at a lower market price in the aftermath of the melamine incidents in China in 2008, which resulted in a relatively higher gain from the changes in fair value of our dairy cows in 2011 compared to 2012.

***Other income and gains***

Our other income and gains decreased by 27.5% from RMB10.9 million in 2011 to RMB7.9 million in 2012, primarily due to a decrease in the government grants received by us and bank interest income.

***Selling and distribution expenses***

Selling and distribution expenses increased by 257.8% from RMB6.4 million in 2011 to RMB22.9 million in 2012, and as a percentage of revenue, increased from 1.6% in 2011 to 3.3% in 2012. Selling and distribution expenses of our dairy farming business increased by 45.2% from RMB6.2 million in 2011 to RMB9.0 million in 2012, primarily due to increased transportation and logistics expenses as a result of increased sales volume of raw milk. Selling and distribution expenses of our liquid milk business increased significantly from RMB0.2 million to RMB13.9 million, primarily due to (i) increased logistics services as our sales volume increased; (ii) increases in salary and welfare of our employees engaging in sales, marketing and distribution; and (iii) an increase in promotional and advertisement expenses as we increased efforts and resources in promoting our "Shengmu 圣牧" brand and our liquid milk products, which we introduced in June 2012.

***Administrative expenses***

Our administrative expenses increased by 61.5% from RMB7.8 million in 2011 to RMB12.6 million in 2012, and as a percentage of revenue, decreased from 2.0% in 2011 to 1.8% in 2012. The increase in absolute amounts primarily reflected an increase in our employee headcount as our operations expanded significantly and an increase in average employee compensation.

***Loss on deemed disposal of a subsidiary***

We recorded a loss on deemed disposal of a subsidiary of RMB0.4 million in 2011 primarily due to the discontinued consolidation of Shengmu Forage as it received investments by third party investors, and as a result of which, we no longer consolidated the financial results of Shengmu Forage.

***Finance costs***

Our finance costs increased significantly from RMB4.7 million in 2011 to RMB12.4 million in 2012, primarily due to our increased interest expenses on bank loans, which in turn was due to an increase in the average balance of our bank loans to fund our continuing investment in the construction of dairy farms and purchase of dairy cows.

***Share of profits and losses of associates***

We did not record any share of profits and losses of associates in 2011 and recorded share of profits of associates of RMB0.3 million in 2012. The profits in 2012 was primarily due to the profits of our associate, Shengmu Forage, from which we purchased our organic forages.

***Income tax expense***

We did not have any income tax expense in 2011 and 2012. In 2011, profits from our dairy farming business were considered income arising from agricultural activities and were therefore exempt from income taxation under PRC tax laws and regulations. Our liquid milk products business did not have any taxable income in 2012.

***Profit for the year***

As a result of the foregoing, our profit for the year decreased by 10.9% from RMB223.2 million in 2011 to RMB198.9 million in 2012, and our profit margin decreased from 57.3% in 2011 to 28.4% in 2012. By comparison, our profit for the year before biological asset fair value adjustments increased by 83.3% from RMB106.1 million in 2011 to RMB194.5 million in 2012, and our profit margin before biological asset fair value adjustments increased from 27.2% in 2011 to 27.8% in 2012.

***Profit attributable to non-controlling interests***

We recorded profit/(loss) attributable to non-controlling interests of (RMB27,000) in 2011 and RMB3.1 million in 2012. The increase was primarily due to an increase in the number of our non-wholly owned subsidiaries, primarily our dairy farms, and business expansion of existing dairy farms.

## DISCUSSION OF CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

The following table sets forth our summary combined statement of financial position as of the date indicated. This information should be read together with our combined financial information included in Appendix I—"Accountants' Report" to this prospectus.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 194,875 | 450,249 | 922,764 |
| Prepaid land lease payments | — | 3,452 | 3,381 |
| Other intangible assets | 15,021 | 14,466 | 14,192 |
| Investments in associates | 14,756 | 17,576 | 17,727 |
| Biological assets | 713,826 | 1,029,541 | 1,510,160 |
| Prepayments for property, plant and equipment and biological assets | 14,101 | 26 | 9,043 |
| Deferred income tax assets | — | — | 187 |
| Total non-current assets | 952,579 | 1,515,310 | 2,477,454 |
| **Current assets** | | | |
| Inventories | 103,881 | 204,243 | 335,218 |
| Trade and bill receivables | 10,043 | 24,510 | 63,470 |
| Prepayments, deposits and other receivables | 15,893 | 30,030 | 94,377 |
| Pledged deposits | 29,224 | 12,797 | 15,030 |
| Cash and cash equivalents | 69,550 | 29,838 | 127,059 |
| Total current assets | 228,591 | 301,418 | 635,154 |
| **Current liabilities** | | | |
| Trade and bills payables | 83,963 | 132,151 | 191,037 |
| Receipts in advance | 15,473 | 17,527 | 82,481 |
| Other payables and accruals | 82,468 | 124,581 | 198,565 |
| Interest-bearing bank borrowings | 75,000 | 324,000 | 932,000 |
| Tax payable | — | — | 633 |

| | As of December 31, | | |
| --- | --- | --- | --- |
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Total current liabilities | 256,904 | 598,259 | 1,404,716 |
| **Net current liabilities** | (28,313) | (296,841) | (769,562) |
| Total assets less current liabilities | 924,266 | 1,218,469 | 1,707,892 |
| **Non-current liabilities** | | | |
| Interest-bearing bank borrowings | 49,000 | — | — |
| Total non-current liabilities | 49,000 | — | — |
| Net assets | 875,266 | 1,218,469 | 1,707,892 |

**Property, Plant and Equipment**

Our property, plant and equipment primarily consist of buildings, machinery and equipment, office and other equipment, motor vehicles and construction in progress. We had property, plant and equipment in the amount of RMB194.9 million, RMB450.2 million and RMB922.8 million as of December 31, 2011, 2012 and 2013, respectively. The continued increase in our property, plant and equipment during the Track Record Period primarily reflected our continuing investment in dairy farms, which totaled 17, 21 and 25 as of December 31, 2011, 2012 and 2013, respectively, including four, seven and 13 organic dairy farms, respectively.

**Prepaid Land Lease Payments**

Our prepaid land lease payments represent prepaid operating lease payments for a parcel of land located in China and used primarily for liquid milk production purposes. We had prepaid land lease payments in the amount of nil, RMB3.5 million and RMB3.4 million as of December 31, 2011, 2012 and 2013, respectively.

**Other Intangible Assets**

Our intangible assets primarily consist of technical know-how contributed by IMU to our subsidiary IMU-Shengmu Dairy and computer software. We had other intangible assets in the amount of RMB15.0 million, RMB14.5 million and RMB14.2 million as of December 31, 2011, 2012 and 2013, respectively.

### Investments in Associates

Our investments in associates represent our equity interest in Shanghai Saihan and Beijing Shengmu, which are distributors of our liquid milk products in Shanghai and Beijing, as well as in Shengmu Forage. We had investments in associates in the amount of RMB14.8 million, RMB17.6 million and RMB17.7 million as of December 31, 2011, 2012 and 2013, respectively. The year-on-year increase during the Track Record Period in our investments in associates primarily reflected the continuing growth of Shengmu Forage.

### Biological Assets

Our biological assets consist of dairy cows, which are further categorized into calves, heifers and milkable cows. The following table sets forth the number of our biological assets as of the date indicated.

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Head | % of total | Head | % of total | Head | % of total |
| Calves and heifers ....... | 11,828 | 33.7% | 21,747 | 44.0% | 24,607 | 40.7% |
| Milkable cows............. | 23,288 | 66.3% | 27,636 | 56.0% | 35,850 | 59.3% |
| **Total**............................ | 35,116 | 100.0% | 49,383 | 100.0% | 60,457 | 100.0% |

The following table sets forth the fair value of our biological assets as of the date indicated.

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB in thousands, except percentages) | | | | | |
| Calves and heifers ..................... | 185,125 | 25.9% | 353,443 | 34.3% | 424,699 | 28.1% |
| Milkable cows............................ | 528,701 | 74.1% | 676,098 | 65.7% | 1,085,461 | 71.9% |
| **Total**.......................................... | 713,826 | 100.0% | 1,029,541 | 100.0% | 1,510,160 | 100.0% |

The fair value of our biological assets increased by 46.7% from RMB1,029.5 million as of December 31, 2012 to RMB1,510.2 million as of December 31, 2013. The fair value of our biological assets increased by 44.2% from RMB713.8 million as of December 31, 2011 to RMB1,029.5 million as of December 31, 2012. The increase in the fair value of our biological assets during the Track Record Period was primarily due to a combination of (i) continuing increase in the fair value of milkable cows as a result of a combination of increases in the number of cows, average milk yield and raw milk price; and (ii) continuing increase in the fair value of calves and heifers as a result of increase in the number of heifers.

*Valuation of dairy cows*

Our dairy cows were independently valued by Jones Lang LaSalle, a firm of independent qualified professional valuers not connected with us, which has appropriate qualifications and experiences in valuation of biological assets. The following table sets forth the fair value of our dairy cow herd as of the date indicated.

| | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Herd value | Herd size | Average value | Herd value | Herd size | Average value | Herd value | Herd size | Average value |
| | RMB'000 | Head | RMB | RMB'000 | Head | RMB | RMB'000 | Head | RMB |
| Calves and heifers.... | 185,125 | 11,828 | 15,651 | 353,443 | 21,747 | 16,252 | 424,699 | 24,607 | 17,259 |
| Milkable cows.......... | 528,701 | 23,288 | 22,703 | 676,098 | 27,636 | 24,464 | 1,085,461 | 35,850 | 30,278 |
| **Total**........................ | 713,826 | 35,116 | NM[1] | 1,029,541 | 49,383 | NM[1] | 1,510,160 | 60,457 | NM[1] |

(1) NM means not meaningful.

Set forth below are the key assumptions and inputs adopted in the valuation process of our dairy cows. According to IFRS13.89, an entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants. Based on the above standard, Jones Lang LaSalle has applied certain assumptions based on the actual data of our Company, by making appropriate adjustments in consideration of industry practice and market conditions. Jones Lang LaSalle advised us that it has adopted consistent approach in deriving relevant assumptions in the valuation of comparable listed dairy companies.

| | | As of and for the year ended December 31, | | |
|---|---|---|---|---|
| | | 2011 | 2012 | 2013 |
| **Milkable cows** | | | | |
| Valuation approach for milkable cows(1) | | | | |
| Raw milk prices (RMB/kilogram)(2) | Assumption used | 3.88 | 4.50 | 5.00 |
| | Actual | 3.79 | 4.33 | 4.77 |
| Feed costs (RMB/kilogram of raw milk)(3) | Assumption used | 2.22 | 2.48 | 2.49 |
| | Actual | 2.10 | 2.21 | 2.25 |
| Culling rate(4) | Assumption used | 20.5 | 20.0 | 20.5 |
| | Actual | 12.5 | 15.6 | 24.8 |
| Projected lactation periods(5) | Assumption used | 6 | 6 | 6 |
| Milk yield per head per lactation period (tonne)(6) | Assumption used | 6-8 | 6-8 | 7-9 |
| | Actual | 7.6 | 7.8 | 8.5 |
| Discount rate (%)(7) | Assumption used | 15.34 | 14.00 | 14.50 |
| **Calves and heifers** | | | | |
| Valuation approach for calves and heifers(8) | | | | |
| Per head market price of 14 month-old heifers (RMB)(9) | Assumption used | 16,195 | 17,306 | 18,315 |
| | Actual | N/A | N/A | N/A |

(1) Valuation approach for milkable cows

The fair value of the milkable cows is developed through the application of income approach technique known as multi-period excess earnings method (MEEM). MEEM is a derivative of the discounted cash flow (DCF) method. Using this technique, we estimate the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are net off. The net income projection is then adjusted by economic capital charges.

The capital charges include returns on the assets that are used or used up in the generation of the subject biological assets income projection. Examples of such assets include fixed asset, assembled workforce and working capital. Key assumptions for the MEEM include the following:

Components of Cash Inflow:
— Revenue from raw milk sales
— Revenue from female and male calves born
— Revenue from sales of culled cows

Components of Cash outflow:
— Feeds
— Salary, welfare and social insurance
— Others

| | | |
|---|---|---|
| (2) | Raw milk prices | The raw milk prices used as an assumption in the valuation process are based on our historical average selling prices, prospects of demand and supply of raw milk, as well as the analysis of prices obtained from the markets where we operate as of the end of each reporting periods. The estimated fair value of milkable cows increases when the raw milk price increases.<br><br>Actual raw milk prices represent average selling prices for the period. As raw milk prices have generally been rising, the actual price for a given period is lower than the prices used in the assumption. |
| (3) | Feed costs | The feed costs used as an assumption in the valuation process are based on our historical average feed costs per kilogram of raw milk at the end of each reporting periods. The estimated fair value of milkable cows decreases when the feed costs per kilogram of raw milk increases.<br><br>The feed costs used in the assumption are a fraction of (i) all feed costs occurred in a lactation cycle, as the numerator; and (ii) the volume of raw milk produced in a lactation cycle, as the denominator. The lactation cycle used in the valuation is assumed to be 400 days (i.e. each milkable cow is expected to give birth every 400 days).<br><br>The actual feed costs are a fraction of (i) the feed costs that were accounted under cost of sales of raw milk, for each of the year ended December 31 2011, 2012 and 2013 respectively, as the numerator; and (ii) the volume of raw milk produced for 2011, 2012 and 2013 respectively, as the denominator. |
| (4) | Culling rate | It is normally assumed that the number of milkable cows at the end of each reporting period will decrease in the projection period at certain culling rates due to natural or unnatural factors, including illness, difficult birth, low milk production or completion of all lactation periods. We also choose to proactively cull the cows to improve the genetics of the next generations of cows.<br><br>The culling rate adopted as a valuation assumption assumed all milkable cows will be culled within six lactations, without taking into consideration the heifers that had given birth and became milkable cows during the Track Record Period which the actual culling rate did. |
| (5) | Projected lactation periods | The projected lactation periods used as an assumption in the valuation are assumed to be six to seven lactation periods depending on the individual physical condition of the milkable cows. Typically, a milkable cow can be milked for six lactation periods. The estimated fair value of milkable cows increases when they have longer economic useful lives. |
| (6) | Milk yield | The milk yield used as an assumption in the valuation process is based on historical milk yield, health conditions of cows, and management and operation of the dairy farms. Milk yield is expected to increase during the third to fourth lactation periods, and then decrease in the following lactation periods. |
| (7) | Discount rate | Weighted Average Cost of Capital is applied in the determination of the discount rate. The discount rate reflects the time value of money and a risk premium, representing compensation for the risk inherent in the future cash flow that is uncertain. The estimated fair value of milkable cows decreases when discount rate increases. |

| | | |
|---|---|---|
| (8) | Valuation approach for calves and heifers | The fair value of the heifers purchased within six month prior to each reporting date is determined with reference to the actual purchase price, with adjustment by adding the feed costs from the purchase date to the reporting date.<br><br>For the calves and the rest heifers, the fair value of 14 months old heifers is determined by referring to the market price of the actively traded market and adjusted by the potential milking yield. The fair values of the heifers older than 14 months old are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers younger than 14 months old and the fair values of the calves are determined by subtracting the breeding costs required to raise the calves or heifers from the respective specific ages to 14 months old and the margins that would be required by a raiser. |
| (9) | Market price of 14 months old heifers | The fair values of 14 months old heifers are determined using the average market price at the actively traded markets as reference, and adjusted by the potential milking yield. As heifers of 14 months old are regularly traded and an actively traded market has been developed, Jones Lang LaSalle advised us that using their market price as reference in determining the fair values of calves and heifers is fair and reasonable and also in line with the market practice.<br><br>We purchase heifers of different ages and therefore our actual purchase prices are not comparable to the prices of 14 months old heifers used in the assumption. |

**Prepayments for Property, Plant and Equipment and Biological Assets**

See "— Discussion of Certain Statements of Financial Position Items — Prepayments, Deposits and Other Receivables" below.

**Inventories**

Our inventories primarily consist of raw materials, finished goods and consumables. Inventories of our dairy farming business primarily consist of feeds. Inventories of our liquid milk business primarily consist of packaging materials and finished goods. The following table sets forth the components of our inventories as of the date indicated and our turnover of inventories for the period indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands, except turnover days) | | |
| Raw materials | 98,383 | 194,462 | 319,525 |
| Finished goods | — | — | 832 |
| Consumables | 5,498 | 9,781 | 14,861 |
| **Total** | 103,881 | 204,243 | 335,218 |
| Inventory turnover days(1) | 80 | 84 | 100 |

(1) Inventory turnover days are calculated using the average of opening balance and closing balance of inventory for a year divided by the sum of cost of sales and breeding costs of calves and heifers that were capitalized and multiplied by 365 days.

Our inventories totaled RMB103.9 million, RMB204.2 million and RMB335.2 million as of December 31, 2011, 2012 and 2013, respectively. The increase during the Track Record Period was primarily due to a combination of (i) an increase in forages and other feeds which totaled RMB96.3 million, RMB188.9 million and RMB305.2 million as of December 31, 2011, 2012 and 2013, respectively, as we continued to increase our herd size; (ii) an increase in packaging materials which totaled nil, RMB1.7 million and RMB4.6 million as of December 31, 2011, 2012 and 2013, respectively, as a result of our expansion into the liquid milk business.

During the Track Record Period, our inventory turnover days increased from 80 days in 2011 to 84 days in 2012 and 100 days in 2013. The increase was primarily due to increasing storage of forages in anticipation of increase in number of dairy cows as new dairy farms commenced operations.

As of April 30, 2014, RMB188.3 million, or 56.2% of our inventories as of December 31, 2013 were used.

### Trade and Bills Receivables

Our trade receivable balances represent the outstanding amounts receivable by us from our customers. The table below sets forth the components of our trade receivable balances as of the date indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Trade receivables | | | |
| - Dairy farming business | 10,043 | 22,284 | 35,074 |
| - Liquid milk business | — | 2,226 | 28,396 |
| Subtotal | 10,043 | 24,510 | 63,470 |
| Impairment | — | — | — |
| **Total** | 10,043 | 24,510 | 63,470 |

As a result of the increase in our sales, our trade receivables increased from RMB10.0 million as of December 31, 2011, to RMB24.5 million as of December 31, 2012 and further to RMB63.5 million as of December 31, 2013. For our dairy farming business, we typically require our customers to make payments each month for raw milk purchased in the previous month. For the sales of our liquid milk products to our distributors, we typically require them to pay the entire purchase price of our products before delivery. We occasionally grant credit limits to distributor customers on a case-by-case basis.

The table below sets forth the aging analysis of our trade receivable balances as of the date indicated, as well as the trade receivable turnover days for the period indicated.

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands, except turnover days) | | |
| Within three months | 10,043 | 24,510 | 63,470 |
| Trade receivable turnover days[1] | 14 | 9 | 14 |

(1) Average trade receivables equal trade receivables at the beginning of the period plus trade receivables at the end of the period, divided by two. Trade receivables turnover days equals average trade receivables divided by revenue and then multiplied by 365.

During the Track Record Period, our trade receivables turnover days remained relatively short. During the same period, no impairment or provision of trade receivables had been provided because as of December 31, 2011, 2012 and 2013, none of our trade receivables were past due.

As of April 30, 2014, RMB63.1 million, or 99.4% of our trade receivables outstanding as of December 31, 2013 were settled.

### Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables primarily consist of prepayments. Our prepayments mainly consist of prepayments for forages, concentrated feed, dairy cows and packaging materials. Our prepayments totaled RMB19.1 million, RMB9.2 million and RMB83.8 million as of December 31, 2011, 2012 and 2013, respectively. Our prepayments increased significantly from RMB9.2 million as of December 31, 2012 to RMB83.8 million as of December 31, 2013, primarily due to prepayments paid to for purchase of dairy cows, to Shengmu Forage to secure the supply of forages and to Tetra Pak for packaging materials.

### Trade and Bills Payables

Our trade and bills payables primarily relate to purchases of feed as well as packaging material and spare parts. Our trade and bills payables totaled RMB84.0 million, RMB132.2 million and RMB191.0 million as of December 31, 2011, 2012 and 2013, respectively. The increase in our trade payables during the Track Record Period primarily reflected an increase in the purchase of feeds and packaging materials as our business continued to expand.

The table below sets forth the aging analysis of our trade payables as of the date indicated as well as the trade payable turnover days for the period indicated.

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands, except turnover days) | | |
| Less than one year | 81,579 | 131,850 | 190,561 |
| One to two years | 2,384 | 292 | 359 |
| Two to three years | — | 9 | 117 |
| | 83,963 | 132,151 | 191,037 |
| Trade payables turnover days[(1)] | 55 | 59 | 60 |

(1) Trade payables turnover days are calculated using the average of opening balance and closing balance of trade payables for a year divided by the sum of cost of sales and breeding costs of calves and heifers that were capitalized and multiplied by 365 days.

Our trade payable turnover days increased from 55 days in 2011 to 59 days in 2012 and 60 days in 2013, which primarily reflected our increasing bargaining power against our suppliers as our purchase volume increased as a result of our business expansion.

As of April 30, 2014, RMB189.1 million, or 99.0% of our trade payables outstanding as of December 31, 2013 were paid.

### Other Payables and Accruals

The table below sets forth the components of our other payables and accruals as of the date indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Payables for acquisition of property, plant and equipment | 12,569 | 28,053 | 87,416 |
| Payables for purchase of dairy cows | 5,139 | 17,877 | 18,959 |
| Payables for third parties' deposits | 2,248 | 10,597 | 20,194 |
| Salary and welfare payables | 5,453 | 10,162 | 20,060 |
| Advances from related parties | 47,272 | 38,263 | 7,609 |
| Payables for purchase of transportation services | 901 | 1,931 | 8,217 |
| Others | 8,886 | 17,698 | 36,110 |
| **Total** | 82,468 | 124,581 | 198,565 |

Principal components of "other payables and accruals" include the following:

- *Payables for acquisition of property, plant and equipment*. These payables increased significantly during the Track Record Period as we expanded significantly our herd size, number of our dairy farms as well as production facilities.

- *Payables for purchase of dairy cows*. The increase in these payables was primarily due to the increase in purchase of dairy cows.

- *Payables for third parties' deposits*. These payables primarily represented deposits from (i) suppliers in our dairy farming business and (ii) distributors in our liquid milk products business. These payables increased as a result of the increase in herd size from our dairy farming business, coupled with our entry into the liquid milk products business.

- *Salary and welfare payables*. These payables increased primarily due to the expansion of our staff size to support our expanded operations.

- *Advances from related parties*. We had certain advances from related parties during the Track Record Period, all of which were settled as of March 29, 2014.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

To date, we have financed our operations primarily through cash from our operations, proceeds from bank loans, and to a lesser extent, through investments from equity investors and advances from related parties. As of December 31, 2013, we had RMB127.1 million in cash and cash equivalents, substantially all of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash on hand and demand deposits.

The following table sets forth a summary of our cash flows for the period indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Net cash generated from operating activities | 141,204 | 177,942 | 363,630 |
| Net cash used in investing activities | (408,376) | (535,215) | (934,299) |
| Net cash generated from financing activities | 269,550 | 317,427 | 667,890 |
| Net (decrease)/increase in cash and cash equivalents | 2,378 | (39,846) | 97,221 |
| Cash and cash equivalents at the beginning of the year | 67,980 | 69,550 | 29,838 |
| Effect of foreign exchange rate changes | (808) | 134 | — |
| Cash and cash equivalents at the end of the year | 69,550 | 29,838 | 127,059 |

### Operating Activities

Net cash generated from operating activities in 2013 was RMB363.6 million, which was primarily attributable to our profit before taxation of RMB375.4 million, an increase in trade and bills payables of RMB58.9 million and an increase in other payables and accruals of RMB110.0 million, and partially offset by non-cash net gains arising from the changes in fair value less costs to sell of biological assets of RMB9.5 million, an increase in inventories of RMB131.0 million, a decrease in trade and bills receivables of RMB39.0 million and an increase in prepayments, deposits and other receivables of RMB55.4 million.

Net cash generated from operating activities in 2012 was RMB177.9 million, which was primarily attributable to our profit before taxation of RMB198.9 million, an increase in trade and bills payables of RMB44.3 million and an increase in other payables and accruals of RMB23.3 million, and partially offset by non-cash net gains arising from the changes in fair value less costs to sell of biological assets of RMB4.4 million, an increase in inventories of RMB100.4 million and an increase in trade and bills receivables of RMB14.5 million.

Net cash generated from operating activities in 2011 was RMB141.2 million, which was primarily attributable to our profit before taxation of RMB223.2 million, an increase in trade and bills payables of RMB48.8 million and an increase in other payables and accruals of RMB23.9 million, and partially offset by non-cash net gains arising from the changes in fair value less costs to sell of biological assets of RMB117.1 million, an increase in inventories of RMB33.4 million and an increase in pledged deposits of RMB17.5 million.

### Investing Activities

Net cash used in investing activities in 2013 was RMB934.3 million, which was attributable to (i) payments for breeding calves and heifers of RMB332.8 million; (ii) payment for the purchase of property, plant and equipment of RMB442.5 million in connection with additional dairy farms; and (iii) payment for the purchase of dairy cows of RMB316.5 million. The amount was partially offset by proceeds from disposal of dairy cows of RMB159.6 million.

Net cash used in investing activities in 2012 was RMB535.2 million, which was attributable to (i) payments for breeding calves and heifers of RMB200.1 million; (ii) payment for the purchase of property, plant and equipment of RMB243.6 million in connection with additional dairy farms; and (iii) payment for the purchase of dairy cows of RMB124.3 million. The amount was partially offset by proceeds from disposal of dairy cows of RMB39.0 million.

Net cash used in investing activities in 2011 was RMB408.4 million, which was attributable to (i) payments for breeding calves and heifers of RMB122.7 million; (ii) payment for the purchase of property, plant and equipment of RMB132.0 million in connection with additional dairy farms; and (iii) payment for the purchase of dairy cows of RMB175.9 million. The amount was partially offset by proceeds from disposal of dairy cows of RMB22.9 million.

### Financing Activities

Net cash generated from financing activities in 2013 was RMB667.9 million, which was primarily attributable to (i) proceeds from new bank loans and new other loans of RMB959.8 million; (ii) capital injection by non-controlling interest of RMB114.9 million. The amount was partially offset by (i) repayment of bank and other loans of RMB374.2 million; and (ii) interest payment of RMB32.7 million.

Net cash generated from financing activities in 2012 was RMB317.4 million, which was primarily attributable to (i) proceeds from new bank loans and new other loans of RMB351.5 million; (ii) proceeds from issue of equity instruments and capital injection by non-controlling interest of RMB144.3 million. The amount was partially offset by (i) repayment of bank and other loans of RMB164.0 million; and (ii) interest payment of RMB14.4 million.

Net cash generated from financing activities in 2011 was RMB270.0 million, which was primarily attributable to (i) proceeds from new bank loans and new other loans of RMB84.5 million; (ii) proceeds from issue of equity instruments and capital injection by non-controlling interest of RMB243.0 million. The amount was partially offset by (i) repayment of bank loans of RMB50.0 million; and (ii) interest payment of RMB8.0 million.

## INDEBTEDNESS

As of April 30, 2014, the latest practicable date for the purpose of the indebtedness statements, we had total indebtedness of approximately RMB880.0 million. The table below sets forth the components of our indebtedness as of the date indicated.

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (RMB in thousands) | | | |
| **Current** | | | | |
| -unsecured bank and other borrowings (unguaranteed) ....... | — | 145,000 | 782,000 | 880,000 |
| -guaranteed bank and other borrowings (unsecured) ........... | 75,000 | 130,000 | 150,000 | — |
| -current portion of guaranteed long-term bank and other borrowings (unsecured) ........... | — | 49,000 | — | — |
| | 75,000 | 324,000 | 932,000 | 880,000 |
| **Non-current** | | | | |
| -guaranteed long-term bank and other borrowings (unsecured) ... | 49,000 | — | — | — |
| **Total**.............................................. | 124,000 | 324,000 | 932,000 | 880,000 |

The table below sets forth the effective interest rates of our borrowings as of the date indicated.

| | As of December 31, | | | As of April 30, 2014 |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | |
| | (In percentages) | | | |
| **Current** | | | | |
| -Unsecured bank and other borrowings (unguaranteed) | — | 6.31% | 6.00% | 6.00% |
| -Guaranteed bank and other borrowings (unsecured) | 5.47-5.81% | 6.00-6.56% | 6.00% | — |
| -Current portion of guaranteed long-term bank and other borrowings (unsecured) | — | 5.60% | — | — |
| **Non-current** | | | | |
| -Guaranteed long-term bank and other borrowings (unsecured) | 5.60% | — | — | — |

***Bank and other borrowings — guaranteed (unsecured)***

The following table sets forth details of our guaranteed bank and other borrowings as of April 30, 2014.

| | Outstanding as of December 31, 2013 | | | Outstanding amount as of April 30, 2014 |
|---|---|---|---|---|
| | Amount | Interest rate | Term/ maturity date | |
| | (RMB in thousands) | | | (RMB in thousands) |
| China Merchant Bank | 100,000 | 6.0% | One year/between February 27 and November 19, 2014 | — |
| Inner Mongolia Bank | 50,000 | 6.0% | One year/February 5, 2014 | — |
| | 150,000 | | | — |

These loans contain customary covenants and restrictions for facilities of this type in the PRC, including restrictions on disposal of the borrower's material assets through assignment, leasing or providing guarantee unless otherwise agreed by the lender in writing and obligations to make timely notice to the lender for any material development of the borrower's operations. These loans were guaranteed by Mr. YAO Tongshan and certain other shareholders, and the guarantees were released by February 28, 2014.

***Bank and other borrowings — unsecured (unguaranteed)***

The following table sets forth details of our unsecured bank and other borrowings as of April 30, 2014.

| | Outstanding as of December 31, 2013 | | | Outstanding amount as of April 30, 2014 |
|---|---|---|---|---|
| | **Amount** | **Interest rate** | **Term/ maturity date** | |
| | **(RMB in thousands)** | | | **(RMB in thousands)** |
| Bank of China | 297,000 | 6.0% | One year/between July 22, 2014 and December 12, 2014 | 345,000 |
| Agricultural Bank of China | 178,000 | 6.0% | One year/between February 27 and July 1, 2014 | 158,000 |
| Huaxin International Trust | 30,000 | 6.0% | One year/April 14, 2014 | — |
| Bank of Communication | 137,000 | 6.0% | One year/between May 23 and October 30, 2014 | 137,000 |
| China Minsheng Bank | 80,000 | 6.0% | One year/between July 29 and August 28, 2014 | 80,000 |
| China Merchant Bank | 60,000 | 6.0% | One year/between November 17 and December 23, 2014 | 160,000 |
| | 782,000 | | | 880,000 |

These loans contain customary covenants and restrictions for facilities of this type in the PRC, including restrictions on disposal of the borrower's material assets through assignment, leasing or providing guarantee unless otherwise agreed by the lender in writing and obligations to make timely notice to the lender for any material development of the borrower's operations.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that they are not aware of any material defaults in payment of our trade and non-trade payables and bank borrowing. Other than otherwise disclosed in this prospectus, the agreements under our bank borrowings do not contain any material covenants that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future.

Save as disclosed herein, we did not have any other material borrowings, indebtedness, facilities, hire purchase commitments, mortgages and charges, or other material contingent liabilities as of April 30, 2014.

Our Directors confirm that we did not have any material default in payment of trade or other payables or bank borrowings, nor did we breach any material financial covenants during the Track Record Period. Except short-term notes and refinancing of and drawdown under facilities as described under "— Working Capital," our Directors have confirmed that we do not have any plan to raise additional external debt financing as of the Latest Practicable Date.

We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although there is no assurance that we will be able to access bank financing on favorable terms or at all.

### Statement of Indebtedness

Save as disclosed in this prospectus, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as of April 30, 2014, being the latest practicable date for our indebtedness statement. Our Directors confirm that, as of the Latest Practicable Date, there is no material change in the Company's indebtedness since April 30, 2014.

## COMMITMENTS

### Capital Commitments

The table below sets forth details of our capital commitments as of the date indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Contracted but not provided for: | | | |
| -Land and buildings | 78,510 | 57,703 | 48,501 |
| -Plant and machinery | 14,850 | 4,065 | 37,641 |
| | 93,360 | 61,768 | 86,142 |

### Operating Lease Commitments

We lease a number of dairy farms including building structures and equipment, and office properties, under non-cancellable operating lease arrangements. The table below sets forth our future minimum rental payments under non-cancellable operating lease agreements as of the date indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| Within one year | 10,247 | 9,668 | 8,949 |
| Later than one year and no later than five years | 28,523 | 28,170 | 24,859 |
| After five years | 10,043 | 5,022 | — |
| | 48,813 | 42,860 | 33,808 |

## CAPITAL EXPENDITURES

Our capital expenditures totaled RMB452.0 million, RMB625.5 million and RMB1,135.1 million in 2011, 2012 and 2013, respectively. Our capital expenditures during the Track Record Period primarily related to acquisitions of property, plant and equipment, prepaid land lease payments, acquisitions of other intangible assets and biological assets as our business expanded as well as an increase in investments in associates.

Following the completion of the Global Offering, we will continue to incur capital expenditures to grow our business. We expect our capital expenditures to total RMB1,040.4 million in 2014 and RMB734.0 million in 2015. Our planned future capital expenditures in the foreseeable future primarily relate to purchase of dairy cows and construction of additional organic dairy farms. See also "Future Plans and Use of Proceeds."

## WORKING CAPITAL

The table below sets forth the details of our current assets and liability as of the date indicated.

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (RMB in thousands) | | | |
| **Current assets** | | | | |
| Inventories | 103,881 | 204,243 | 335,218 | 261,805 |
| Trade and bill receivables | 10,043 | 24,510 | 63,470 | 139,657 |
| Prepayments, deposits and other receivables | 15,893 | 30,030 | 94,377 | 185,781 |
| Pledged deposits | 29,224 | 12,797 | 15,030 | 8,989 |
| Cash and cash equivalents | 69,550 | 29,838 | 127,059 | 368,517 |
| **Total current assets** | 228,591 | 301,418 | 635,154 | 964,749 |
| **Current liabilities** | | | | |
| Trade and bills payables | 83,963 | 132,151 | 191,037 | 130,795 |
| Receipts in advance | 15,473 | 17,527 | 82,481 | 59,282 |
| Other payables and accruals | 82,468 | 124,581 | 198,565 | 194,657 |
| Interest-bearing bank borrowings | 75,000 | 324,000 | 932,000 | 880,000 |
| Tax payable | — | — | 633 | 529 |
| **Total current liabilities** | 256,904 | 598,259 | 1,404,716 | 1,265,263 |
| **Net current liabilities** | (28,313) | (296,841) | (769,562) | (300,514) |

Our net current liabilities increased from RMB 28.3 million as of December 31, 2011 to RMB296.8 million as of December 31, 2012, and to RMB769.6 million as of December 31, 2013. The increase in our net current liabilities during the Track Record Period primarily reflected our funding needs to purchase and breeding of dairy cows and to support our continuing investment in property, plant and equipment related to dairy farms and processing facilities to expand our business, which was primarily financed through short-term bank loans, which increased significantly, totaling RMB75 million, RMB324 million and RMB932 million as of December 31, 2011, 2012 and 2013, respectively.

Since December 31, 2013, our net current liabilities has decreased significantly due to the pre-IPO investments in our company in February 2014, as a result of which we received an additional RMB683.3 million in shareholders' equity, and a corresponding increase in cash and cash equivalents. As of the Latest Practicable Date, we had credit facilities of an aggregate amount of RMB1,317.0 million, for RMB1,272.0 million of which we have obtained pre-approval letters from the relevant banks (stating that the banks will grant new facilities to us upon expiration of the current term and repayment of existing facilities), and of which RMB428.0 million have not been utilized. In addition, we were approved in March 2014 to issue short-term notes of up to RMB200 million and we have not issued any such notes as of the Latest Practicable Date.

Our Directors confirm that, taking into account the above sources of funding, as well as our current cash and cash equivalents, anticipated cash flow from operations and proceeds from the Global Offering, we will have sufficient working capital to meet our anticipated cash needs, including our working capital and capital expenditures requirements for at least the next 12 months from the date of this prospectus.

After due consideration and discussion with the Company's management and based on the above, the Joint Sponsors have no reason to believe that the Company cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

Our future cash requirements will depend on many factors, including our operating income, costs to establish additional dairy farms, market acceptance of our products and services or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash to repay existing debt obligations or to re-finance our existing debts due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our Shareholders' interests in our Company. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our Shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

## CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities.

## RELATED PARTY TRANSACTIONS

It is the view of our Directors that each of the related party transactions set out in note 32 to the Accountants' Report set forth in Appendix I to this prospectus were conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties. See the section headed "Continuing Connected Transactions" for more details.

The following table sets forth the outstanding balances with related parties as of the date indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB in thousands) | | |
| **Amounts due from associates** | | | |
| included in | | | |
| - Accounts receivable | — | — | 1,386 |
| - Prepayments, deposits and other receivables[(1)] | — | — | 57,501 |
| **Amounts due to associates** | | | |
| included in | | | |
| - Receipts in advance | — | 200 | — |
| - Trade payables[(1)] | — | 12,039 | 2,963 |
| - Other payables and accruals[(1)] | 3,272 | 38,263 | — |
| **Amounts owed by/(owed to) certain shareholders** | | | |
| included in: | | | |
| − Other payables and accruals[(2)] | (44,000) | — | (6,880) |

(1) Primarily relating to purchases of forages and advances from Shengmu Forage.

(2) Primarily relating to purchases of dairy cows.

Other than the accounts receivable and trade payables due from/to related parties, the above transactions with related parties are unsecured, interest-free and have no fixed terms of repayment. Accounts receivable and trade payables with related parties have similar credit terms to those offered by/to independent third parties. All balances from our non-trade related party transactions outstanding as of December 31, 2013 (consisting of RMB6.9 million in amounts owed to Shareholders) have been settled as of March 29, 2014.

During the Track Record Period, Shengmu Forage provided free biowaste (i.e., cow dung) cleaning services to our organic dairy farms. Such services include collecting and cleaning unprocessed biowaste from our farms. In return, Shengmu Forage acquired such unprocessed biowaste from our farms at no cost. After the Global Offering, we expect to continue to receive such biowaste cleaning services from Shengmu Forage.

In 2011, we also sold our raw milk with an aggregate amount of RMB 46.8 million to Mengniu Group, which is principally engaged in the production of dairy products in the PRC and is listed on the Main Board of the Hong Kong Stock Exchange, through two individuals, who were the then directors of Shengmu Holding.

## OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

## QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business. The main risks arising from our financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. We manage our exposure to these risks through regular operating and financial activities. The Board regularly reviews these risks and our financial risk management policy seeks to ensure that adequate resources are available to manage the market risks summarized below and to create value for our Shareholders.

### Interest Rate Risk

We are exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on cash and cash equivalents and pledged bank deposits. We consider that these bank balances are not sensitive to fluctuation in interest rate. Our fair value interest rate risk relates primarily to fixed-rate bank borrowings. We currently do not have an interest rate hedging policy. However, we monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

### Foreign Currency Risk

Our businesses are principally located in the PRC and substantially all transactions are conducted in Renminbi, except for the purchases of imported biological assets, machinery and equipment. During the Track Record Period, substantially all of our assets and liabilities were denominated in Renminbi, except that as of December 31, 2011, cash and bank balances of approximately RMB11.2 million were denominated in U.S. dollars. The fluctuation of the exchange rates of Renminbi against foreign currencies could slightly affect our results of operations. We do not hedge against any fluctuation in foreign currency. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency exchange rates. Our profit before tax would have increased by RMB0.8 million, RMB0.1 million and nil, respectively, if U.S. dollars had strengthened by 5.0% against Renminbi with all other variables held constant in 2011, 2012 and 2013, respectively.

**Credit Risk**

We trade only with recognized and creditworthy third parties. It is our 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 on-going basis and our exposure to bad debts is not significant. Credit risk relating to our other financial assets, which comprise cash and bank balances and other receivables, arises from the default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since we trade only with recognized and creditworthy third parties, there is no requirement for collateral.

We have concentration of credit risk as 99%, 89% and 51% of total trade receivables as of December 31, 2011, 2012 and 2013, respectively, which was due from our top two customers, namely, Mengniu Group and Yili Group, which are principally engaged in milk processing industry in the PRC and listed in the main board of the Stock Exchange and Shanghai Stock Exchange, respectively.

**Liquidity Risk**

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and projected cash flows from operations. Based on contractual undiscounted payments, our financial liabilities were RMB292.0 million, RMB581.6 million and RMB1,328.7 million as of December 31, 2011, 2012 and 2013, respectively. We believe there is no significant liquidity risk as we have sufficient committed facilities to fund our operations.

We expect to fund our future cash flow needs through primarily internally generated cash flows from operations, bank borrowings, the net proceeds from the Global Offering, as well as any equity and debt offerings after the Listing.

**Capital Management**

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value. We manage our capital structure and make adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to Shareholders, return capital to Shareholders or issue new Shares. No changes were made to the objectives, policies or processes for managing capital during the Track Record Period. Consistent with others in the industry, we monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Our policy is to maintain a healthy gearing ratio. Our gearing ratio was 14.2%, 26.6% and 54.6% as of December 31, 2011, 2012 and 2013, respectively.

## KEY FINANCIAL RATIOS

The following table sets forth our certain key financial ratios for the period indicated or as of the date indicated.

| | As of and for the period ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Return on equity[(1)] | 26.1% | 16.8% | 21.9% |
| Return on assets[(2)] | 18.9% | 10.9% | 12.0% |
| Current ratio[(3)] | 0.89 | 0.50 | 0.45 |
| Quick ratio[(4)] | 0.49 | 0.16 | 0.21 |
| Gearing ratio[(5)] | 14.2% | 26.6% | 54.6% |

(1) Calculated as net profit attributable to owners of the Company for the period divided by total equity attributable to owners of the Company at the end of the period, then multiplied by 100%.

(2) Calculated as net profit for the period divided by total assets at the end of the period, then multiplied by 100%.

(3) Calculated as current assets divided by current liabilities.

(4) Calculated as current assets less inventory divided by current liabilities.

(5) Calculated as bank borrowings divided by total equity, then multiplied by 100%.

Our return on equity, or ROE, decreased from 26.1% in 2011 to 16.8% in 2012 primarily due to a significant decrease in our gain arising from changes in fair value less costs to sell of biological assets in 2012, which decreased from RMB117.1 million in 2011 to RMB4.4 million. In 2010, we purchased our dairy cows at a lower market price due to the melamine incidents in China in 2008, which resulted in a relatively high gain from the changes in fair value of our dairy cows in 2011 compared to 2012. Our net profit before biological asset fair value adjustments, representing the difference of our net profit and gain/(loss) arising from changes in the fair value less costs to sell of biological assets, increased from RMB106.1 million in 2011 to RMB194.5 million in 2012. Our ROE increased from 16.8% in 2012 to 21.9% in 2013 primarily due to a significant increase in our net profit, partially offset by an increase in our total equity.

Similar to ROE, our return on assets, or ROA, decreased from 18.9% in 2011 to 10.9% in 2012 primarily due to the significant decrease in our gain arising from changes in fair value less costs to sell of biological assets in 2012. Our ROA increased from 10.9% in 2012 to 12.0% in 2013 primarily due to a significant increase in our net profit, partially offset by an increase in our total assets.

Our current ratio decreased from 0.89 as of December 31, 2011 to 0.50 as of December 31, 2012 and further to 0.45 as of December 31, 2013, primarily due to increases in our current liabilities in connection with our business growth. To support our growth, we used significant cash generated from our operations and from bank borrowings to fund our capital expenditures for purchases of dairy cows and construction of our dairy farms and liquid milk processing plant, which contributed to the increase in our current liabilities and partially offset the increase in our current assets.

Similar to the decrease in our current ratio, our quick ratio decreased from 0.49 as of December 31, 2011 to 0.16 as of December 31, 2012, primarily due to increases in our current liabilities in connection with our business growth. Our quick ratio increased from 0.16 as of December 31, 2012 to 0.21 as of December 31, 2013, primarily because our current assets excluding inventory increased by a higher rate than our current liabilities.

Our gearing ratio increased from 14.2% as of December 31, 2011 to 26.6% as of December 31, 2012 and further to 54.6% as of December 31, 2013, primarily due to increases in our bank borrowings in connection with our business growth. To support our growth, we borrowed significant bank loans to fund our capital expenditures for purchases of dairy cows and construction of our dairy farms and liquid milk processing plant.

**VALUATION OF BIOLOGICAL ASSETS**

We have engaged Jones Lang LaSalle, a firm of independent qualified professional valuers, to determine the fair value of our dairy cows as of December 31, 2011, 2012 and 2013, respectively. The key members of the Jones Lang LaSalle valuers include Mr. Simon Chan and Professor T.Y. GAO.

Mr. Simon Chan, regional director at Jones Lang LaSalle, is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Fellow of CPA Australia. He is also a Certified Valuation Analyst (CVA), a member of The International Association of Consultants, Valuers and Analysts (IACVA), a member of Canadian Institute of Mining, Metallurgy and Petroleum (CIM), and a member of the Australasian Institute of Mining and Metallurgy (AusIMM). Simon oversees the business valuation services of Jones Lang LaSalle and has over 15 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in China, Hong Kong, Singapore and the United States. Simon oversaw the valuation of biological assets for the initial public offerings and subsequent financial reports of China Modern Dairy Holdings Ltd (1117.HK), China Huishan Dairy Holdings Company Limited (6863.HK), and YuanShengTai Dairy Farm Limited (1431.HK). He also led the valuation of other biological assets, such as hogs, trees, rabbits and chickens, for financial reporting purpose of Hong Kong listed companies including Chenming Paper (1812.HK), China Mengniu Dairy Company Limited (2319.HK) and Kandda Food (834.HK), as well as numerous private companies.

Prof. T.Y. GAO, a professor of Henan Agricultural University (Animal Science), and an independent biological asset valuation expert, is a council member of the China Animal Husbandry and Veterinary Association Cattle Branch, an executive director of the China Animal Husbandry and Veterinary Association Animal Ecology Branch, an executive director of the Animal Husbandry Engineering Branch of the Agricultural Engineering Society, an executive director of the China Scalper Breeding Committee, a deputy secretary of the Straw Utilization Branch of China Agricultural Society and an executive director of the Grass Fodder Branch of the Animal Husbandry and Veterinary Institute. He has extensive experience in the area of cow breeding and is mainly engaged in the study of the utilization of local feeds resources for feeding cattle, environment management of dairy cows and livestock ecology. Professor GAO has published 23 books, has won 15 prizes of scientific achievements and has published more than 200 academic papers in different journals, most of which are on the research and study of dairy cows and dairy production. He participated in the valuation of biological assets for the initial public offerings and subsequent financial reports of China Modern Dairy Holdings Ltd (1117.HK), China Huishan Dairy Holdings Company Limited (6863.HK), and YuanShengTai Dairy Farm Limited (1431.HK).

Based on market reputation and relevant background research, our Directors and the Joint Sponsors are satisfied that Jones Lang LaSalle is independent from us and is competent in conducting a valuation on our biological assets.

**Valuation Method**

***Dairy cows***

*Calves and heifers*

A market-based approach is adopted by Jones Lang LaSalle to value our calves and heifers, because recent market-based prices for heifers at a certain age exist near each reporting date and therefore the fair value of the calves and heifers is developed through the application of the market approach with reasonable adjustments to reflect age and potential milk yield differences.

*Milkable Cows*

An income-based approach is adopted by Jones Lang LaSalle to value our milkable cows, primarily because there is no reliable market-based price for dairy cow at this stage. In general, raisers of dairy cows do not sell dairy cows that are milkable, as milking generate more profits in the long run than the sales of dairy cows. As a result, the fair value of the milkable cows is developed through the application of an income approach technique known as multi-period excess earnings method ("MEEM"). MEEM is a derivative of the discounted cash flow ("DCF") method. Using this technique, Jones Lang LaSalle estimates the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are offset. The net income projection is then adjusted by certain economical capital charges. The capital charges include returns on the assets that are used or used up in the generation of the subject biological assets income projection. Examples of such assets include fixed assets, assembled workforce and working capital.

Our Directors and the Joint Sponsors held various discussions with Jones Lang LaSalle in relation to their methodologies and procedures required to prepare their valuation report. Our Directors and the Joint Sponsors further compared the valuation methodologies chosen with those used by the industry peers. Our Directors, the Joint Sponsors are satisfied that the valuation methodologies chosen are appropriate and reasonable.

**Key Assumptions and Inputs**

***Dairy cows***

Key inputs for valuing our dairy cows are the number and classification of dairy cows. Based on maturity stages, our dairy cows are classified into calves and heifers and milkable cows. Different valuation approaches are adopted for calves and heifers and milkable cows.

*Calves and heifers*

The key inputs and assumptions for valuing our calves and heifers are the per head market price for 14 months old heifers, which were RMB 16,195, RMB17,306 and RMB18,315 as of December 31, 2011, 2012 and 2013, respectively.

*Milkable cows*

The key assumptions and inputs include the revenues from milking the dairy cows and the costs associated with the milkable cows. Jones Lang LaSalle also assumes that there will be no material change in the existing political, legal, technological, fiscal or economic condition which may adversely affect our business. In deriving the residual cash flow of the milkable cows, Jones Lang LaSalle has deducted returns on contributory assets, which represent charges for the use of contributory assets employed to support the milkable cows and help generate revenue. Our Directors confirmed, and the Joint Sponsors concurred, that the key bases and assumptions used by Jones Lang LaSalle in the valuation process are consistent with those used by the industry peers and are appropriate and reasonable.

The key assumptions and inputs for calculating the revenues from milking include the following:

- The number of and the respective estimated culling rates and calf birth rates for, milkable cows at different lactation stages.
- The milk yield rate as adjusted by an estimated spoilage rate at different lactation stages.
- The prices for raw milk produced by, and female and male calves given birth by, milkable cows at different lactation stages.

Based on the above assumptions, the total revenue from our milkable cows as forecasted in the valuation process as of December 31, 2013 is approximately RMB4.8 billion.

The key assumptions and inputs for calculating the costs associated with raising the milkable cows include the following:

- feeds;
- salary, welfare and social insurance; and
- others.

Based on the above assumptions, the total costs in relation to our milkable cows as forecasted in the valuation process as of December 31, 2013 is approximately RMB3.3 billion.

The Directors and the Joint Sponsors discussed with Jones Lang LaSalle in relation to their methodologies, procedures, key bases and assumptions and understand that Jones Lang LaSalle has conducted the biological asset valuation in accordance with International Accounting Standard 41 - Agriculture, issued by the International Accounting Standards Board and with reference to the International Valuation Standards, issued by the International Valuation Standards Council. The key assumptions, as detailed above, are made based on the historical actual operation performance of the Company. Jones Lang LaSalle has obtained and discussed with us regarding the historical actual operation data from us, and considered and reviewed whether they are appropriate and reasonable to be used in the valuation. Jones Lang LaSalle confirmed that their valuation procedures provide a reasonable basis for their opinion, the inputs used in the valuation technique are appropriate and reasonable. Our Directors and the Joint Sponsors confirm that the key bases and assumptions adopted are consistent with industry practice and in line with the actual figures during the Track Record Period.

## Sensitivity Analysis

The following table illustrates the sensitivity of the estimated fair value of milkable cows that would arise if the key inputs had changed as of 31 December 2013, assuming all other variables remained constant.

*Milk price sensitivity*

| Assumed Milk Price: | 5.00 | RMB/kg | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *% Change in Milk Price* | 10.00% | 5.00% | 2.00% | 1.00% | -1.00% | -2.00% | -5.00% | -10.00% |
| Corresponding Valuation Result (RMB'000) | 1,377,168 | 1,232,007 | 1,144,913 | 1,115,885 | 1,057,819 | 1,028,790 | 941,696 | 796,545 |
| Change in Valuation Result (RMB'000) | 291,707 | 146,546 | 59,452 | 30,424 | -27,642 | -56,671 | -143,765 | -288,916 |
| % Change in Valuation Result | *26.87%* | *13.50%* | *5.48%* | *2.80%* | *-2.55%* | *-5.22%* | *-13.24%* | *-26.62%* |

The estimated fair value of milkable cows increases when the milk price increases, and decreases when the milk price decreases.

*Discount rate sensitivity*

| Assumed Discount Rate: | 14.50% | | | | | |
|---|---|---|---|---|---|---|
| *% Change in Discount Rate* | 1.50% | 1.00% | 0.50% | -0.50% | -1.00% | -1.50% |
| Corresponding Valuation Result (RMB'000) | 1,057,798 | 1,066,859 | 1,076,076 | 1,094,994 | 1,104,708 | 1,114,586 |
| Change in Valuation Result (RMB'000) | -27,663 | -18,602 | -9,385 | 9,533 | 19,247 | 29,125 |
| % Change in Valuation Result | -2.55% | -1.71% | -0.86% | 0.88% | 1.77% | 2.68% |

The estimated fair value of milkable cows increases when the discount rate decreases, and decreases when the discount rate increases.

*Milk yield sensitivity*

| Assumed Milk Yield: | 20.84 | kg/head/day | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *% Change in Milk Yield* | 10.00% | 5.00% | 2.00% | 1.00% | -1.00% | -2.00% | -5.00% | -10.00% |
| Corresponding Valuation Result (RMB'000) | 1,218,592 | 1,152,021 | 1,112,079 | 1,098,775 | 1,072,146 | 1,058,832 | 1,018,890 | 952,319 |
| Change in Valuation Result (RMB'000) | 133,131 | 66,560 | 26,618 | 13,314 | -13,315 | -26,629 | -66,571 | -133,142 |
| % Change in Valuation Result | 12.26% | 6.13% | 2.45% | 1.23% | -1.23% | -2.45% | -6.13% | -12.27% |

The estimated fair value of the milkable cows increases when the milk yield increases, and decreases when the milk yield decreases.

*Feed cost sensitivity*

| Assumed Feed Costs: | 2.49 | RMB/kg | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *% Change in Feed Costs* | 10.00% | 5.00% | 2.00% | 1.00% | -1.00% | -2.00% | -5.00% | -10.00% |
| Corresponding Valuation Result (RMB'000) | 931,759 | 1,008,605 | 1,054,720 | 1,070,085 | 1,100,826 | 1,116,201 | 1,162,306 | 1,239,162 |
| Change in Valuation Result (RMB'000) | -153,702 | -76,856 | -30,741 | -15,376 | 15,365 | 30,740 | 76,845 | 153,701 |
| % Change in Valuation Result | -14.16% | -7.08% | -2.83% | -1.42% | 1.42% | 2.83% | 7.08% | 14.16% |

The estimated fair value of the milkable cows increases when the feed costs decrease, and decreases when the feed costs increase.

*Heifer price sensitivity*

| Assumed Heifer Price: | 18,315 | RMB | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *% Change in Heifer Price* | 10.00% | 5.00% | 2.00% | 1.00% | -1.00% | -2.00% | -5.00% | -10.00% |
| Corresponding Valuation Result (RMB'000) | 1,132,388 | 1,108,919 | 1,094,846 | 1,090,148 | 1,080,763 | 1,076,075 | 1,061,992 | 1,038,523 |
| Change in Valuation Result (RMB'000) | 46,927 | 23,458 | 9,385 | 4,687 | -4,698 | -9,386 | -23,469 | -46,938 |
| % Change in Valuation Result | 4.32% | 2.16% | 0.86% | 0.43% | -0.43% | -0.86% | -2.16% | -4.32% |

The estimated fair value of the milkable cows increases when the price of heifers increases, and decreases when the price of heifers decreases.

## Stock-take and Internal Control

### *Stock-take*

We have established a standard protocol for stock take consisting of periodic and random stock take to ensure the physical existence of our biological assets and accuracy of relevant data and information. Each of our dairy farms is required to perform a full stock take on a quarterly basis to ensure the relevant information such as headcount and, age-grouping are accurately reflected in our dairy farm information management system and submit a detailed report to the record keeping department at our headquarters. The dairy cow officers, staff of finance department, staff of record keeping department and the heads of relevant departments are required to confirm the result of the quarterly full stock take in writing. Our finance department also performs stock-take when dairy farm manager or dairy cow officer resigns or is replaced.

### *Internal Control and Management System*

We have devised a comprehensive policy for biological asset management. Our biological asset management policy covers among other things, the relevant accounting policies, transferring among age groups, purchase and disposal of dairy cows, breeding, record keeping and stock take. To facilitate the implementation of our biological asset management policy, we employ the dairy farm information management system developed by a third-party developer, in collaboration with the accounting system, to keep comprehensive record of our dairy cows herd.

## UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of our Group attributable to the equity holders of our Company as of December 31, 2013 as if the Global Offering had taken place on December 31, 2013 assuming none of the Over-allotment Option and options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme has been exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as of December 31, 2013 or at any future dates following the Global Offering. It is prepared based on the combined net assets of our Group as of December 31, 2013 as set out in the Accountant's Report of our Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

| | Combined net tangible assets attributable to the owners of the Company as of December 31, 2013 | Estimated net proceeds from the Listing | Unaudited pro forma adjusted net tangible assets | Unaudited pro forma adjusted net tangible assets per Share | Unaudited pro forma adjusted net tangible assets per Share |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB | HK$ |
| Based on an Offer Price of HK$2.39 per Share .......... | 1,479,968 | 791,828 | 2,271,796 | 0.358 | 0.452 |
| Based on an Offer Price of HK$2.95 per Share .......... | 1,479,968 | 980,844 | 2,460,812 | 0.387 | 0.490 |

## DISTRIBUTABLE RESERVES

The Company was only incorporated on December 11, 2013. The Company did not have any distributable reserves as of December 31, 2013 and as of the Latest Practicable Date.

## DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this prospectus, we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

## DIVIDEND POLICY

We have not declared any dividends during the Track Record Period. Our Board at its discretion may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. The payment of any dividends will also be subject to our articles of association, the Companies Law, applicable laws and other relevant factors.

## LISTING EXPENSES

We incurred listing expenses (excluding underwriting commissions) of RMB2.1 million during the Track Record Period, of which RMB1.8 million was recognized as administrative expenses and RMB0.3 million was capitalized as deferred listing expenses that are expected to be charged against equity upon successful listing under the relevant accounting standards. We expect to incur further listing expenses (excluding underwriting commissions) of approximately RMB28.3 million, of which RMB22.8 million will be recognized as administrative expenses and RMB5.5 million will be charged against equity. We do not believe the remaining expenses will have a material impact on our results of operations for 2014.

## DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since December 31, 2013 (being the date to which our Company's latest combined audited financial results were prepared), and there has been no events since December 31, 2013 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

## FUTURE PLANS

See the section headed "Business — Business Strategy" for a detailed description of our future plans.

## USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK$2.67 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus and assuming the Over-allotment Option is not exercised), will be approximately HK$1,121 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

We intend to use the net proceeds of the Global Offering for the following purposes:

- Approximately 25%, or HK$281 million, will be used for constructing an additional 6 organic dairy farms from 2014 to 2015. We plan to establish 2 and 4 organic dairy farms in 2014 and 2015 with expected expenditure of approximately HK$84 million and HK$197 million, respectively. In particular, in 2014, we plan to invest HK$67 million in construction of dairy farms and HK$17 million in purchase of equipment and machinery. In 2015, we plan to invest HK$158 million in construction of dairy farms and HK$39 million in purchase of equipment and machinery.

- Approximately 30%, or HK$336 million, will be used for acquiring no less than 15,000 dairy cows domestically and from overseas from 2014 to 2015. In particular, we plan to acquire approximately 6,000 and 9,000 heifers in 2014 and 2015, with expected expenditure of approximately HK$84 million and HK$252 million, respectively.

- Approximately 5%, or HK$56 million, will be used for sales and marketing activities and expansion of our distribution network from 2014 to 2015. In particular, we plan to (i) undertake advertising and marketing campaigns to our liquid milk products with expected expenditure of HK$44 million; (ii) purchase trucks with external LED displays for liquid milk products delivery and brand promotion purposes, with expected expenditure of HK$6 million; and (iii) demonstrate our "grass-to-glass" organic concept and promote organic life culture through open-house events at our dairy farms and production facilities and other events with expected expenditure of HK$6 million.

- Approximately 15%, or HK$168 million, will be used for expanding our liquid milk production capacity, including HK59 million for constructing new workshops at our milk processing plant and HK$109 million for purchasing liquid milk processing equipment and machinery. These new production facilities will have a designed production capacity of 790 tonnes per day and are expected to be completed by the end of 2016.

- approximately 15%, or HK$168 million, will be used to repay certain outstanding loans obtained by some of our PRC subsidiaries for general working capital purposes in the ordinary course of business with PBOC's benchmark interest rate (currently 6%) and were incurred in the second half of 2013 and will be due before the end of 2014:

- The remaining 10%, or HK$112 million, will be used to provide funding for our working capital and other general corporate purposes.

In the event the Over-allotment Option is exercised in full and assuming an Offer Price of HK$2.67 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds of approximately HK$171 million.

The following table sets forth the net proceeds of the Global Offering to be received by us if the Offer Price is fixed at HK$2.95 per Share (being the high-end of the Offer Price range stated in this prospectus) or HK$2.39 per Share (being the low-end of the Offer Price range stated in this prospectus) with and without exercising the Over-allotment Option.

| **Offer Price** | **Net Proceeds assuming full exercise of the Over-allotment Option** | **Net Proceeds assuming no exercise of the Over-allotment Option** |
|---|---|---|
| HK$2.39 per Share ............. | HK$1,155 million | HK$1,002 million |
| HK$2.95 per Share ............. | HK$1,430 million | HK$1,241 million |

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated offer price range.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

## HONG KONG UNDERWRITERS

**Joint Lead Managers**
BOCI Asia Limited
Goldman Sachs (Asia) L.L.C.
ABCI Securities Company Limited
BOCOM International Securities Limited
China International Capital Corporation Hong Kong Securities Limited

**Co-Manager**
Phillip Securities (Hong Kong) Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Hong Kong Public Offering

***Hong Kong Underwriting Agreement***

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 44,480,000 Hong Kong Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

One of the conditions is that the Offer Price must be agreed between us and the Joint Global Coordinators, on behalf of the Hong Kong Underwriters. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering will be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between us and the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, the Global Offering will not proceed.

***Grounds for Termination***

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the day that trading in our Shares commences on the Hong Kong Stock Exchange:

there develops, occurs, exists or comes into force:

- any new law or regulation or any change or development involving a prospective change or any event or circumstance likely to result in a change or development involving a prospective change in existing law or regulation, or any event or circumstance resulting in a change or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (as a whole) or Japan (each a "**Relevant Jurisdiction**"); or

- any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

- any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9 and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or

- any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

- any moratorium, suspension or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or

- any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of any other member of the Group listed or quoted on a stock exchange or an over-the-counter market; or

- any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority (as defined in the Hong Kong Underwriting Agreement)), New York (imposed at Federal or New York State level or other competent Governmental Authority), London, Singapore, the PRC, the European Union (as a whole), Japan or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

- any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the Shares; or

- the issue or requirement to issue by the Company of a supplemental or amendment to this prospectus, Application Forms, Preliminary Offering Circular (as defined in the Hong Kong Underwriting Agreement) or Offering Circular (as defined in the Hong Kong Underwriting Agreement) or other documents in connection with the offer and sale of the Shares pursuant to the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC, in circumstances where the matter to be disclosed could, in the opinion of the Joint Global Coordinators, adversely affect the marketing for or implementation of the Global Offering; or

- a materialization of any of the risks set out in the section headed "Risk Factors" in this prospectus; or

- any litigation or claim being threatened or instigated against any Group Company (as defined in the Hong Kong Underwriting Agreement) or any Director; or

- a Governmental Authority or a regulatory body or organization in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against any Group Company or any Director; or

- any of the chairman or the chief executive officer of the Company or the president vacating his office or any Director being charged with an indictable offence or prohibited by operation of Laws (as defined in the Hong Kong Underwriting Agreement) or otherwise disqualified from taking part in the management of a company; or

- any material adverse change or prospective material adverse change in the earnings, results of operations, business, business prospects, financial or trading position, conditions (financial or otherwise) or prospects of any Group Company (including any litigation or claim of any third party being threatened or instigated against any Group Company); or

- a valid demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any Group Company, or any Group Company making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or

- a prohibition on the Company for whatever reason from allotting or selling the Shares (including the Over-allotment Shares) pursuant to the terms of the Global Offering;

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

- is or will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Company or the Group as a whole or to any present or prospective shareholder of the Company in its capacity as such; or

- has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or may make it impracticable or inadvisable or incapable for any material part of this Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or

- makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the Formal Notice (as defined in the Hong Kong Underwriting Agreement), the Preliminary Offering Circular or the Offering Circular; or

- would have or may have the effect of making any part of this Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or there has come to the notice of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, or any of the Hong Kong Underwriters:

- that any statement contained in the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement), the PHIP (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering Documents, the PHIP and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or

- any contravention by any Group member or any Director of the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance, the PRC Company Law (as defined in the Hong Kong Underwriting Agreement) or the Listing Rules; or

- non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or

- any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes an omission therefrom; or

- either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company or the Controlling Shareholders (as the case may be) or (ii) any of the representations, warranties and undertakings given by the Company or the Controlling Shareholders (as the case may be) in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading; or

- any event, act or omission which gives or is likely to give rise to any liability of the Company or the Controlling Shareholders (as the case may be) pursuant to the indemnities given by the Company or the Controlling Shareholders (as the case may be) under the Hong Kong Underwriting Agreement; or

- any litigation or dispute or potential litigation or dispute, which would affect the operation, financial condition, reputation or composition of the board of the Group; or

- a significant portion of the orders in the bookbuilding process at the time of the International Underwriting Agreement is entered into have been withdrawn, terminated, cancelled or otherwise not fulfilled; or

- the investment commitment by any cornerstone investor after signing of agreement with such cornerstone investor has been reduced, withdrawn, terminated, cancelled or otherwise not fulfilled; or

- any person (other than the Joint Sponsors) has withdrawn or subject to withdraw its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be); or

- any adverse change or prospective adverse change or development involving a prospective adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Company and its subsidiaries, as a whole; or

- Admission (as defined in the Hong Kong Underwriting Agreement) is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the Admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or

- the Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;

then the Joint Global Coordinators may (for themselves and on behalf of the Hong Kong Underwriters), in their sole and absolute discretion and upon giving notice orally or in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

**Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules**

***Undertakings by us***

We have undertaken to the Hong Kong Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Listing Rules, the Global Offering and the Over-allotment Option, no further shares or securities convertible into securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

***Undertakings by the Controlling Shareholders***

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and the Stock Exchange that it shall not and shall procure that the relevant registered Shareholder(s) shall not:

- during the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which it is shown by this prospectus to be the beneficial owner; and

- within the period of six months commencing on the date on which the period referred to in the immediate preceding paragraph above expires (the "Second Six-Month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in the immediately preceding paragraph above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder.

Note 2 to Rule 10.07 of the Listing Rules provides that such rule does not prevent a Controlling Shareholder from using the Shares beneficially owned by it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Each of the Controlling Shareholders has further undertaken to the Company and the Stock Exchange that it will, within a period of 12 months from the Listing Date, immediately inform us and the Stock Exchange of:

- any pledges or charges of any Shares or securities of our Company beneficially owned by it in favor of any authorized institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and

- any indication received by it, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or other share capital will be sold transferred or disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders (or its respective shareholders) and disclose such matters by way of an announcement which is published on the website of the Stock Exchange as soon as possible after being so informed by any of the Controlling Shareholders (or its respective shareholders).

**Undertakings pursuant to the Hong Kong Underwriting Agreement**

*Undertakings by us*

We have also undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option, the options that have been granted under the Pre-IPO Share Option Scheme and the options that may be granted under the Share Option Scheme), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "**First Six-Month Period**"), it will not, and the Controlling Shareholders shall procure that the Company will not, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any share capital or other equity securities of the Company, as applicable), or deposit any share capital or other equity securities of the Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of Shares or any other equity securities of the Company or any shares or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above;

(iv) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other equity securities, in cash or otherwise (whether or not the issue of such share capital or other equity securities will be completed within the First Six-Month Period). The Company further agrees that, in the event the Company enters into any of the transactions described in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Company will, create a disorderly or false market for any Shares or other securities of the Company.

We have agreed and undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters that it will comply with the minimum public float requirements specified in the Listing Rules or any waiver granted and not revoked by the Stock Exchange (the "**Minimum Public Float Requirement**"), and it will not effect any purchase of the Shares, or agree to do so, which may reduce the holdings of the Shares held by the public (as defined in Rule 8.24 of the Listing Rules) to below the Minimum Public Float Requirement on or before the date falling six months after the Listing Date without first having obtained the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and Hong Kong Underwriters).

***Undertakings by the Controlling Shareholders***

Each of the Controlling Shareholders agrees and undertakes to the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

(a) save for any lending of Shares by World Shining pursuant to the Stock Borrowing Agreement, during the First Six-Month Period, he/it will not:

(i) offer, pledge, charge (other than any mortgage, pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) not involving a change of legal ownership of such Shares other than on enforcement) for a bona fide commercial loan in compliance with the Listing Rules), sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital or other equity securities of the Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or equity securities or any interest therein) (other than any mortgage, pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) not involving a change of legal ownership of such Shares other than on enforcement) for a bona fide commercial loan in compliance with the Listing Rules);

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or equity securities or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares), or agree to transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, either directly or indirectly, conditionally or unconditionally, any Shares, or any other equity securities of the Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares) (other than any mortgage, pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) not involving a change of legal ownership of such Shares other than on enforcement) for a bona fide commercial loan in compliance with the Listing Rules);

(iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or

(iv) publicly disclose that he/it will or may enter into any transaction described in paragraphs (i), (ii) or (iii) above,

whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such capital or securities, in cash or otherwise;

(b) (A) during the six-month period immediately following the First Six-Month Period (the "**Second Six-Month Period**"), he/it will not enter into any transaction described in paragraphs (a)(i), (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transaction, any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company; and

(B) until the expiry of the Second Six-Month Period, in the event that he/it enters into any such transactions specified in paragraphs (a)(i), (ii) or (iii) above or agrees or contracts to, or publicly announces an intention to enter into any such transactions, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of the Company.

For the avoidance of doubt, the foregoing restrictions shall not prevent any of the Controlling Shareholders from purchasing additional Shares and selling any such additional Shares so purchased, subject to compliance with the requirements of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float.

(c) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months after the Listing Date, he/it shall:

(i) if and when he/it pledges or charges any securities or interests in the equity securities of the Company beneficially owned by he/it, immediately inform the Company and the Joint Global Coordinators in writing of such pledge or charge together with the number of securities so pledged or charged; and

(ii) if and when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the equity securities of the Company will be disposed of, immediately inform the Company and the Joint Global Coordinators in writing of such indications,

provided that, upon receipt of such information from the Controlling Shareholders, the Joint Global Coordinators shall, to the extent permissible under and not incompliance with the applicable Laws, treat such information as confidential until the Company make a public disclosure of such information in accordance with the Listing Rules.

(d) not to (whether by himself/itself or through any company controlled by him/it) apply or subscribe for or purchase any Offer Shares either in his/its own name or through nominees unless permitted to do so under the Listing Rules, and if any such application has been made or he/it has indicated an interest to acquire such Offer Shares, he/it shall forthwith notify the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters);

(e) that if at any time prior to 40 days after the later of (i) the date on which all of the International Offer Shares shall have been sold by the International Underwriters (as reasonably determined by the representative of the International Underwriters for the International Offering) and (ii) the date not later than 30 days from the last day for lodging of applications under the Hong Kong Public Offering, any event or circumstance occurs which would or might render untrue, inaccurate, incomplete, incorrect or misleading in any respect any of the representations and warranties of any of the Controlling Shareholders contained in this Agreement, it becomes aware of any event or circumstance that makes any of the Offer Documents or the PHIP (including any amendments or supplements thereto) untrue, inaccurate, incomplete, incorrect or misleading, it will immediately notify the Joint Global Coordinators and will take steps as may be requested by the Joint Global Coordinators to remedy and publicize the same;

(f) to use its best efforts to procure that the Company will not, effect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares held by the public (as defined in Rule 8.24 of the Listing Rules) below the Minimum Public Float Requirement on or before the date falling six months after the Listing Date without first having obtained the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters).

*Undertakings by the Other Shareholders*

To facilitate the Global Offering, in addition to the undertaking by our Controlling Shareholders, the other Shareholders, namely, Greater Honour, Start Great, Saint Investment, Broad Street, Greenbelt Global, Sequoia Capital, BOCIFP and King Capital will each enter into a lock-up undertaking in favor of the Company and the Joint Global Coordinators (for themselves and on behalf of each of the Joint Bookrunners and the Underwriters) that it will not and will procure the relevant registered holder of the Shares as assigned by it (if applicable) not to, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of each of the Joint Bookrunners and the Underwriters), at any time during the period commencing on the date of the relevant lock-up undertaking, and ending on a date which is six months after the Listing Date and unless in compliance with the requirements of applicable laws and regulations,

(a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, accept subscription for, or otherwise transfer or dispose of or create any pledge, charge, lien, mortgage, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights similar to the foregoing ("**Encumbrance**") over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly (through a chain of companies or otherwise), conditionally or unconditionally, any Shares held by it as of the date of this lock-up undertaking and upon Listing or any interest in any Shares (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) held by it as of the date of this lock-up undertaking and upon Listing;

(b) enter into any swap, derivative, lending, repurchase, mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Shares or securities or any interest therein;

(c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above, in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or in cash or otherwise (whether or not such transactions will be completed within the period commencing on the date of this lock-up undertaking, and ending on a date which is six months after the Listing Date).

**The International Offering**

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 66,720,000 additional Offer Shares representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

**Total Commission and Expenses**

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 3.0% on the Offer Price of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters (but not the Hong Kong Underwriters).

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK$2.67 per Share (being the mid-point of the indicative offer price range of HK$2.39 to HK$2.95 per Share), the aggregate commissions and fees, together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the Global Offering (collectively the "Commissions and Fees") are estimated to be approximately HK$95.7 million in total.

Each of the Company and the Controlling Shareholders has agreed to indemnify the Hong Kong Underwriters and International Underwriters for certain losses which they may suffer, including liabilities under the U.S. Securities Act, losses incurred arising from their performance of their obligations under the Underwriting Agreements and any breach by our Company of the Underwriting Agreements.

**Activities by Syndicate Members**

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and, together referred to as "Syndicate Members," may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- the Syndicate Members (except for Goldman Sachs (Asia) L.L.C., as the stabilizing manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described in the sections headed "Structure and Conditions of the Global Offering — The International Offering — Over-allotment Option" and "Structure and Conditions of the Global Offering — The International Offering — Stabilization." These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

**Hong Kong Underwriters' Interests in our Company**

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

**Other Services to our Company**

Certain of the Joint Global Coordinators, the Hong Kong Underwriters or their respective affiliates have, from time to time, provided and expect to provide in the future investment banking and other services to our Company and our respective affiliates, for which such Joint Global Coordinators, Hong Kong Underwriters or their respective affiliates have received or will receive customary fees and commissions.

**Over-Allotment and Stabilization**

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the sections headed "Structure and Conditions of the Global Offering — The International Offering — Stabilization."

**Sponsors' Independence**

As disclosed in the paragraph headed "History, Reorganization and Group Structure — Our Corporate Structure" in this prospectus, immediately after the Global Offering, BOCIFP will be interested as to approximately 2.20% of our Company (assuming the Over-Allotment Option, the option granted under the Pre-IPO Share Option Scheme and the option to be granted under the Share Option Scheme is not exercised). BOCIFP is wholly-owned by BOC International Holdings Limited. Other than disclosed above, BOC International Holdings Limited and its subsidiaries will not own any shareholding in the Company upon the Listing.

As disclosed in the paragraph headed "History, Reorganization and Group Structure — Reorganization" in this prospectus, as a result of a series of fund transfers, an aggregate amount of US$66.8 million also remains payable by Greater Honour and World Shining to the Macau Branch of Bank of China Limited as of the Latest Practicable Date.

As BOC International Holdings Limited and its subsidiaries hold less than 5% shareholding in the Company upon the Listing and the loan provided by the Macau Branch of Bank of China Limited to World Shining and Greater Honour accounted for less than 10% of the total assets of Bank of China Limited, the ultimate holding company of BOCI Asia Limited, as of December 31, 2013, BOCI Asia Limited is considered as an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

As disclosed in the paragraph headed "History, Reorganization and Group Structure — Our Corporate Structure" in this prospectus, immediately after the Global Offering, Saint Investment (Mauritius) and Broad Street collectively will be interested as to approximately 6.22% of our Company (assuming the Over-Allotment Option, the option granted under the Pre-IPO Share Option Scheme and the option to be granted under the Share Option Scheme is not exercised). Saint Investment (Mauritius) and Broad Street are wholly-owned or controlled by The Goldman Sachs Group, Inc. Other than disclosed above, The Goldman Sachs Group, Inc. will not own any shareholding in the Company upon the Listing.

As The Goldman Sachs Group, Inc. holds more than 5% shareholding in the Company upon the Listing, Goldman Sachs (Asia) L.L.C. is not considered as an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

**The Global Offering**

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(i) the Hong Kong Public Offering of 44,480,000 Offer Shares in Hong Kong as described below in the section entitled "The Hong Kong Public Offering" below; and

(ii) the International Offering of an aggregate of initially 400,320,000 Shares, consisting of the offering of our Shares (i) in the United States to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and (ii) outside the United States in reliance on Regulation S under the U.S. Securities Act. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Global Coordinators, as representatives of the International Underwriters, have an option to require us to issue and allot up to 66,720,000 additional Offer Shares, representing approximately 15% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 1.0% of the Company's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 7.0% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 7.9% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed "Over-allotment Option" below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the section headed "Reallocation and clawback" below.

**The Hong Kong Public Offering**

**Number of Offer Shares initially offered**

Our Company is initially offering 44,480,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10.0% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Public Offer Shares will represent approximately 0.7% of the Company's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed "Conditions of the Hong Kong Public Offering" below.

**Allocation**

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 22,240,000 Offer Shares for pool A and 22,240,000 Offer Shares for pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 22,240,000 Offer Shares are liable to be rejected.

**Reallocation and clawback**

The allocation of the Offers Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of the Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more the number of the Shares initially available for subscription under the Hong Kong Public Offering, then the Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer

Shares available under the Hong Kong Public Offering will be increased to 133,440,000 Offer Shares (in the case of (i)), 177,920,000 Offer Shares (in the case of (ii)) and 222,400,000 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

**Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$2.95 per Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "Pricing of the Global Offering" below, is less than the maximum price of HK$2.95 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section entitled "How to Apply for Hong Kong Public Offer Shares."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

**The International Offering**

**Number of Offer Shares offered**

Subject to reallocation as described above, the International Offering will consist of an aggregate of 400,320,000 Offer Shares to be offered by us.

**Allocation**

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section entitled "Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

**Over-allotment Option**

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot up to 66,720,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 1.0% of the Company's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

**Stabilization**

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

In connection with the Global Offering, the Stabilizing Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of the Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be sold under the Over-allotment Option, namely, 66,720,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

a) over-allocation for the purpose of preventing or minimising any reduction in the market price;

b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any deduction in the market price;

c) subscribing, or agreeing to subscribe, for the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;

d) purchasing, or agreeing to purchase, the Shares for the sole purpose of preventing or minimising any reduction in the market price;

e) selling the Shares to liquidate a long position held as a result of those purchases; and

f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilise or maintain the market price of the Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilizing period, which begins on the day on which trading of the Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on August 6, 2014. As a result, demand for the Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilise, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

**Stock Borrowing Arrangement**

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may choose to borrow up to 66,720,000 Shares, representing approximately 15% of the Offer Shares, from World Shining to cover over-allocations (being the maximum number of additional Shares which may be allotted and issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising of the Over-allotment Option.

If such Stock Borrowing Arrangement is entered into, it will only be effected by the Stabilizing Manager, its affiliates or any person acting for it for settlement of over-allocations in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to World Shining or their nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to World Shining or their agents in relation to such stock borrowing arrangement.

**Pricing of the Global Offering**

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Monday, July 7, 2014 and in any event on or before Friday, July 11, 2014, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$2.95 per Share and is expected to be not less than HK$2.39 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.youjimilk.com) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Global Coordinators, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Shares comprised in the Hong Kong Public Offering shall not be less than 5% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting commissions and other expenses payable by our Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$1,002 million, assuming an Offer Price per Share of HK$2.39, or approximately HK$1,241 million, assuming an Offer Price per Share of HK$2.95 (or if the Over-allotment Option is exercised in full, approximately HK$1,155 million, assuming an Offer Price per Share of HK$2.39, or approximately HK$1,430 million, assuming an Offer Price per Share of HK$2.95).

The Offer Price for Shares under the Global Offering is expected to be announced on Monday, July 14, 2014. The indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Monday, July 14, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.youjimilk.com).

**Hong Kong Underwriting Agreement**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section entitled "Underwriting."

**Shares will be eligible for CCASS**

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

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

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

**Dealing**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, July 15, 2014, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, July 15, 2014. Our Shares will be traded in board lots of 1,000 Shares each and the stock code of our Shares will be 1432.

**Conditions of the Hong Kong Public Offering**

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);

(ii) the Offer Price having been fixed on or around the Price Determination Date;

(iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section entitled "How to Apply for Hong Kong Public Offer Shares." In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Monday, July 14, 2014 but will only become valid certificates of title at 8:00 a.m. on Tuesday, July 15, 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" has not been exercised.

## 1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest in International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

## 2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

## 3. APPLYING FOR HONG KONG OFFER SHARES

### Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a YELLOW Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. from Monday, June 30, 2014 until 12:00 noon on Monday, July 7, 2014 from:

(i) *the following office of the Joint Bookrunners:*

| | |
|---|---|
| BOCI Asia Limited | 26/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong |
| Goldman Sachs (Asia) L.L.C. | 68th Floor, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong |

(ii) *any of the branches of the following receiving banks:*

Bank of China (Hong Kong) Limited

| | Branch | Address |
|---|---|---|
| Hong Kong Island | Taikoo Shing Branch | Shop G1006, Hoi Sing Mansion, Taikoo Shing |
| | 409 Hennessy Road Branch | 409-415 Hennessy Road, Wan Chai |
| Kowloon | 194 Cheung Sha Wan Road Branch | 194-196 Cheung Sha Wan Road, Sham Shui Po |
| | Hoi Yuen Road Branch | 55 Hoi Yuen Road, Kwun Tong |
| | Lam Tin Branch | Shop 12, 49 Kai Tin Road, Lam Tin |
| New Territories | Yuen Long (Hang Fat Mansion) Branch | 8-18 Castle Peak Road, Yuen Long |

Wing Lung Bank, Limited

| | Branch | Address |
|---|---|---|
| Hong Kong Island | Aberdeen Branch | 201 Aberdeen Main Road |
| | Johnston Road Branch | 118 Johnston Road |
| Kowloon | Mongkok Branch | B/F Wing Lung Bank Centre, 636 Nathan Road |
| | Tsim Sha Tsui Branch | 4 Carnarvon Road |
| New Territories | Tsuen Wan Branch | 251 Sha Tsui Road |

Bank of Communications Co., Ltd. Hong Kong Branch

| | Branch | Address |
|---|---|---|
| Hong Kong Island | Central District Sub-Branch | G/F., Far East Consortium Building, 125A Des Voeux Road C., Central |
| | North Point Sub-Branch | 442-444 King's Road, North Point |
| Kowloon | Hunghom Sub-Branch | Flat/Rm A6, G/F., Wing Kwai Building, 1-3 Tak Man Street, Whampoa Estate |

| | Branch | Address |
|---|---|---|
| New Territories | Sheung Shui Sub-Branch | Shops 1010-1014, G/F., Sheung Shui Centre Shopping Arcade, Sheung Shui |
| | Tiu Keng Leng Sub-branch | Unit L2-064 & 065, Metro Town Shopping Mall, 8 King Ling Road, Tiu Keng Leng |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, June 30, 2014 until 12:00 noon on Monday, July 7, 2014 from the Depository Counter of **HKSCC** at 2nd Floor, Infinitus Plaza, 199 Des Vouex Road Central, Hong Kong or from your stockbroker.

**Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of China (Hong Kong) Nominees Limited — China Shengmu Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Monday, 30 June 2014 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 2 July 2014 — 9:00 a.m. to 5:00 p.m.
- Thursday, 3 July 2014 — 9:00 a.m. to 5:00 p.m.
- Friday, 4 July 2014 — 9:00 a.m. to 5:00 p.m.
- Saturday, 5 July 2014 — 9:00 a.m. to 1:00 p.m.
- Monday, 7 July 2014 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, July 7, 2014, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

## 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Global Coordinators (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or deposit any share certificate(s) into CCASS and/or to send any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

**Additional Terms and Conditions for Yellow Application Form**

You may refer to the **YELLOW** Application Form for details.

## 5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

**General**

Individuals who meet the criteria in "Who can apply" in this section may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **HK eIPO White Form** service to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

**Time for Submitting Applications under the HK eIPO White Form service**

You may submit your application to the **HK eIPO White Form** service at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, June 30, 2014 until 11:30 a.m. on Monday, July 7, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 a.m. on Monday, July 7, 2014 or such later time under the "10. Effects of Bad Weather on the Opening of the Applications Lists" in this section.

**No Multiple Applications**

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

**Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

**General**

CCASS Participants may give electronic application instructions to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

**Hong Kong Securities Clearing Company Limited**
**Customer Service Centre**
2/F Infinitus Plaza
199 Des Vouex Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

## GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given electronic application instructions to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

- declare that only one set of electronic application instructions has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Public Offer Shares;

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

**Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies(including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the WHITE Application Form and in this prospectus.

**Minimum Purchase Amount and Permitted Numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 1,000 Hong Kong Public Offer Shares. Instructions for more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

**Time for Inputting Electronic Application Instructions**

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Monday, 30 June 2014 — 9:00 a.m. to 8:30 p.m.(1)

- Wednesday, 2 July 2014 — 8:00 a.m. to 8:30 p.m.(1)

- Thursday, 3 July 2014 — 8:00 a.m. to 8:30 p.m.(1)

- Friday, 4 July 2014 — 8:00 a.m. to 8:30 p.m.(1)

- Saturday, 5 July 2014 — 8:00 a.m. to 1:00 p.m.(1)

- Monday, 7 July 2014 — 8:00 a.m.(1) to 12:00 noon

*Note:*

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, 30 June, 2014 until 12:00 noon on Monday, July 7, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Monday, July 7, 2014, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

**No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

**Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

**Personal Data**

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the service **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** service to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint

Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Monday, July 7, 2014.

## 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or

- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

## 9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure and Conditions of the Global Offering — Allocation."

## 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, July 7, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, July 7, 2014 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in "Expected Timetable," an announcement will be made in such event.

## 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Monday, July 14, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at www.youjimilk.com and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at www.youjimilk.com and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Monday, July 14, 2014;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, July 14, 2014 to 12:00 midnight on Sunday, July 20, 2014;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, July 14, 2014 to Thursday, July 17, 2014 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, July 14, 2014 to Wednesday, July 16, 2014 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure and Conditions of the Global Offering."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

## 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **HK eIPO White Form** service and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;

- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe(s) that by accepting your application, it/they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

## 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$2.95 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure and Conditions of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Monday, July 14, 2014.

## 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Monday, July 14, 2014. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, July 15, 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

**Personal Collection**

(i) ***If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Pubic Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, July 14, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Monday, July 14, 2014, by ordinary post and at your own risk.

(ii) ***If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, July 14, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, July 14, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

  For Hong Kong Public Offering Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

  The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, July 14, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) ***If you apply through the HK eIPO White Form Service***

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, July 14, 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, July 14, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) ***If you apply via Electronic Application Instructions to HKSCC***

*Allocation of Hong Kong Public Offer Shares*

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, July 14, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Monday, July 14, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, July 14, 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, July 14, 2014. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, July 14, 2014.

## 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.*

EY 安永

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel: +852 2846 9888
Fax:+852 2868 4432
www.ey.com

June 30, 2014

The Directors
China Shengmu Organic Milk Limited
BOCI Asia Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We set out below our report on the financial information of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2011, 2012 and 2013 (the "Relevant Periods"), and the combined statements of financial position of the Group as at December 31, 2011, 2012 and 2013, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated June 30, 2014 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on December 11, 2013. Pursuant to a group reorganization (the "Reorganization") as set out in note 2.1 of Section II below, which was completed on March 26, 2014, the Company became the holding company of the other subsidiaries comprising the Group. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as the Company has not been involved in any significant business transaction other than the Reorganization described above and is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted December 31, as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the combined financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended December 31, 2011, 2012 and 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

**Directors' responsibility**

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

**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 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at December 31, 2011, 2012 and 2013 and of the combined results and cash flows of the Group for each of the years ended December 31, 2011, 2012 and 2013.

## I. FINANCIAL INFORMATION

## 1. COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | Year ended December 31, 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| **REVENUE** | 5 | 389,417 | 700,763 | 1,143,709 |
| Cost of sales | | (274,816) | (466,704) | (653,284) |
| Gross profit | | 114,601 | 234,059 | 490,425 |
| Gain arising from changes in fair value less costs to sell of biological assets | 18 | 117,139 | 4,406 | 9,484 |
| Other income and gains | 5 | 10,854 | 7,939 | 6,868 |
| Selling and distribution expenses | | (6,395) | (22,869) | (71,821) |
| Administrative expenses | | (7,845) | (12,563) | (25,436) |
| Loss on deemed disposal of a subsidiary | 29 | (444) | — | — |
| Finance costs | 7 | (4,669) | (12,389) | (32,821) |
| Share of profits and (losses) of associates | | — | 320 | (1,349) |
| **PROFIT BEFORE TAX** | 6 | 223,241 | 198,903 | 375,350 |
| Income tax expense | 10 | — | — | (852) |
| **PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 223,241 | 198,903 | 374,498 |
| Profit and total comprehensive income for the year attributable to: | | | | |
| Owners of the parent | 11 | 223,268 | 195,782 | 327,309 |
| Non-controlling interests | | (27) | 3,121 | 47,189 |
| | | 223,241 | 198,903 | 374,498 |

## 2. COMBINED STATEMENTS OF FINANCIAL POSITION

| | Notes | As at December 31, 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 13 | 194,875 | 450,249 | 922,764 |
| Prepaid land lease payments | 14 | — | 3,452 | 3,381 |
| Other intangible assets | 15 | 15,021 | 14,466 | 14,192 |
| Investments in associates | 17 | 14,756 | 17,576 | 17,727 |
| Biological assets | 18 | 713,826 | 1,029,541 | 1,510,160 |
| Prepayments for property, plant and equipment and biological assets | 19 | 14,101 | 26 | 9,043 |
| Deferred tax assets | 20 | — | — | 187 |
| Total non-current assets | | 952,579 | 1,515,310 | 2,477,454 |
| CURRENT ASSETS | | | | |
| Inventories | 21 | 103,881 | 204,243 | 335,218 |
| Trade and bills receivables | 22 | 10,043 | 24,510 | 63,470 |
| Prepayments, deposits and other receivables | 19 | 15,893 | 30,030 | 94,377 |
| Pledged deposits | 23 | 29,224 | 12,797 | 15,030 |
| Cash and cash equivalents | 23 | 69,550 | 29,838 | 127,059 |
| Total current assets | | 228,591 | 301,418 | 635,154 |
| CURRENT LIABILITIES | | | | |
| Trade and bills payables | 24 | 83,963 | 132,151 | 191,037 |
| Receipts in advance | | 15,473 | 17,527 | 82,481 |
| Other payables and accruals | 25 | 82,468 | 124,581 | 198,565 |
| Interest-bearing bank and other borrowings | 26 | 75,000 | 324,000 | 932,000 |
| Tax payable | | — | — | 633 |
| Total current liabilities | | 256,904 | 598,259 | 1,404,716 |
| NET CURRENT LIABILITIES | | (28,313) | (296,841) | (769,562) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 924,266 | 1,218,469 | 1,707,892 |

| | Notes | As at December 31, 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| NON-CURRENT LIABILITIES | | | | |
| Interest-bearing bank and other borrowings | 26 | 49,000 | — | — |
| Total non-current liabilities | | 49,000 | — | — |
| Net assets | | 875,266 | 1,218,469 | 1,707,892 |
| EQUITY | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Issued capital | 27 | — | — | — |
| Reserves | 28 | 855,569 | 1,166,851 | 1,494,160 |
| | | 855,569 | 1,166,851 | 1,494,160 |
| **Non-controlling interests** | | 19,697 | 51,618 | 213,732 |
| Total equity | | 875,266 | 1,218,469 | 1,707,892 |

## 3. COMBINED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital | Share premium account | Contributed surplus | Reserve funds | Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2011 | — | — | 287,620 | 10,652 | 96,011 | 394,283 | 7,876 | 402,159 |
| Profit for the year | — | — | — | — | 223,268 | 223,268 | (27) | 223,241 |
| Total comprehensive income for the year | — | — | — | — | 223,268 | 223,268 | (27) | 223,241 |
| Capital injection | — | — | 238,018 | — | — | 238,018 | 20,025 | 258,043 |
| Deemed disposal of a subsidiary | — | — | — | — | — | — | (8,177) | (8,177) |
| Transfer from retained profits | — | — | — | 22,400 | (22,400) | — | — | — |
| At December 31, 2011 and January 1, 2012 | — | — | 525,638 | 33,052 | 296,879 | 855,569 | 19,697 | 875,266 |
| Profit for the year | — | — | — | — | 195,782 | 195,782 | 3,121 | 198,903 |
| Total comprehensive income for the year | — | — | — | — | 195,782 | 195,782 | 3,121 | 198,903 |
| Capital injection | — | — | 115,500 | — | — | 115,500 | 28,800 | 144,300 |
| Transfer from retained profits | — | — | — | 21,601 | (21,601) | — | — | — |
| At December 31, 2012 and January 1, 2013 | — | — | 641,138 | 54,653 | 471,060 | 1,166,851 | 51,618 | 1,218,469 |
| Profit for the year | — | — | — | — | 327,309 | 327,309 | 47,189 | 374,498 |
| Total comprehensive income for the year | — | — | — | — | 327,309 | 327,309 | 47,189 | 374,498 |
| Capital injection | — | — | — | — | — | — | 114,925 | 114,925 |
| Transfer from retained profits | — | — | — | 37,560 | (37,560) | — | — | — |
| At December 31, 2013 | — | — | 641,138 | 92,213 | 760,809 | 1,494,160 | 213,732 | 1,707,892 |

## 4. COMBINED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | 223,241 | 198,903 | 375,350 |
| Adjustments for: | | | |
| Gain arising from change in fair value less costs to sell of biological assets | (117,139) | (4,406) | (9,484) |
| Interest income | (3,138) | (1,904) | (490) |
| Finance costs | 4,669 | 12,389 | 32,821 |
| Share of (profits) and losses of associates | — | (320) | 1,349 |
| Loss on deemed disposal of a subsidiary | 444 | — | — |
| Depreciation | 2,486 | 10,736 | 28,003 |
| Amortisation of prepaid land lease payments | — | 35 | 71 |
| Amortisation of other intangible assets | 412 | 801 | 829 |
| Foreign exchange differences, net | 808 | (134) | — |
| | 111,783 | 216,100 | 428,449 |
| Increase in inventories | (33,427) | (100,362) | (130,975) |
| Decrease/(increase) in trade and bills receivables | 9,357 | (14,467) | (38,960) |
| Decrease/(increase) in prepayments, deposits and other receivables | (4,922) | 1,862 | (55,428) |
| Decrease/(increase) in pledged deposits | (17,451) | 5,268 | (8,233) |
| Increase in trade and bills payables | 48,800 | 44,320 | 58,886 |
| Increase in other payables and accruals | 23,926 | 23,317 | 109,994 |
| Cash generated from operations | 138,066 | 176,038 | 363,733 |
| Interest received | 3,138 | 1,904 | 490 |
| Income taxes paid | — | — | (593) |
| Net cash flows from operating activities | 141,204 | 177,942 | 363,630 |

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2011 | 2012 | 2013 |
| | | RMB'000 | RMB'000 | RMB'000 |
| Net cash flows from operating activities | | 141,204 | 177,942 | 363,630 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchases of items of property, plant and equipment | | (131,998) | (243,550) | (442,479) |
| Additions to prepaid land lease payments | | — | (3,558) | — |
| Additions to other intangible assets | | (183) | (246) | (555) |
| Purchases of biological assets | | (175,923) | (124,288) | (316,532) |
| Payments for breeding calves and heifers | | (122,705) | (200,080) | (332,842) |
| Proceeds from disposal of biological assets | | 22,899 | 39,007 | 159,609 |
| Deemed disposal of a subsidiary | | (266) | — | — |
| Purchase of a shareholding in an associate | | (200) | (2,500) | (1,500) |
| Net cash flows used in investing activities | | (408,376) | (535,215) | (934,299) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Capital injection by investors | | 223,018 | 115,500 | — |
| Capital injection by non-controlling interests | | 20,025 | 28,800 | 114,925 |
| New bank loans | | 84,000 | 320,000 | 944,000 |
| New other loans | | 522 | 31,513 | 15,830 |
| Repayment of bank loans | | (50,000) | (120,000) | (336,000) |
| Repayment of other loans | | — | (44,000) | (38,205) |
| Interest paid | | (8,015) | (14,386) | (32,660) |
| Net cash flows from financing activities | | 269,550 | 317,427 | 667,890 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 2,378 | (39,846) | 97,221 |
| Cash and cash equivalents at beginning of year | | 67,980 | 69,550 | 29,838 |
| Effect of foreign exchange rate changes, net | | (808) | 134 | — |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 23 | 69,550 | 29,838 | 127,059 |

## II. NOTES TO FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk and dairy products in the People's Republic of China ("PRC").

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the section headed "History, Reorganization and Group Structure" to the Prospectus.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

| Name | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Shining Investment Industry Limited (note (i)) | Hong Kong January 20, 2014 | HK$1 | 100 | — | Investment holding |
| China Mengniu Investment Company Limited (note (i)) | Hong Kong April 16, 2011 | HK$125,322,366 | — | 100 | Investment holding |
| Saint Investment HK Limited (note (i)) | Hong Kong December 17, 2013 | HK$66,387,929 | — | 100 | Investment holding |
| Flourish Treasure Holdings Limited (note (i)) | Hong Kong December 3, 2013 | HK$10,000 | — | 100 | Investment holding |
| Horizon King Investments Limited (note (i)) | Hong Kong November 26, 2013 | HK$1 | — | 100 | Investment holding |
| Fortune Globe Limited (note (i)) | British Virgin Islands January 8, 2014 | US$16,066,970 | 100 | — | Investment holding |
| Saint Investment (Cayman) Limited (note (i)) | Cayman December 16, 2013 | US$8,512,272 | 100 | — | Investment holding |
| Credence Global Investments Limited (note (i)) | British Virgin Islands November 15, 2013 | US$10,000 | 100 | — | Investment holding |
| Elite Noble Investments Limited (note (i)) | British Virgin Islands January 2, 2014 | US$92.6 | 100 | — | Investment holding |
| 內蒙古聖牧高科牧業有限公司 Inner Mongolia Shengmu High-tech farming Co., Ltd. (note (ii)(iii)) | PRC October 18, 2009 | RMB738,700,000 | — | 100 | Production and distribution of raw milk |

| Name | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 巴彥淖爾市聖牧高科牧業有限公司 Bayannur Shengmu High-tech Farming Co., Ltd.# (note (iii)) | PRC January 21, 2010 | RMB30,000,000 | — | 100 | Production and distribution of raw milk |
| 內蒙古聖牧高科奶業有限公司 Inner Mongolia Shengmu High-tech Dairy Co., Ltd.# (note (iii)) | PRC July 29, 2011 | RMB20,000,000 | — | 100 | Production and distribution of dairy products |
| 內蒙古內大聖牧高科牧業有限公司 Inner Mongolia IMU-Shengmu High-tech farming Co., Ltd. ("IMU-Shengmu Dairy")# (note (iii)) | PRC July 5, 2011 | RMB44,500,000 | — | 70 | Production and distribution of raw milk |
| 內蒙古聖牧農牧業科技有限公司 Inner Mongolia Shengmu Agriculture Technology Co., Ltd.# (note (iii)) | PRC March 20, 2012 | RMB7,800,000 | — | 100 | Research and consulting |
| 巴彥淖爾市聖牧盤古牧業有限責任公司 Bayannur Shengmu Pangu Farming Co., Ltd. ("Shengmu Pangu")# (note (iii)) | PRC June 15, 2012 | RMB80,000,000 | — | 55 | Production and distribution of raw milk |
| 鄂托克旗聖牧欣泰牧業有限公司 Otog Shengmu Xintai Farming Co., Ltd.# (note (iii)) | PRC August 24, 2012 | RMB32,000,000 | — | 55 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧套海牧業有限公司 Bayannur Shengmu Taohai Farming Co., Ltd.# (note (iii)) | PRC January 29, 2013 | RMB42,000,000 | — | 55 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧哈騰牧業有限公司 Bayannur Shengmu Hateng Farming Co., Ltd.# (note (iii)) | PRC April 16, 2013 | RMB70,000,000 | — | 65 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧新禾牧業有限公司 Bayannur Shengmu Xinhe Farming Co., Ltd.# (note (iii)) | PRC June 7, 2013 | RMB36,000,000 | — | 65 | Production and distribution of raw milk |

| Name | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 巴彥淖爾市聖牧六和牧業有限公司 Bayannur Shengmu Liuhe Farming Co., Ltd.# (note (iii)) | PRC June 26, 2013 | RMB84,500,000 | — | 65 | Production and distribution of raw milk |
| 阿拉善盟聖牧五星牧業有限公司 Alxa Shengmu Wuxing Farming Co., Ltd.# (note (iii)) | PRC June 20, 2013 | RMB70,000,000 | — | 65 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧希望牧業有限公司 Bayannur Shengmu Xiwang Farming Co., Ltd.# (note (iii)) | PRC August 23, 2013 | RMB17,600,000 | — | 65 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧正和牧業有限公司 Bayannur Shengmu Zhenghe Farming Co., Ltd.# (note (iii)) | PRC August 23, 2013 | RMB42,000,000 | — | 65 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧北斗牧業有限公司 Bayannur Shengmu Beidou Farming Co., Ltd.# (note (iii)) | PRC September 9, 2013 | RMB50,000,000 | — | 65 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧七星牧業有限公司 Bayannur Shengmu Qixing Farming Co., Ltd.# (note (iii)) | PRC November 28, 2013 | RMB36,000,000 | — | 65 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧三利牧業有限公司 Bayannur Shengmu Sanli Farming Co., Ltd.# | PRC April 2, 2014 | RMB42,000,000 | — | 65 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧偉業牧業有限公司 Bayannur Shengmu Weiye Farming Co., Ltd.# | PRC March 31, 2014 | RMB42,000,000 | — | 65 | Production and distribution of raw milk |
| 阿拉善盟聖牧兆豐牧業有限公司 Alxa Shengmu Zhaofeng Farming Co., Ltd.# | PRC May 5, 2014 | RMB42,000,000 | — | 65 | Production and distribution of raw milk |
| 巴彥淖爾市聖牧沙金牧業有限公司 Bayannur Shengmu Shajin Farming Co. Ltd.# | PRC May 26, 2014 | RMB62,000,000 | — | 65 | Production and distribution of raw milk |

# The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as they did not register any official English names.

*Notes:*

(i) No audited financial statements have been prepared for these entities for each of the three years ended December 31, 2013, as the entity either was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation or has not been established by December 31, 2013.

(ii) The entity was registered as a foreign investment enterprise under PRC laws.

(iii) The statutory financial statements of these entities for the years ended December 31, 2011, 2012 and 2013 (or since date of incorporation, where later than the beginning of the Relevant Periods) prepared under PRC accounting standard were audited by 呼和浩特市勝途會計師事務所, 內蒙古君曄會計師事務所 and 內蒙古君曄會計師事務所, certified public accountants registered in the PRC, respectively.

**2.1 BASIS OF PRESENTATION**

Pursuant to the Reorganization completed on March 26, 2014, the Company became the direct/indirect holding company of the companies now comprising the Group. As the Reorganization only involved inserting new holding entities at the top of an existing company and has not resulted in any change of economic substance, the Financial Information for the Relevant Periods has been presented as a continuation of the existing company using the pooling of interest method.

Accordingly, the combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows are prepared as if the current group structure had been in existence throughout the Relevant Periods. The combined statements of financial position as at December 31, 2011, 2012 and 2013, present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates.

All significant intra-group transactions and balances have been eliminated on combination.

**2.2 BASIS OF PREPARATION**

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing after January 1, 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention except for biological assets and agricultural produce, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

**Going concern**

The Group had net current liabilities of RMB28,313,000, RMB296,841,000 and RMB769,562,000 as of December 31, 2011, 2012 and 2013, respectively. In view of the net current liabilities position, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the additional capital injection of RMB683,300,000 in February 2014, cash inflow from operations, and the bank facilities of RMB1,070,000,000 granted by banks with expiry dates not earlier than June 30, 2015, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Financial Information has been prepared on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Financial Information does not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

**2.3 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.

| | |
|---|---|
| IFRS 9 | Financial Instruments[3] |
| IFRS 9, IFRS 7 and IAS 39 Amendments | Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39[3] |
| IFRS 10, IFRS 12 and IAS 27 (2011) Amendments | Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) — Investment Entities[1] |
| IAS 19 Amendments | Amendments to IAS 19 Employee Benefits — Defined Benefit Plans: Employee Contributions[2] |
| IAS 32 Amendments | Amendments to IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[1] |
| IAS 36 Amendments | Amendments to IAS 36 Impairment of Assets — Recoverable Amount Disclosures for Non-financial Assets[1] |
| IAS 39 Amendments | Amendments to IAS 39 Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting[1] |
| IFRIC 21 | Levies[1] |
| Annual Improvements 2010-2012 Cycle | Amendments to a number of IFRSs[2] |
| Annual Improvements 2011-2013 Cycle | Amendments to a number of IFRSs[2] |
| IFRS 14 | Regulatory Deferral Accounts[4] |
| IFRS 15 | Revenue from Contracts with Customers[5] |

---

[1] Effective for annual periods beginning on or after January 1, 2014
[2] Effective for annual periods beginning on or after July 1, 2014
[3] No mandatory effective date yet determined but is available for adoption
[4] Effective for annual periods beginning on or after January 1, 2016
[5] Effective for annual periods beginning on or after January 1, 2017

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on the Group's results of operations and financial position.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

**Investments in associates and joint ventures**

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the combined statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the combined statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the combined statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the assets' 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 of disposal, 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an 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 other than goodwill 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 profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Related parties**

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale." 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 profit or loss 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 depreciates them accordingly.

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:

| | Useful lifes | Residual values |
|---|---|---|
| Buildings | 20 years | 5% |
| Machinery and equipment | 5-10 years | 5% |
| Office and other equipment | 5 years | 5% |
| Motor vehicles | 5 years | 5% |

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 including 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 profit or loss 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 a building 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.

**Biological assets**

Biological assets comprise dairy cows, including milkable cows, heifers and calves and alfalfa grass, which are raised or grown by the Group for the purposes of producing raw milk and feeding dairy cows.

Biological assets are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in the profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of biological assets is determined based on its present location and condition and is determined independently by professional valuers.

The feeding costs and other related costs including the depreciation charge, utilities costs and consumables incurred for the raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

The sowing and plantation costs and other related costs such as staff costs, the depreciation charge, utilities costs and consumables incurred for growing alfalfa grass are capitalised and upon harvest. The costs incurred to bring the grass to harvest are transferred to inventories.

**Agricultural produce**

Agricultural produce represents milk and alfalfa grass. Upon harvest, agricultural produce is recognised at its fair value less costs to sell, which is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of the agricultural produce, mainly transportation costs, excluding finance costs and income tax.

**Non-current assets and disposal groups held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

***Technical know-how***

Technical know-how are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 20 years.

***Research and development costs***

All research costs are charged to the profit or loss 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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

**Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

**Investments and other financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

*Loans and receivables*

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 by 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 other income and gains in the profit or loss. The loss arising from impairment is recognised in the profit or loss in finance costs for loans and in other expenses for receivables.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. 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 other income and gains in the profit or loss. The loss arising from impairment is recognised in the profit or loss as other expenses.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the profit or loss as other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the profit or loss as other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

**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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 reorganization 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 whether impairment exists individually 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.

The amount of any impairment loss identified is measured as the difference between the assets' 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the profit or loss. 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 write-off is later recovered, the recovery is credited to other expenses in the profit or loss.

***Assets carried at cost***

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the assets' 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.

***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is removed from other comprehensive income and recognised in the profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss — is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, 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.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, and interest-bearing bank borrowings.

***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

*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 profit or loss when the liabilities are derecognised as well as through the effective interest rate 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 profit or loss.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

**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 profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and 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 statement 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.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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 profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

**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:

- when the deferred tax liability arises from the initial recognition of goodwill or 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 investments in subsidiaries, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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 investments in subsidiaries, associates and joint ventures, 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.

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

***Grants relating to biological assets***

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognized in the profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, the Group recognises the government grant in the profit or loss when, and only when, the conditions attaching to the government grant are met.

***Other grants***

When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

**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:

(a) from the 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;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

**Employee benefits**

***Pension scheme***

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

***Termination benefits***

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

**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 the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**Foreign currencies**

These financial statements are presented in Renminbi ("RMB"). 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognized in the profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other 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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the combined statements of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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 recognized in the financial statements:

***Withholding tax arising from the distribution of dividends***

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiaries. As at December 31, 2013, the deferred tax liabilities arising thereon amounted to nil (2012: nil, 2011: nil).

### Estimation uncertainty

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 described below.

***Fair value of dairy cows***

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at each year end during the Relevant Periods adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 18 to the Financial Information.

***Impairment of receivables***

Management assesses doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. Management bases the estimates on the assessment of recoverability of individual receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

***Impairment of non-financial assets (other than goodwill)***

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

***Depreciation***

Property, plant and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. Management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) Dairy farming — breeding dairy cows to produce and distribute raw milk;

(b) Liquid milk products — producing and distributing ultra-heat treated liquid milk.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) for the year. The adjusted profit/(loss) for the year is measured consistently with the Group's profit after tax except that gain arising from fair value less costs to sell of biological assets is excluded from this measurement as management believes that such adjusted information is most relevant in evaluating the results of dairy farming segment relative to other entities that operate within dairy farming industry.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

| Year ended December 31, 2011 | Dairy farming | Liquid milk products | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Segment revenue:** | | | |
| Sales to external customers | 389,417 | — | 389,417 |
| Intersegment sales | — | — | — |
| | 389,417 | — | 389,417 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | — |
| | | | 389,417 |
| **Segment profit/(loss)** | 106,627 | (525) | 106,102 |
| *Reconciliation:* | | | |
| Gain arising from changes in fair value less costs to sell of biological assets | | | 117,139 |
| **Profit for the year** | | | 223,241 |
| **Segment assets** | 1,188,964 | 36,086 | 1,225,050 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (43,880) |
| Total assets | | | 1,181,170 |
| **Segment liabilities** | 313,173 | 16,611 | 329,784 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (23,880) |
| Total liabilities | | | 305,904 |
| **Other segment information:** | | | |
| Share of losses of associates | (444) | — | (444) |
| Bank interest income | 3,109 | 29 | 3,138 |
| Finance costs | 4,669 | — | 4,669 |
| Income tax expenses | — | — | — |
| Depreciation and amortisation | 2,895 | 3 | 2,898 |
| Investment in associates | 14,756 | — | 14,756 |
| Capital expenditure* | 420,467 | 31,500 | 451,967 |

| Year ended December 31, 2012 | Dairy farming | Liquid milk products | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Segment revenue:** | | | |
| Sales to external customers | 666,834 | 33,929 | 700,763 |
| Intersegment sales | 15,345 | — | 15,345 |
| | 682,179 | 33,929 | 716,108 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (15,345) |
| | | | 700,763 |
| **Segment profit/(loss)** | 202,411 | (7,914) | 194,497 |
| *Reconciliation:* | | | |
| Gain arising from changes in fair value less costs to sell of biological assets | | | 4,406 |
| **Profit for the year** | | | 198,903 |
| **Segment assets** | 1,800,976 | 106,789 | 1,907,765 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (91,037) |
| Total assets | | | 1,816,728 |
| **Segment liabilities** | 574,068 | 95,228 | 669,296 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (71,037) |
| Total liabilities | | | 598,259 |
| **Other segment information:** | | | |
| Share of gains/(losses) of associates | 337 | (17) | 320 |
| Bank interest income | 1,887 | 17 | 1,904 |
| Finance costs | 12,389 | — | 12,389 |
| Income tax expenses | — | — | — |
| Depreciation and amortisation | 9,108 | 2,464 | 11,572 |
| Investment in associates | 15,093 | 2,483 | 17,576 |
| Capital expenditure* | 565,745 | 59,716 | 625,461 |

| Year ended December 31, 2013 | Dairy farming | Liquid milks products | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Segment revenue:** | | | |
| Sales to external customers | 840,747 | 302,962 | 1,143,709 |
| Intersegment sales | 131,561 | — | 131,561 |
| | 972,308 | 302,962 | 1,275,270 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (131,561) |
| | | | 1,143,709 |
| **Segment profit** | 330,511 | 34,503 | 365,014 |
| *Reconciliation:* | | | |
| Gain arising from changes in fair value less costs to sell of biological assets | | | 9,484 |
| **Profit for the year** | | | 374,498 |
| **Segment assets** | 2,932,182 | 242,784 | 3,174,966 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (62,358) |
| Total assets | | | 3,112,608 |
| **Segment liabilities** | 1,250,354 | 196,720 | 1,447,074 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (42,358) |
| Total liabilities | | | 1,404,716 |
| **Other segment information:** | | | |
| Share of losses of associates | (47) | (1,302) | (1,349) |
| Bank interest income | 454 | 36 | 490 |
| Finance costs | 30,976 | 1,845 | 32,821 |
| Income tax expenses | — | 852 | 852 |
| Depreciation and amortisation | 21,502 | 7,401 | 28,903 |
| Investment in associates | 15,046 | 2,681 | 17,727 |
| Capital expenditure* | 1,022,657 | 112,475 | 1,135,132 |

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, other intangible assets, investments in associates and biological assets.

**Geographical information**

All external sales of the Group during the Relevant Periods are contributable to customers located in the PRC.

All non-current assets of the Group were located in the PRC.

**Information about major customers**

During the Relevant Periods, the below customers of the Group's dairy farming segment individually contributed more than 10% of the Group's total revenue:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Entity A | 340,362 | 662,764 | 666,599 |
| Entity B | — | — | 163,083 |

## 5. 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.

An analysis of revenue, other income and gains is as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | Note | 2011 | 2012 | 2013 |
| | | RMB'000 | RMB'000 | RMB'000 |
| Revenue | | | | |
| - Sales of raw milk | | 389,417 | 666,834 | 840,748 |
| - Sales of liquid milk products | | — | 33,929 | 302,961 |
| | | 389,417 | 700,763 | 1,143,709 |
| Other income and gains | | | | |
| - Government grants | (i) | 6,315 | 3,740 | 5,454 |
| - Bank interest income | | 3,138 | 1,904 | 490 |
| - Foreign exchange differences, net | | (808) | 134 | — |
| - Others | | 2,209 | 2,161 | 924 |
| | | 10,854 | 7,939 | 6,868 |
| | | 400,271 | 708,702 | 1,150,577 |

*Note:*

(i) These government grants are unconditional government grants received by the Group from relevant government bodies for the purpose of supporting the Group to purchase dairy cows.

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cost of inventories sold: | | | |
| - Planation and breeding costs to produce raw milk | 274,816 | 456,856 | 583,846 |
| - Production costs for liquid milk products | — | 9,848 | 69,438 |
| | 274,816 | 466,704 | 653,284 |
| Changes in fair value less costs to sell of biological assets | 117,139 | 4,406 | 9,484 |
| Depreciation of items of property, plant and equipment | 2,486 | 10,736 | 28,003 |
| Amortisation of prepaid land lease payments | — | 35 | 71 |
| Amortisation of other intangible assets | 412 | 801 | 829 |
| Research and development costs | 753 | 1,094 | 1,185 |
| Minimum lease payments under operating leases: | | | |
| - Plant and machinery | 2,057 | 3,101 | 3,310 |
| - Land and buildings | 9,494 | 9,218 | 6,331 |
| | 11,551 | 12,319 | 9,641 |
| Foreign exchange differences, net | 808 | (134) | — |
| Auditors' remuneration | 9 | 17 | 66 |
| Employee benefits expense (including directors' and chief executive's remuneration): | | | |
| Wages, salaries, bonuses and allowances | 34,258 | 55,536 | 98,109 |
| Other social insurances and benefits | 1,671 | 3,045 | 4,315 |
| Pension scheme contribution | 1,939 | 2,819 | 4,284 |
| | 37,868 | 61,400 | 106,708 |

## 7. FINANCE COSTS

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest on bank loans wholly repayable within five years | 8,092 | 14,256 | 32,821 |
| Less: Interest capitalised | (3,423) | (1,867) | — |
| | 4,669 | 12,389 | 32,821 |

The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation for the years ended December 31, 2011 and 2012 were 5.31-5.60% and 5.60%, respectively.

### 8. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

As the Company was incorporated on December 11, 2013 and has not commenced any business or operation apart from the Reorganization, it did not appoint any director, chief executive officer or independent non-executive director during the Relevant Periods.

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the Relevant Periods.

### 9. FIVE HIGHEST PAID EMPLOYEES

The remuneration of the five highest paid employees during the years ended December 31, 2011, 2012 and 2013, who are neither directors nor a chief executive officer of the Company, are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Salaries, allowances and benefits in kind | 661 | 1,550 | 1,500 |
| Pension scheme contributions | 49 | 17 | 27 |
| | 710 | 1,567 | 1,527 |

The number of non-director and non-chief executive officer highest paid employees whose remuneration fell within the following bands is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| **Number of employees** | **2011** | **2012** | **2013** |
| Nil to HK$1,000,000 | 5 | 5 | 5 |
| HK$1,000,001 to HK$1,500,000 | — | — | — |
| HK$1,500,001 to HK$2,000,000 | — | — | — |

### 10. INCOME TAX EXPENSE

| | Year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Current | — | — | 1,039 |
| Deferred (note 20) | — | — | (187) |
| | — | — | 852 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit before tax | 223,241 | 198,903 | 375,350 |
| Tax at the statutory tax rate (note (i)) | 55,810 | 49,726 | 93,838 |
| Income not subject to tax (note (ii)) | (56,116) | (50,903) | (92,501) |
| Lower tax rate for specific provinces (note (iii)) | — | — | (693) |
| Expenses not deductible for tax, net (note (iv)) | 306 | 1,177 | 208 |
| Tax charge at the Group's effective rate of nil, nil and 0.2% | — | — | 852 |

*Notes:*

(i) The Company and its subsidiaries incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations. Entities in the PRC are generally subject to PRC Enterprise Income Tax rate of 25% for each of the years ended December 31, 2011, 2012 and 2013.

(ii) According to the Enterprise Income Tax Law of the PRC (the "EIT Law"), the Group's income arising from agricultural activities, such as dairy farming and processing of primary agricultural products, is exempt from income tax.

(iii) In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》), the Group's taxable income arising from processing of non-primary agricultural products is subject to a preferential tax rate of 15% from 2013 to 2020.

(iv) Non-deductible expenses are mainly the staff welfare and entertainment expenses charged over the tax limit.

**11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT**

No profit was attributable to owners of the parent as the Company was incorporated on 11 December 2013 and has not carried on any business since the date of its incorporation save for the Reorganization.

**12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery and equipment | Office and other equipment | Motor vehicles | Construction In progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2011** | | | | | | |
| At December 31, 2010 and at January 1, 2011 | | | | | | |
| Cost | 30,939 | 7,689 | 984 | 893 | 37,241 | 77,746 |
| Accumulated depreciation | (977) | (103) | (71) | (91) | — | (1,242) |
| Net carrying amount | 29,962 | 7,586 | 913 | 802 | 37,241 | 76,504 |
| At January 1, 2011, net of accumulated depreciation | 29,962 | 7,586 | 913 | 802 | 37,241 | 76,504 |
| Additions | 9,062 | 16,245 | 672 | 1,301 | 97,358 | 124,638 |
| Transfers | 36,291 | — | — | — | (36,291) | — |
| Disposal | (7) | (3,371) | (24) | (211) | (168) | (3,781) |
| Depreciation provided for the year | (936) | (1,052) | (221) | (277) | — | (2,486) |
| At December 31, 2011, net of accumulated depreciation | 74,372 | 19,408 | 1,340 | 1,615 | 98,140 | 194,875 |
| At December 31, 2011 | | | | | | |
| Cost | 76,285 | 20,526 | 1,625 | 1,952 | 98,140 | 198,528 |
| Accumulated depreciation | (1,913) | (1,118) | (285) | (337) | — | (3,653) |
| Net carrying amount | 74,372 | 19,408 | 1,340 | 1,615 | 98,140 | 194,875 |

| | Buildings | Machinery and equipment | Office and other equipment | Motor vehicles | Construction In progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2012** | | | | | | |
| At December 31, 2011 and at January 1, 2012 | | | | | | |
| Cost | 76,285 | 20,526 | 1,625 | 1,952 | 98,140 | 198,528 |
| Accumulated depreciation | (1,913) | (1,118) | (285) | (337) | — | (3,653) |
| Net carrying amount | 74,372 | 19,408 | 1,340 | 1,615 | 98,140 | 194,875 |
| At January 1, 2012, net of accumulated depreciation | 74,372 | 19,408 | 1,340 | 1,615 | 98,140 | 194,875 |
| Additions | 12,396 | 57,274 | 2,722 | 1,881 | 191,837 | 266,110 |
| Transfers | 54,133 | 36,880 | 1,617 | — | (92,630) | — |
| Depreciation provided for the year | (5,168) | (4,477) | (569) | (522) | — | (10,736) |
| At December 31, 2012, net of accumulated depreciation | 135,733 | 109,085 | 5,110 | 2,974 | 197,347 | 450,249 |
| At December 31, 2012 | | | | | | |
| Cost | 142,814 | 114,680 | 5,964 | 3,833 | 197,347 | 464,638 |
| Accumulated depreciation | (7,081) | (5,595) | (854) | (859) | — | (14,389) |
| Net carrying amount | 135,733 | 109,085 | 5,110 | 2,974 | 197,347 | 450,249 |

| | Buildings | Machinery and equipment | Office and other equipment | Motor vehicles | Construction In progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2013** | | | | | | |
| At December 31, 2012 and at January 1, 2013 | | | | | | |
| Cost | 142,814 | 114,680 | 5,964 | 3,833 | 197,347 | 464,638 |
| Accumulated depreciation | (7,081) | (5,595) | (854) | (859) | — | (14,389) |
| Net carrying amount | 135,733 | 109,085 | 5,110 | 2,974 | 197,347 | 450,249 |
| At January 1, 2013, net of accumulated depreciation | 135,733 | 109,085 | 5,110 | 2,974 | 197,347 | 450,249 |
| Additions | 26,234 | 71,877 | 4,222 | 1,492 | 396,764 | 500,589 |
| Transfers | 239,369 | 7,112 | 710 | — | (247,191) | — |
| Disposals | (35) | (15) | (21) | — | — | (71) |
| Depreciation provided for the year | (12,168) | (13,797) | (1,262) | (776) | — | (28,003) |
| At December 31, 2013, net of accumulated depreciation | 389,133 | 174,262 | 8,759 | 3,690 | 346,920 | 922,764 |
| At December 31, 2013 | | | | | | |
| Cost | 408,380 | 193,650 | 10,856 | 5,325 | 346,920 | 965,131 |
| Accumulated depreciation | (19,247) | (19,388) | (2,097) | (1,635) | — | (42,367) |
| Net carrying amount | 389,133 | 174,262 | 8,759 | 3,690 | 346,920 | 922,764 |

All of the Group's buildings are located in the PRC.

## 14. PREPAID LAND LEASE PAYMENTS

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Carrying amount at beginning of the year | — | — | 3,523 |
| Additions | — | 3,558 | — |
| Recognised during the year | — | (35) | (71) |
| Carrying amount at end of the year | — | 3,523 | 3,452 |
| Current portion included in prepayments, deposits and other receivables | — | (71) | (71) |
| Non-current portion | — | 3,452 | 3,381 |

The leasehold land is situated in Mainland China and is held under a long-term lease.

## 15. OTHER INTANGIBLE ASSETS

| | Technical know-how | Computer software | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2011** | | | |
| Cost at January 1, 2011, net of accumulated amortisation | — | 279 | 279 |
| Additions | 15,000 | 183 | 15,183 |
| Deemed disposal of a subsidiary | — | (29) | (29) |
| Amortisation provided during the year | (375) | (37) | (412) |
| At December 31, 2011 | 14,625 | 396 | 15,021 |
| At December 31, 2011 | | | |
| Cost | 15,000 | 458 | 15,458 |
| Accumulated amortisation | (375) | (62) | (437) |
| Net carrying amount | 14,625 | 396 | 15,021 |
| At December 31, 2010 | | | |
| Cost | — | 309 | 309 |
| Accumulated amortisation | — | (30) | (30) |
| Net carrying amount | — | 279 | 279 |

| | Technical know-how | Computer software | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2012** | | | |
| Cost at January 1, 2012, net of accumulated amortisation | 14,625 | 396 | 15,021 |
| Additions | — | 246 | 246 |
| Amortisation provided during the year | (750) | (51) | (801) |
| At December 31, 2012 | 13,875 | 591 | 14,466 |
| At December 31, 2012 | | | |
| Cost | 15,000 | 704 | 15,704 |
| Accumulated amortisation | (1,125) | (113) | (1,238) |
| Net carrying amount | 13,875 | 591 | 14,466 |
| At December 31, 2011 | | | |
| Cost | 15,000 | 458 | 15,458 |
| Accumulated amortisation | (375) | (62) | (437) |
| Net carrying amount | 14,625 | 396 | 15,021 |

| | Technical know-how | Computer software | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2013** | | | |
| Cost at January 1, 2013, net of accumulated amortisation | 13,875 | 591 | 14,466 |
| Additions | 4 | 551 | 555 |
| Amortisation provided during the year | (750) | (79) | (829) |
| At December 31, 2013 | 13,129 | 1,063 | 14,192 |
| At December 31, 2013 | | | |
| Cost | 15,004 | 1,255 | 16,259 |
| Accumulated amortisation | (1,875) | (192) | (2,067) |
| Net carrying amount | 13,129 | 1,063 | 14,192 |
| At December 31, 2012 | | | |
| Cost | 15,000 | 704 | 15,704 |
| Accumulated amortisation | (1,125) | (113) | (1,238) |
| Net carrying amount | 13,875 | 591 | 14,466 |

## 16. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

(A) Proportion of equity interest held by non-controlling interests:

| | As at December 31, | | |
|---|---|---|---|
| **Name** | **2011** | **2012** | **2013** |
| IMU-Shengmu Dairy | 61.62% | 45% | 45% |
| Shengmu Pangu | — | 45% | 45% |

(B) Accumulated balances of material non-controlling interests:

| | As at December 31, | | |
|---|---|---|---|
| **Name** | **2011** | **2012** | **2013** |
| | RMB'000 | RMB'000 | RMB'000 |
| IMU-Shengmu Dairy | 19,697 | 15,652 | 12,332 |
| Shengmu Pangu | — | 18,411 | 60,094 |

(C) Profit/(loss) allocated to material non-controlling interests:

| Name | As at December 31, 2011 | 2012 | 2013 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| IMU-Shengmu Dairy | (328) | (4,134) | (3,320) |
| Shengmu Pangu | — | 4,010 | 27,284 |

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

(D) Summarised statements of comprehensive income:

Year ended December 31, 2011

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Revenue** | — | — |
| Loss for the year | (532) | — |
| **Total comprehensive loss** | (532) | — |
| Attributable to non-controlling interests | (328) | — |
| Dividends paid to non-controlling interests | — | — |

Year ended December 31, 2012

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Revenue** | — | 131 |
| Profit/(loss) for the year | (9,186) | 8,912 |
| **Total comprehensive income/(loss)** | (9,186) | 8,912 |
| Attributable to non-controlling interests | (4,134) | 4,010 |
| Dividends paid to non-controlling interests | — | — |

Year ended December 31, 2013

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Revenue** | — | 68,094 |
| Profit/(loss) for the year | (7,377) | 60,632 |
| **Total comprehensive income/(loss)** | (7,377) | 60,632 |
| Attributable to non-controlling interests | (3,320) | 27,284 |
| Dividends paid to non-controlling interests | — | — |

(E) Summarised statements of financial position:

Year ended December 31, 2011

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| Current assets | 4,398 | — |
| Biological assets | 1,708 | — |
| Other non-current assets | 26,373 | — |
| Current liabilities | (511) | — |
| **Total equity** | 31,968 | — |
| Attributable to: | | |
| Owners of parent | 12,271 | — |
| Non-controlling interests | 19,697 | — |

Year ended December 31, 2012

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| Current assets | 14,975 | 15,210 |
| Biological assets | 108,709 | 17,309 |
| Other non-current assets | 44,571 | 19,145 |
| Current liabilities | (133,473) | (10,752) |
| **Total equity** | 34,782 | 40,912 |
| Attributable to: | | |
| Owners of parent | 19,130 | 22,501 |
| Non-controlling interests | 15,652 | 18,411 |

Year ended December 31, 2013

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| Current assets | 72,058 | 61,981 |
| Biological assets | 30,601 | 122,557 |
| Other non-current assets | 62,219 | 63,279 |
| Current liabilities | (137,473) | (114,274) |
| **Total equity** | 27,405 | 133,543 |
| Attributable to: | | |
| Owners of parent | 15,073 | 73,449 |
| Non-controlling interests | 12,332 | 60,094 |

(F) Summarised statements of cash flows:

Year ended December 31, 2011

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| Operating | (141) | — |
| Investing | (16,997) | — |
| Financing | 17,500 | — |
| Net increase in cash and cash equivalents | 362 | — |

Year ended December 31, 2012

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| Operating | (3,534) | (6,117) |
| Investing | (34,646) | (18,479) |
| Financing | 39,179 | 24,800 |
| Net increase in cash and cash equivalents | 999 | 204 |

Year ended December 31, 2013

| | IMU-Shengmu Dairy | Shengmu Pangu |
|---|---|---|
| | RMB'000 | RMB'000 |
| Operating | 311 | 39,074 |
| Investing | (24,261) | (89,673) |
| Financing | 26,605 | 54,678 |
| Net increase in cash and cash equivalents | 2,655 | 4,079 |

### 17. INVESTMENTS IN ASSOCIATES

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Share of net assets | 14,756 | 17,576 | 17,727 |

Particulars of the Group's associates as of December 31, 2013 are as follows:

| Name | Particulars of issued shares held | Place of incorporation/ registration and operations | Percentage of equity interests attributable to the Group | Principal Activities |
|---|---|---|---|---|
| 賽罕(上海) 實業有限公司 Saihan (Shanghai) Co., Ltd.* | Share capital | PRC | 41.67% | Distribution of dairy products |
| 聖牧高科 (北京) 貿易有限公司 Shengmu Hi-Tech (Beijing) Trade Co., Ltd.* | Share capital | PRC | 30.00% | Distribution of dairy products |
| 巴彥淖爾市聖牧高科生態草業有限公司 Bayannur Shengmu High-tech Ecological Forage Co., Ltd.* (note (a)) | Share capital | PRC | 8.60% | Grass planting |

* Not audited by Ernst & Young, Hong Kong or another member of the Ernst & Young global network.

*Note*

(a) Although the Group only holds an 8.6% equity interest in Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") as at December 31, 2013, Shengmu Forage has been accounted for as an associate of the Group as the Group has had more than 20% effective voting power in Shengmu Forage since the disposal of the Group's majority interest in Shengmu Forage in December 2011.

The Group's shareholdings in the associates all comprise equity shares held by the subsidiaries of the Company.

The following table illustrates the summarised financial information of Shengmu Forage adjusted for any differences in accounting policies, and reconciled to the carrying amount in the combined financial statements:

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Current assets | 51,163 | 67,305 | 103,391 |
| Non-current assets | 12,902 | 47,502 | 209,632 |
| Current liabilities | (1,988) | (26,420) | (138,014) |
| Net assets | 62,077 | 88,387 | 175,009 |
| Reconciliation to the Group's interest in the associates: | | | |
| Proportion of the Group's ownership | 23.77% | 17.04% | 8.60% |
| Group's share of net assets of the associate, excluding goodwill | 14,756 | 15,093 | 15,046 |
| Revenue | | 27,316 | 111,791 |
| Profit for the year | | 2,210 | 3,062 |
| Total comprehensive income for the year | | 2,210 | 3,062 |
| Dividend received | | — | — |

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

| | As at December 31, | |
|---|---|---|
| | 2012 | 2013 |
| | RMB'000 | RMB'000 |
| Share of the associates' losses for the year | (17) | (1,302) |
| Share of the associates' total comprehensive income | (17) | (1,302) |
| Aggregate carrying amount of the Group's investments in the associates | 2,483 | 2,681 |

## 18. BIOLOGICAL ASSETS

### (A) Nature of activities

The biological assets of the Group are dairy cows held to produce raw milk and alfalfa grass grown for feeding dairy cows.

The quantity of dairy cows owned by the Group at December 31, 2011, 2012 and 2013 is shown below. The Group's dairy cows include heifers and calves and milkable cows. Heifers and calves held at December 31, 2011, 2012 and 2013 are dairy cows that have not had their first calves.

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | Head | Head | Head |
| Dairy cows | | | |
| Milkable cows | 23,288 | 27,636 | 35,850 |
| Heifers and calves | 11,828 | 21,747 | 24,607 |
| Total dairy cows | 35,116 | 49,383 | 60,457 |

In general, heifers are inseminated with semen when they reach the age of approximately 14 months. After approximately nine months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 305 days before an approximately 60 days' resting period. The male calves newly born will be sold while the female calves will be bred for six months and then transferred to the group of heifers. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

Alfalfa is a perennial flowering plant of pea family, which is usually sown in spring. When the stem of alfalfa grows up, it will be reaped for feeding cows. After the harvest, alfalfa roots will generally grow new stems in about 60 to 70 days. Generally alfalfa has a sustainable growth for eight years with each growth period lasting about 60 to 70 days.

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in note 33, the Group is exposed to the following operation risks:

#### (i) *Regulatory and environmental risks*

The Group is subject to laws and regulations in the location in which it operates breeding and plantations. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks to ensure that the systems in place are adequate to manage these risks.

#### (ii) *Climate, disease and other natural risks*

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular inspections, disease controls, surveys and insurance.

The Group is exposed to fair value risks arising from changes in the price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

(B) **Value of biological assets**

The value of Group's biological assets at each year end during the Relevant Periods was:

| | Heifers and calves | Milkable cows | Alfalfa grass | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2011** | | | | |
| At January 1, 2011 | 125,569 | 171,466 | 4,849 | 301,884 |
| Increases due to purchase | 159,968 | 44,473 | — | 204,441 |
| Increase due to raising and planting (Feeding costs and others) | 118,627 | — | 4,078 | 122,705 |
| Transfer | (178,498) | 178,498 | — | — |
| Decrease due to sales | (22,538) | (914) | — | (23,452) |
| Deemed disposal of a subsidiary | — | — | (8,891) | (8,891) |
| Gain/(loss) arising from changes in fair value less costs to sell | (18,003) | 135,178 | (36) | 117,139 |
| At December 31, 2011 | 185,125 | 528,701 | — | 713,826 |

| | Heifers and calves | Milkable cows | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2012** | | | |
| At January 1, 2012 | 185,125 | 528,701 | 713,826 |
| Increases due to purchase | 135,592 | 17,375 | 152,967 |
| Increase due to raising (Feeding costs and others) | 200,080 | — | 200,080 |
| Transfer | (131,372) | 131,372 | — |
| Decrease due to sales | (24,605) | (17,133) | (41,738) |
| Gain/(loss) arising from changes in fair value less costs to sell | (11,377) | 15,783 | 4,406 |
| At December 31, 2012 | 353,443 | 676,098 | 1,029,541 |

| | Heifers and calves | Milkable cows | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **December 31, 2013** | | | |
| At January 1, 2013 | 353,443 | 676,098 | 1,029,541 |
| Increases due to purchase | 164,862 | 134,785 | 299,647 |
| Increase due to raising (Feeding costs and others) | 332,841 | — | 332,841 |
| Transfer | (303,538) | 303,538 | — |
| Decrease due to sales | (41,583) | (119,770) | (161,353) |
| Gain/(loss) arising from changes in fair value less costs to sell | (81,326) | 90,810 | 9,484 |
| At December 31, 2013 | 424,699 | 1,085,461 | 1,510,160 |

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent qualified professional valuers not connected with the Group, which has appropriate qualifications and recent experience in valuation of biological assets.

(C) **Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at December 31, 2011 | — | — | 713,826 | 713,826 |
| As at December 31, 2012 | — | — | 1,029,541 | 1,029,541 |
| As at December 31, 2013 | — | — | 1,510,160 | 1,510,160 |

(D) **Description of valuation techniques used and key inputs to valuation on biological assets**

The following table shows the valuation techniques used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation.

| Type | Valuation approach | Key unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurements |
|---|---|---|---|
| Calves and heifers.............. | The fair value of the heifers purchased within six month prior to each reporting date is determined with reference to the actual purchase price, with adjustment by adding the feed costs from the purchase date to the reporting date.<br><br>For the calves and the rest heifers, the fair value of 14 months old heifers is determined by referring to the market price of the actively traded market.<br><br>The fair values of the heifers older than 14 months old are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser.<br><br>The fair values of the heifers younger than 14 months old and the fair values of the calves are determined by subtracting the breeding costs required to raise the calves or heifers from the respective specific ages to 14 months old and the margins that would be required by a raiser. | Average market price of the heifers of 14 months old: RMB16,195 to RMB18,315 in the three years ended December 31, 2013. | The estimated fair value increases when the market price increases. |

| Type | Valuation approach | Key unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurements |
|---|---|---|---|
| Milkable cows..................... | The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows. | For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the year ends during the Relevant Periods will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or finish of all lactation periods. Estimated overall culling rate is ranged from over 18% up to 100% along with the increase of the number of the lactation periods. | The estimated fair value decreases when the estimated culling rates increase. |
| | | A milkable cow could have as many as six to seven lactation periods. Estimated average raw milk production volume per head for lactation period is ranged from 6.5 tonnes to 9.1 tonnes depending on the number of the lactation periods and the individual physical condition. | The estimated fair value increases when the estimated raw milk production volume increases. |
| | | Estimated future raw milk local market prices per tonne for the three years ended December 31, 2013: RMB3,700 to RMB5,220 per tonne. | The estimated fair value increases when the estimated future raw milk local market price increases. |
| | | Discount rate is 15.34%, 14.00% and 14.50% for the year ended December 31, 2011, 2012 and 2013, respectively, calculated by using the Capital Asset Pricing Model. | The estimated fair value decreases when the discount rate increases. |

| Type | Valuation approach | Key unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurements |
|---|---|---|---|
| Alfalfa roots | The fair value of alfalfa roots are determined on their escalated average costs of each year of planting adjusted for the remaining expected life. | Costs incurred for purchasing and sowing alfalfa seeds: RMB5.09 million for the year ended December 31, 2011.<br><br>Expected useful lives are currently eight years. | The estimated fair value increase when the costs incurred for purchasing and sowing seeds increase.<br><br>The estimated fair value increase when expected useful lives decrease. |

(E) **Quantity of the agriculture produce produced by the Group's biological assets**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | Tonne | Tonne | Tonne |
| Raw milk | 104,212 | 159,589 | 207,405 |

(F) **Gain arising on initial recognition of agricultural produce at fair value less cost to sell at the point of harvest**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Raw milk | 383,317 | 673,242 | 961,151 |

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Prepayments | 19,092 | 9,174 | 83,822 |
| Deposits and other receivables | 7,991 | 11,583 | 15,413 |
| Prepaid expenses | 2,911 | 9,299 | 4,185 |
| | 29,994 | 30,056 | 103,420 |
| Non-current prepayments | (14,101) | (26) | (9,043) |
| Current portion | 15,893 | 30,030 | 94,377 |

## 20. DEFERRED TAX

The movements in the deferred tax assets during the year are as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At January 1 | — | — | — |
| Credited to profit or loss during the year | — | — | 187 |
| At December 31 | — | — | 187 |

The principal components of the Group's deferred tax are as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Accrued expenses | — | — | 187 |

Pursuant to the PRC Corporate Income Tax 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 January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

At December 31, 2011, 2012 and 2013, no deferred tax has been recognized 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. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totaled approximately RMB296,879,000, RMB471,060,000 and RMB760,809,000 at December 31, 2011, 2012 and 2013, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 21. INVENTORIES

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 98,383 | 194,462 | 319,525 |
| Finished goods | — | — | 832 |
| Consumables | 5,498 | 9,781 | 14,861 |
| | 103,881 | 204,243 | 335,218 |

## 22. TRADE AND BILLS RECEIVABLES

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables | 10,043 | 24,510 | 63,470 |
| Impairment | — | — | — |
| | 10,043 | 24,510 | 63,470 |

The Group normally allows a credit limit or offer credit terms to its customers which is adjustable in certain circumstances. The Group closely monitors overdue balances. The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice dated and net of provision, is as follows:

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within three months | 10,043 | 24,510 | 63,470 |

No impairment of trade receivables for each of the Relevant Periods is provided.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Neither past due nor impaired | 10,043 | 24,510 | 63,470 |

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

## 23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cash and cash equivalents | 69,550 | 29,838 | 127,059 |
| Pledged deposits | 29,224 | 12,797 | 15,030 |
| Cash and bank balances | 98,774 | 42,635 | 142,089 |

At December 31, 2011, 2012 and 2013, cash and bank balances of the Group denominated in RMB amounted to approximately RMB87,615,000, RMB42,634,000, RMB142,088,000 respectively. 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 the prevailing market interest rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposit rate. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

**24. TRADE AND BILLS PAYABLES**

An aged analysis of the trade payables of the Group, based on the invoice date, is as follows:

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| 1 to 3 months | 81,221 | 130,043 | 187,939 |
| 4 to 6 months | 264 | 559 | 510 |
| 7 to 12 months | 94 | 1,248 | 2,112 |
| 1 to 2 years | 2,384 | 292 | 359 |
| 2 to 3 years | — | 9 | 117 |
| | 83,963 | 132,151 | 191,037 |

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

**25. OTHER PAYABLES AND ACCRUALS**

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Advances from related parties | 47,272 | 38,263 | 7,609 |
| Payables for acquisition of property, plant and equipment | 12,569 | 28,053 | 87,416 |
| Payables for purchase of dairy cows | 5,139 | 17,877 | 18,959 |
| Payables for third parties' deposits | 2,248 | 10,597 | 20,194 |
| Payables for purchase of transportation services | 901 | 1,931 | 8,217 |
| Salary and welfare payables | 5,453 | 10,162 | 20,060 |
| Others | 8,886 | 17,698 | 36,110 |
| | 82,468 | 124,581 | 198,565 |

Other payables are non-interest-bearing and have an average term of three months.

### 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Effective contract rate (%) | Maturity | RMB'000 | Effective contract rate (%) | Maturity | RMB'000 | Effective contract rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | | | | |
| Bank and other borrowings-unsecured. | — | — | — | 6.31 | 2013 | 145,000 | 6.00 | 2014 | 782,000 |
| Bank and other borrowings-secured... | 5.47-5.81 | 2012 | 75,000 | 6.00-6.56 | 2013 | 130,000 | 6.00 | 2014 | 150,000 |
| Current portion of long term bank and other borrowings-secured... | — | — | — | 5.60 | 2013 | 49,000 | — | — | — |
| | | | 75,000 | | | 324,000 | | | 932,000 |
| **Non-current** | | | | | | | | | |
| Bank and other borrowings-secured... | 5.60 | 2013 | 49,000 | — | — | — | — | — | — |
| | | | 124,000 | | | 324,000 | | | 932,000 |

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Analysed into: | | | |
| Bank and other borrowings repayable: | | | |
| Within one year or on demand .............................. | 75,000 | 324,000 | 932,000 |
| In the second year................................................. | 49,000 | — | — |
| | 124,000 | 324,000 | 932,000 |

*Notes:*

(i) The Group's bank and other borrowings are all denominated in RMB and bear fixed interest rates.

(ii) As at December 31, 2011, 2012 and 2013, the Group's interest-bearing bank and other borrowings were secured as follows:

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Guaranteed by certain shareholders* | 25,000 | 70,000 | 150,000 |
| Guaranteed by one of the Group's customers | 99,000 | 79,000 | — |
| Guaranteed by a third party | — | 30,000 | — |
| Unguaranteed and unsecured | — | 145,000 | 782,000 |
| | 124,000 | 324,000 | 932,000 |

* These bank and other borrowings were guaranteed by the Company's certain shareholders. Included in the above guarantees, a guarantee contract with an amount of RMB50,000,000 expired by February 28, 2014, and other guarantee contracts with an aggregate amount of RMB100,000,000 were released by February 28, 2014.

## 27. ISSUED CAPITAL

On December 11, 2013, the Company was incorporated in the Cayman Islands with authorized share capital of HK$300,000 divided into 300,000 shares of a par value of HK$1.00 each. On the date of incorporation, one share representing 100% of the then issued share capital of the Company were allotted and issued at HK$1.00 to Mapcal Limited. On the same day, the initial subscriber share was transferred to World Shining Investment Limited. Other than the share allotment and transfer aforementioned, no other share transaction or operation was undertaken by the Company from its incorporation to December 31, 2013. There was no authorized and issued capital as at December 31, 2011 and 2012 since the Company has not yet been incorporated.

## 28. RESERVES

Notes:

(i) **Movements in components of equity**

The amounts of the Group's reserves and the movements therein for the Reporting Periods are presented in the combined statement of changes in equity on pages I-6 of the accountants' report.

(ii) **Contributed surplus**

The Group's contributed surplus represents the issued capital and share premium of the subsidiaries of the Company before the completion of the Reorganization.

(iii) **Reserve Fund**

In accordance with the relevant PRC laws and the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The PRC statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iv) **Distributable reserves**

The Company was incorporated on December 11, 2013 and has not carried on any business since the date of its incorporation save for the Reorganization. As such, there was no reserve available for distribution to the equity shareholders of the Company as at December 31, 2011, 2012 and 2013.

## 29. DEEMED DISPOSAL OF A SUBSIDIARY

During the year ended December 31, 2011, the Group lost control of a subsidiary as other shareholders injected additional capital in the subsidiary, which diluted the Group's equity interest from 65.02% to 23.77%.

| | **As at December 31, 2011** |
|---|---|
| | **RMB'000** |
| Current assets | 12,462 |
| Non-current assets | 12,902 |
| Current liabilities | (1,988) |
| Non-controlling interests | (8,176) |
| | 15,200 |
| Loss on deemed disposal of a subsidiary | (444) |
| Fair value of remaining equity interests recognized as investments in an associate | 14,756 |

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary is as follows:

| | **As at December 31, 2011** |
|---|---|
| | **RMB'000** |
| Cash consideration | — |
| Cash and bank balances disposed of | (266) |
| Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary | (266) |

## 30. OPERATING LEASE ARRANGEMENTS

**As lessee**

The Group leases from third parties certain office properties and dairy farms, including buildings and equipment under operating lease arrangements.

At each year end during the Relevant Periods, the Group had total future minimum lease payments under noncancellable operating leases falling due as follows:

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 10,247 | 9,668 | 8,949 |
| In the second to fifth years, inclusive | 28,523 | 28,170 | 24,859 |
| After five years | 10,043 | 5,022 | — |
| | 48,813 | 42,860 | 33,808 |

**31. COMMITMENTS**

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at each year end during the Relevant Periods:

| | As at December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Contracted, but not provided for: | | | |
| Land and buildings | 78,510 | 57,703 | 48,501 |
| Plant and machinery | 14,850 | 4,065 | 37,641 |
| | 93,360 | 61,768 | 86,142 |

**32. RELATED PARTY DISCLOSURES**

(A) In addition to the transactions and balances which are disclosed elsewhere in these financial statements, the Group had the following significant transactions with its associates and other related parties.

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | Notes | 2011 | 2012 | 2013 |
| | | RMB'000 | RMB'000 | RMB'000 |
| Associates: | | | | |
| Sales of products | (i) | 46,822 | 195 | 7,998 |
| Purchase of raw materials | (i) | — | 27,316 | 111,791 |

*Note:*

(i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.

(B) Other transactions with related parties:

During the Relevant Periods, Shengmu Forage provided biowaste (i.e., cow dung) cleaning services to the dairy farms of the Group for free. Such services include collecting and cleaning unprocessed biowaste from the farms. In return, Shengmu Forage collected free unprocessed biowaste from the farms.

During the year ended December 31, 2011, the Group sold raw milk with an aggregate amount of RMB46,822,000 (2012: nil; 2013: nil) to its largest customer, which is principally engaged in the milk processing industry in the PRC and is listed on the Main Board of the Hong Kong Stock Exchange, through two directors of Inner Mongolia Shengmu High-tech Farming Co., Ltd.

(C) Compensation of key management personnel of the Group

| | Year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Salaries, allowances and benefits in kind | 377 | 457 | 570 |
| Pension scheme contribution | 14 | 16 | 25 |
| | 391 | 473 | 595 |

(D) Outstanding balances with related parties

| | As at December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Amounts owed by/(owed to) associates included in: | | | |
| − Trade receivables | — | — | 1,386 |
| − Receipts in advance | — | (200) | — |
| − Trade payables | — | (12,039) | (2,963) |
| − Prepayments, deposits and other receivables | — | — | 57,501 |
| − Other payables and accruals | (3,272) | (38,263) | — |
| Amounts owed by/(owed to) certain shareholders included in: | | | |
| − Other payables and accruals | (44,000) | — | (6,880) |

Other than those balances included in trade receivables and trade payables, the above balances with related parties are unsecured, interest-free and have no fixed terms of repayment. Trade receivables and trade payables with related parties have similar credit terms to those offered by/to third parties.

## 33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

**Financial assets**

| | As at December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Loans and receivables: | | | |
| Trade receivables | 10,043 | 24,510 | 63,470 |
| Financial assets included in prepayments, deposits and other receivables | 7,992 | 11,583 | 15,413 |
| Pledged deposits | 29,224 | 12,797 | 15,030 |
| Cash and cash equivalents | 69,550 | 29,838 | 127,059 |
| | 116,809 | 78,728 | 220,972 |

**Financial liabilities**

| | As at December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Financial liabilities at amortized cost: | | | |
| Trade and bills payables | 83,963 | 132,151 | 191,037 |
| Financial liabilities included in other payables and accruals | 76,972 | 114,260 | 214,179 |
| Interest-bearing bank and other borrowings | 124,000 | 324,000 | 932,000 |
| | 284,935 | 570,411 | 1,337,216 |

## 34. FAIR VALUE AND FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to the fair values, are as follows:

| | Carrying amounts | | | Fair values | | |
|---|---|---|---|---|---|---|
| | As at December 31, | | | As at December 31, | | |
| | **2011** | **2012** | **2013** | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Financial liabilities** | | | | | | |
| Interest-bearing bank and other borrowings | 124,000 | 324,000 | 932,000 | 123,226 | 323,822 | 932,000 |

Management has assessed that the fair values of cash and cash equivalents, short term pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group did not have any financial assets or liabilities measured at fair value for the years ended December 31, 2011, 2012 and 2013.

The following table illustrated the fair value measurement hierarchy of the Group's financial instruments of which fair value are disclosed:

| | **Fair value measurement using significant unobservable inputs (Level 3)** | | |
|---|---|---|---|
| | **As at December 31,** | | |
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| **Financial liabilities** | | | |
| Interest-bearing bank and other borrowings ............... | 123,226 | 323,822 | 932,000 |

**35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise interest-bearing bank borrowings, pledged deposits, and cash and cash equivalents. 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 receivables and trade and bills payables, which arise directly from its operations.

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 directors reviews and agrees policies for managing each of these risks and they are summarised below.

**Interest rate risk**

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on cash and cash equivalents, and pledged bank deposits. Management considers that these bank balances are not sensitive to fluctuations in interest rates.

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The Group's interest rate profile as monitored by management is set out in note 26.

**Foreign currency risk**

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment. During the Relevant Periods, substantially all of the Group's assets and liabilities were denominated in RMB except that as at December 31, 2011, cash and bank balances of approximately RMB11,159,000 were denominated in United States dollars ("USD"). The fluctuation of the exchange rates of RMB against foreign currencies could slightly affect the Group's results of operations.

The following table demonstrates the sensitivity to a reasonably possible change in the USD 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):

| | **Increase/(decrease) in USD rate** | **Increase/(decrease) in profit before tax** |
|---|---|---|
| | **%** | **RMB'000** |
| 2011 | | |
| If RMB strengthens against the USD | 5% | (808) |
| If RMB weakens against the USD | (5%) | 808 |
| 2012 | | |
| If RMB strengthens against the USD | 5% | (134) |
| If RMB weakens against the USD | (5%) | 134 |
| 2013 | | |
| If RMB strengthens against the USD | 5% | — |
| If RMB weakens against the USD | (5%) | — |

**Credit risk**

The Group trades only with recognized 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.

Credit risk of the Group's other financial assets, which comprise cash and bank balances, and other receivables, arise from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral.

The Group has a concentration of credit risk as 99%, 89% and 51% of total trade receivables as at December 31, 2011, 2012 and 2013, respectively, was due from the Group's top two customers which are principally engaged in the milk processing industry in the PRC and are listed on the Main Board of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the Financial Information.

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and projected cash flows from operations.

The table below summarizes the maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on contractual undiscounted payments.

| | On demand | Less than 1 year | 1 to 5 years | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2011 | | | | |
| Interest-bearing and other borrowings | — | 79,474 | 51,609 | 131,083 |
| Trade and bills payables | 83,963 | — | — | 83,963 |
| Financial liabilities included in other payables and accruals | 76,972 | — | — | 76,972 |
| | 160,935 | 79,474 | 51,609 | 292,018 |
| 2012 | | | | |
| Interest-bearing and other borrowings | — | 335,160 | — | 335,160 |
| Trade and bills payables | 132,151 | — | — | 132,151 |
| Financial liabilities included in other payables and accruals | 114,260 | — | — | 114,260 |
| | 246,411 | 335,160 | — | 581,571 |
| 2013 | | | | |
| Interest-bearing and other borrowings | — | 962,850 | — | 962,850 |
| Trade and bills payables | 191,037 | — | — | 191,037 |
| Financial liabilities included in other payables and accruals | 174,821 | — | — | 174,821 |
| | 365,858 | 962,850 | — | 1,328,708 |

**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 capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes interest-bearing borrowings. Total capital is calculated as equity as shown in the combined statements of financial position. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios as at each year end of each of the Relevant Periods were as follows:

| | As at December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Interest-bearing bank borrowings | 124,000 | 324,000 | 932,000 |
| Total capital | 875,266 | 1,218,469 | 1,707,892 |
| Gearing ratio | 14.2% | 26.6% | 54.6% |

## III. EVENTS AFTER THE REPORTING PERIODS

In February 2014, the Group received an additional RMB683,300,000 in shareholders' equity in the form of cash and cash equivalents.

The companies now comprising the Group underwent and completed the Reorganization on March 26, 2014 in preparation for the listing of the shares of the Company on the Stock Exchange. Further details of the Reorganization are set out in the section headed "History, Reorganization and Group Structure" to the Prospectus. As a result of the Reorganization, the Company became the holding company of the subsidiaries now comprising the Group.

The Company has conditionally approved and adopted the Pre-IPO Share Option Scheme (the " Pre-IPO Share Option Scheme" ) pursuant to the resolutions of the shareholders passed on April 30, 2014. The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate directors and senior management of the Company, directors of the subsidiaries of the Company and other employees of the Group and Shengmu Forage, to provide a means of compensating them through the grant of options under the Pre-IPO Share Option Scheme for their contribution to the growth and profits of the Group, and to allow them to participate in the growth and profitability of the Group. On April 30, 2014, an aggregate of 504,480,000 options was conditionally granted by the Company under the Pre-IPO Share Option Scheme.

## IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to December 31, 2013.

Yours faithfully,
**Ernst & Young**
*Certified Public Accountants*
Hong Kong

*The information set out in this Appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with ''Financial Information'' in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.*

## A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net tangible assets of our Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2013. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of our Group.

| | Combined net tangible assets attributable to the owners of the Company as of December 31, 2013(1) | Estimated net proceeds from the Listing(2) | Unaudited pro forma adjusted net tangible assets | Unaudited pro forma adjusted net tangible assets per Share(3) | Unaudited pro forma adjusted net tangible assets per Share(4) |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB | HK$ |
| Based on an Offer Price of HK$2.39 per Share | 1,479,968 | 791,828 | 2,271,796 | 0.358 | 0.452 |
| Based on an Offer Price of HK$2.95 per Share | 1,479,968 | 980,844 | 2,460,812 | 0.387 | 0.490 |

*Notes:*

(1) The combined net tangible assets attributable to the owners of the Company as of December 31, 2013 are based on combined net assets of our Group attributable to the owners of the Company as of December 31, 2013 of approximately RMB1,494.2 million after the deduction of other intangible assets of RMB14.2 million as of December 31, 2013 as set forth in Appendix I to this Prospectus.

(2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK$2.39 and HK$2.95, after deduction of the underwriting fees and related expenses payable by the Company and takes no account of any Share which may be issued upon exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at the PBOC rate of HK$1.00 to RMB0.79 prevailing on December 31, 2013.

(3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 6,354,400,000 shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme.

(4) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.79 prevailing on December 31, 2013.

(5) The above calculation of unaudited pro forma adjusted net tangible assets of our Group did not take into account the Group's receipt of RMB683.3 million in the form of cash and cash equivalents injected through Pre-IPO investment in February 2014.

## B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this prospectus.*

To the Directors of China Shengmu Organic Milk Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma combined net tangible assets as at December 31, 2013 and related notes as set out in Appendix II to the Prospectus issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Section A of Appendix II.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at December 31, 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended December 31, 2013, on which an accountant's report has been published.

**Directors' responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Reporting Accountant's responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

June 30, 2014

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on December 11, 2013 under the Cayman Companies Law. Our Company's constitutional documents consist of its Memorandum and the Articles.

## SUMMARY OF THE CONSTITUTION OF THE COMPANY

### 1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on June 18, 2014 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents available for inspection."

### 2 Articles of Association

The Articles of Association of the Company were conditionally adopted on June 18, 2014 and include provisions to the following effect:

#### 2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK$300,000 divided into 30,000,000,000 shares of HK$0.00001 each.

#### 2.2 *Directors*

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment 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 first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such 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).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) 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 any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, 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 any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit; or

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or any of his associates 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.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. 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 a second or casting vote.

2.3 ***Alteration to constitutional documents***

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 ***Variation of rights of existing shares or classes of shares***

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied 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 meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 ***Alteration of capital***

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

(c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, 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.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 ***Special resolution — majority required***

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 ***Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorization shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

### 2.8 *Annual general meetings*

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

### 2.9 *Accounts and audit*

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 ***Notice of meetings and business to be conducted thereat***

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) 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 95% in nominal value of the 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:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;

(c) the election of Directors in place of those retiring;

(d) the appointment of auditors;

(e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

(f) 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 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

(g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 ***Transfer of shares***

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, 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 of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favor of the Company; and

(f) a fee of such maximum as the Stock Exchange may from time to time 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.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 ***Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 ***Power of any subsidiary of the Company to own shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 ***Dividends and other methods of distribution***

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other moneys payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company 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 Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall 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 of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. 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.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 ***Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 ***Calls on shares and forfeiture of shares***

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 ***Inspection of register of members***

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 ***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, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney 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.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 ***Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 ***Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company 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 of the Company 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. And if in a winding up 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 amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any 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 of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 ***Untraceable members***

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

## SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

### 1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### 2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on December 11, 2013 under the Companies Law. As such, its 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 size of its authorised share capital.

### 3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

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 premia on those shares shall be transferred to an account called the "share premium account." At the option of a company, these provisions may not apply to premia 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 a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(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) in 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 of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors 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.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company 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 to act 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.

4 **Dividends and Distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, 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 3 above for details).

5 **Shareholders' Suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class 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 where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 **Protection of Minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands 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 Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands 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.

Claims against a company by its shareholders must, as a general rule, 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.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 **Disposal of Assets**

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 **Accounting and Auditing Requirements**

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) 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.

### 9 Register of Members

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 its 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.

### 10 Inspection of Books and Records

Members of a 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 of association.

### 11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

### 12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

### 13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

### 14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand 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 and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

### 15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand 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.

### 16 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 Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 **Liquidation**

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 **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.

19 **Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Governor in Cabinet:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

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 that are applicable to any payments made by or to the Company.

20 **Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 **General**

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V. 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/she is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR GROUP

### 1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on December 11, 2013. Our registered office is situated at Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. We have established a principal place of business in Hong Kong at Room 606-607, 6/F, China Merchants Building, 152-155 Connaught Road Central, Sheung Wan, Hong Kong on April 11, 2014 and have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on May 7, 2014. Mr. AU Wai Keung has been appointed as the authorized representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong at the above address.

### 2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of HK$300,000, divided into 300,000 shares with a par value of HK$1.00 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

(a) on December 11, 2013, one subscriber share was issued at par value to Mapcal Limited, which transferred such share on the same day to World Shining;

(b) pursuant to the resolutions in writing passed by the sole shareholder on February 14, 2014, every existing issued and unissued ordinary share of a nominal or par value of HK$1 was sub-divided into 100,000 ordinary shares of a nominal or par value of HK$0.00001, such that after the sub-division, the authorized share capital of our Company became HK$300,000 divided into 30,000,000,000 ordinary Shares of a nominal or par value of HK$0.00001 each;

(c) pursuant to the resolution in writing passed by the sole director of the Company on February 14, 2014, a total of 774,830 Shares and 125,170 Shares were allotted and issued to World Shining and Greater Honour respectively at par value;

(d) pursuant to the resolutions in writing passed by the sole director of the Company on February 27, 2014, a total of 86,608,170 Shares and 12,391, 830 Shares were allotted and issued to World Shining and Greater Honour respectively for a total consideration of HK$983,016,948.29;

(e) pursuant to the resolutions in writing passed by the sole director of the Company on February 27, 2014, a total of 4,809,750 Shares were allotted and issued to Broad Street for a total consideration of HK$217,222,102.50; and

(f) pursuant to the resolutions in writing passed by the sole director of the Company on March 26, 2014, 6,567,760 Shares, 9,208,640 Shares, 3,398,626 Shares, 5,424,494 Shares, 9,620,000 Shares and 4,809,750 Shares were allotted and issued to Start Great, Sequoia Capital, BOCIFP, King Capital, Greenbelt Global and Saint Investment (Mauritius) respectively in exchange for the transfer of the shares in Fortune Globe, Elite Noble, Credence Global and Saint Investment (Cayman) to the Company.

Save as disclosed above and in this prospectus, there has been no alteration in the share capital of our Company since our incorporation.

3. **Resolutions in Writing of the Shareholders of Our Company Passed on April 30, 2014 and June 18, 2014**

Pursuant to the resolutions in writing passed by our Shareholders on April 30, 2014, among other matters, the rules of the Pre-IPO Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by our Board were authorized, at their sole discretion, to grant options to subscribe for Shares under the Pre-IPO Share Option Scheme and to allot and issue Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme.

Pursuant to the resolutions in writing passed by our shareholders on June 18, 2014:

(a) our Company approved and adopted the Memorandum and the Articles conditional upon the Listing.

(b) conditional upon the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, the Directors were authorized to allot and issue a total of 5,765,760,980 Shares standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 5,765,760,980 Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on July 7, 2014 or as each of them may direct in proportion to their respective shareholdings (as nearly as possible without involving fractions) in our Company, and the Shares to be allotted and issued shall rank pari passu in all respects with the existing issued Shares.

(c) conditional on (i) the listing committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, and the Offer Shares as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option) and any options granted under the Pre-IPO Share Option Scheme and Share Option Scheme; (ii) the entering into, execution and delivery of the International Underwriting Agreement and the

Price Determination Agreement on or around the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with the terms of such agreements or otherwise:

(i) the Global Offering be approved and our Directors be authorized to allot and issue the new Shares pursuant to the Global Offering;

(ii) the proposed Listing of the Shares on the Main Board be approved and our Directors be authorized to implement such Listing; and

(iii) the Over-allotment Option be approved and our Directors be authorized to effect the same and to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option;

(d) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by our Board were authorized, at their sole discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of options granted under the Share Option Scheme;

(e) a general unconditional mandate was given to our Directors to allot, issue and otherwise deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, the Over-allotment Option, a rights issue or the exercise of any subscription rights which may be granted under the Pre-IPO Share Option Scheme, the Share Option Scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under options and warrants or a special authority granted by our Company's shareholders) with an aggregate nominal value not exceeding the sum of 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering;

(f) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase for cancellation the Shares representing up to 10% of its share capital in issue, immediately following completion of the Global Offering (excluding the Shares which may be issued upon the execution of the Over-allotment Option); and

(g) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above.

Each of the general mandates referred to in paragraphs (e), (f) and (g) above will remain in effect until the earlier of (i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or (ii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

4. **Our Corporate Reorganization**

The companies comprising our Group underwent the Reorganization in preparation for the Listing. Please refer to the section headed "History, Reorganization and Group Structure" to this prospectus for further details.

5. **Changes in the Share Capital of Our Subsidiaries**

Our subsidiaries are referred to in the Accountant's Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountant's Report, we do not have any other subsidiaries.

The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(a) on November 14, 2012, Shengmu Holding increased its registered capital from RMB342.08 million to RMB641.08 million;

(b) on August 6, 2013, Shengmu Taohai increased its registered capital from RMB1 million to RMB38 million;

(c) on August 23, 2013, Shengmu Hateng increased its registered capital from RMB2 million to RMB48 million;

(d) on August 23, 2013, Shengmu Liuhe increased its registered capital from RMB1 million to RMB40 million;

(e) on August 27, 2013, Shengmu Pangu increased its registered capital from RMB32 million to RMB64 million;

(f) on August 30, 2013, Shengmu Wuxing increased its registered capital from RMB5 million to RMB48 million;

(g) on January 15, 2014, Shengmu Hateng increased its registered capital from RMB48 million to RMB70 million;

(h) on January 15, 2014, Shengmu Wuxing increased its registered capital from RMB48 million to RMB70 million;

(i) on January 21, 2014, Shengmu Beidou increased its registered capital from RMB10 million to RMB50 million;

(j) on February 20, 2014, Shengmu Holding increased its registered capital from RMB641.08 million to RMB738.7 million;

(k) on February 24, 2014, Shengmu Liuhe increased its registered capital from RMB40 million to RMB51.5 million;

(l) on February 25, 2014, Shengmu Pangu increased its registered capital from RMB64 million to RMB80 million;

(m) on March 5, 2014, Shengmu Xinhe increased its registered capital from RMB10.00 million to RMB13 million;

(n) on March 5, 2014, Shengmu Zhenghe increased it registered capital from RMB32 million to RMB42 million;

(o) on March 6, 2014, Shengmu Xiwang increased its registered capital from RMB12.5 million to RMB17.6 million;

(p) on April 21, 2014, Shengmu Xinhe increased its registered capital from RMB13 million to RMB36 million;

(q) on May 19, 2014, Shengmu Taohai increased its registered capital from RMB38 million to RMB42 million; and

(r) on June 23, 2014, Shengmu Liuhe increased its registered capital from RMB51.5 million to RMB84.5 million.

Save as disclosed in this prospectus, there has been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. **Further information about our PRC establishments**

We have interest in the registered capital of 20 companies in the PRC. A summary of the corporate information as at the Latest Practicable Date is set out as follows:

| | |
|---|---|
| Name: | Shengmu Holding |
| Date of establishment: | October 18, 2009 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company (corporate-owned enterprise with foreign investment) |
| Registered Capital: | RMB738.7 million |

| | |
|---|---|
| Name: | IMU-Shengmu Dairy |
| Date of establishment: | July 5, 2011 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company (foreign-invested enterprise) (legal person investments or corporate holdings investment) |
| Registered Capital: | RMB44.5 million |

| | |
|---|---|
| Name: | Shengmu Agriculture |
| Date of establishment: | March 20, 2012 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company (solely owned by legal person) |
| Registered Capital: | RMB7.8 million |

| | |
|---|---|
| Name: | Shengmu Farming |
| Date of establishment: | January 21, 2010 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company (solely owned by legal person) |
| Registered Capital: | RMB30 million |

| | |
|---|---|
| Name: | Shengmu Dairy |
| Date of establishment: | July 29, 2011 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company (solely owned by legal person) |
| Registered Capital: | RMB20 million |

| | |
|---|---|
| Name: | Shengmu Pangu |
| Date of establishment: | June 15, 2012 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company |
| Registered Capital: | RMB80 million |

| | |
|---|---|
| Name: | Shengmu Xintai |
| Date of establishment: | August 24, 2012 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company |
| Registered Capital: | RMB32 million |

| | |
|---|---|
| Name: | Shengmu Hateng |
| Date of establishment: | April 16, 2013 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company |
| Registered Capital: | RMB70 million |

| | |
|---|---|
| Name: | Shengmu Taohai |
| Date of establishment: | January 29, 2013 |
| Place of incorporation: | PRC |
| Nature: | Other limited liability company (private) |
| Registered Capital: | RMB42 million |

| | |
|---|---|
| Name: | Shengmu Xinhe |
| Date of establishment: | June 7, 2013 |
| Place of incorporation: | PRC |
| Nature: | Other limited liability company |
| Registered Capital: | RMB36 million |

| | |
|---|---|
| Name: | Shengmu Liuhe |
| Date of establishment: | June 26, 2013 |
| Place of incorporation: | PRC |
| Nature: | Other limited liability company (private) |
| Registered Capital: | RMB84.5 million |

| | |
|---|---|
| Name: | Shengmu Wuxing |
| Date of establishment: | June 20, 2013 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company |
| Registered Capital: | RMB70 million |

| | |
|---|---|
| Name: | Shengmu Zhenghe |
| Date of establishment: | August 23, 2013 |
| Place of incorporation: | PRC |
| Nature: | Other limited liability company (private) |
| Registered Capital: | RMB42 million |

| | |
|---|---|
| Name: | Shengmu Xiwang |
| Date of establishment: | August 23, 2013 |
| Place of incorporation: | PRC |
| Nature: | Other limited liability company (private) |
| Registered Capital: | RMB17.6 million |

| | |
|---|---|
| Name: | Shengmu Beidou |
| Date of establishment: | September 9, 2013 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company |
| Registered Capital: | RMB50 million |

| | |
|---|---|
| Name: | Shengmu Qixing |
| Date of establishment: | November 28, 2013 |
| Place of incorporation: | PRC |
| Nature: | Other Limited liability company (private) |
| Registered Capital: | RMB36 million |

| | |
|---|---|
| Name: | Shengmu Weiye |
| Date of establishment: | March 31, 2014 |
| Place of incorporation: | PRC |
| Nature: | Other Limited liability company |
| Registered Capital: | RMB42 million |

| | |
|---|---|
| Name: | Shengmu Zhaofeng |
| Date of establishment: | May 5, 2014 |
| Place of incorporation: | PRC |
| Nature: | Limited liability company (foreign-invested enterprise, private) |
| Registered Capital: | RMB42 million |

| | |
|---|---|
| Name: | Shengmu Sanli |
| Date of establishment: | April 2, 2014 |
| Place of incorporation: | PRC |
| Nature: | Other Limited liability company |
| Registered Capital: | RMB42 million |

| | |
|---|---|
| Name: | Shengmu Shajin |
| Date of establishment: | May 26, 2014 |
| Place of incorporation: | PRC |
| Nature: | Other Limited liability company (private) |
| Registered capital: | RMB62 million |

7. **Repurchases of Our Own Shares**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange. This section includes information relating to the repurchase by us of our own Shares, including information required by the Stock Exchange to be included in this prospectus concerning the repurchase.

(a) ***Shareholders' approval***

All our proposed repurchases of Shares (which must be fully-paid up) must be approved in advance by an ordinary resolution of our Shareholders at a general meeting, either by way of general mandate or by specific approval of a particular transaction. On June 18, 2014, our Directors were granted a general unconditional mandate ("**Repurchase Mandate**") to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the Global Offering on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. This mandate will expire at: (i) the conclusion of the next annual general meeting of our Company; (ii) the date by which the next annual general meeting of our Company is required to be held by the Articles or any applicable law; or (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting of our Company, whichever occurs first.

Under the Listing Rules, the shares which are proposed to be repurchased by a company must be fully paid up.

(b) ***Number of shares which may be repurchased***

Exercising in full of the Repurchase Mandate, on the basis of 6,354,400,000 Shares in issue immediately after completion of the Global offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options granted under the Pre-IPO Share Option Scheme/Share Option Scheme, could accordingly result in up to 635,440,000 Shares being repurchased by us during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the section headed "7. Repurchase of our Own Shares — (a) Shareholders' approval" in this appendix.

(c) ***Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such Share repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or our earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) ***Funding of repurchase***

Repurchases by our Company must be funded out of funds legally available for such purpose in accordance with the Articles of Association, the Cayman Companies Law, the applicable laws and regulations of the Cayman Islands and the Listing Rules. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

We will make repurchases pursuant to the Repurchase Mandate out of funds legally available for such purpose, including out of profits of our Company, out of the share premium account of our Company or out of the proceeds of a fresh issue of shares made for such purpose or, if authorized by the Articles and subject to the Cayman Companies Law, our of capital. Any premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of either or both of the profits of our Company or out of sums standing to the credit of the share premium account of our Company or, if authorized by the Articles and subject to the Cayman Companies Law, out of capital.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(e) ***Status of repurchased shares***

The listing of all repurchased shares (whether effected on the Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, the repurchased Shares shall be treated as cancelled and the amount of our Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased Shares accordingly, although the authorized share capital of our Company will not be reduced.

(f) ***Trading restrictions***

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option and the Share Option Scheme). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Our Company is required to procure that the broker (appointed by our Company to effect a repurchase of Shares) will disclose to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(g) ***Suspension of repurchase***

Pursuant to the Listing Rules, our Company may not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time when the price sensitive information has been made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of: (i) the date of our board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) 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 Listing Rules); and (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of our shares on the Stock Exchange if our Company has breached the Listing Rules.

(h) ***Procedural and reporting requirements***

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(i) ***Directors' undertakings***

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands and the Articles of Association.

(j) ***Takeovers code***

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provisions may apply as a result of any such increase. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases pursuant to the Repurchase Mandate.

If the repurchase mandate is fully exercised immediately following completion of the Global Offering (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme), the total number of Shares which will be repurchased pursuant to the repurchase mandate shall be 635,440,000 Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions.)

(k) ***Share repurchase made by our Company***

No repurchase of Shares has been made by our Company since its incorporation.

(l) ***Connected parties***

Our Company is prohibited from knowingly purchasing Shares on the Stock Exchange from a connected person (as defined under the Listing Rules), and a connected person shall not knowingly sell his or her or its shares to our Company on the Stock Exchange.

As of the Latest Practicable Date, none of our Directors, nor to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) has any present intention to sell any Shares to us or any of our subsidiaries if the Repurchase Mandate is exercised. As of the Latest Practicable Date, no connected person of our Company has notified us that he, she or it has a present intention to sell any Shares to us or any of our subsidiaries, if the Repurchase Mandate is exercised.

## B. FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) a share transfer agreement dated December 20, 2013, and entered into among Goldman Sachs (Beijing), Saint Investment, Flourish Treasure, the vendors[(1)], the actual controlling parties[(2)] and Shengmu Holding pursuant to which the vendors agreed to transfer their 15.412% equity interests in Shengmu Holding to Goldman Sachs (Beijing) (3.853%), Saint Investment (3.853%) and Flourish Treasure (7.706%) for a total consideration of RMB685.44 million;

(b) a share transfer agreement dated February 28, 2014, and entered into between LI Guangpeng (李光鵬) and Shengmu Holding, pursuant to which LI Guangpeng agreed to transfer his 15% equity interests in IMU-Shengmu Dairy to Shengmu Holding for a consideration of RMB6,675,000;

(c) a share exchange agreement dated March 26, 2014, and entered into among Saint Investment (Mauritius), Greenbelt Global, Mengniu Dairy, Sequoia Capital, BOCI Investment, King Capital and our Company, pursuant to which our Company agreed to acquire the entire equity interest in each of Saint Investment (Cayman) (wholly-owned subsidiary of Saint Investment (Mauritius)), Credence Global Investment Limited (wholly-owned subsidiary of Greenbelt Global), Fortune Globe (wholly-owned subsidiary of Mengniu Dairy), and Elite Noble (owned by Sequoia Capital, BOCI Investment and King Capital) in exchange of our Shares issued and allotted to each of Saint Investment (Mauritius) (3.34%), Greenbelt Global (6.68%), Start Great (designee of Mengniu Dairy) (4.57%), Sequoia Capital (6.40%), BOCIFP (designee of BOCI Investment) (2.36%) and King Capital (3.77%);

(d) a shareholders' agreement dated March 26, 2014, and entered into among our Company, Saint Investment (Mauritius), Broad Street, Greenbelt Global, Sequoia Capital, BOCIFP, World Shining and the ultimate controlling shareholders[(3)], pursuant to which the parties agreed to regulate the affairs of our Company and the respective right of each Shareholder which is a party to this agreement on the terms and subject to the conditions contained therein, including certain special shareholders' rights, which are discussed in further details in "History, Reorganization and Group Structure — Reorganization — Establishment of Offshore Listing Structure — Shareholders Agreement";

*Note 1:* YANG Yali (楊亞利), LU Shunyi (蘆順義), GUO Yunfeng (郭運鳳), YUN Jindong (雲金東), GAO Lingfeng (高凌鳳), ZHANG Junke (張俊科), WANG Caixia (王彩霞), XIANG Yonghong (向永紅), WANG Dongshen (王東升), GUO Yongfeng (郭永豐), LI Yuanzhen (李元真), DONG Runli (董潤利), CUI Zhigang (崔志剛), WANG Zhen (王鎮), ZHAO Jianjun (趙建軍), HUANG Xiuying (黃秀英) and SUN Chuan (孫川).

*Note 2:* YAO Tongshan (姚同山), WU Jianye (武建鄴), WANG Fuzhu (王福柱), SHI Jianhong (史建宏), WANG Zhenxi (王振喜), YANG Yaping (楊亞萍), YANG Yali (楊亞利), LU Shunyi (蘆順義), GUO Yunfeng (郭運鳳), YUN Jindong (雲金東), GAO Lingfeng (高凌鳳), ZHANG Junke (張俊科), WANG Zhen (王鎮) and CUI Ruicheng (崔瑞成).

*Note 3:* WANG Fuzhu (王福柱), SHI Jianhong (史建宏), WANG Zhenxi (王振喜), YANG Yaping (楊亞萍), YANG Yali (楊亞利), LU Shunyi (蘆順義), GUO Yunfeng (郭運鳳), YUN Jindong (雲金東), GAO Lingfeng (高凌鳳), ZHANG Junke (張俊科), WANG Zhen (王鎮), WU Jianye (武建鄴), YAO Tongshan (姚同山) and CUI Ruicheng (崔瑞成).

(e) the Long-term Strategic Cooperation Agreement, being the long-term strategic cooperation agreement dated March 26, 2014 entered into between Shengmu Holding and Shengmu Forage, as supplemented by the supplementary long-term strategic cooperation agreement dated June 25, 2014, the details of which is set out in the section headed "Business — Suppliers and Procurement — Organic Feed — Shengmu Forage";

(f) the Forage Supply Framework Agreement dated June 25, 2014, entered into between Shengmu Holding and Shengmu Forage which sets out certain specific terms for the purchase of forage by our Group from Shengmu Forage and its subsidiaries for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Forage — Purchase of Forage";

(g) the Milk Supply Framework Agreement dated June 25, 2014, entered into among Shengmu Pangu, Shengmu Xiwang and Shengmu Holding, in relation to the purchase of organic raw milk by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Pangu and Shengmu Xiwang — Purchase of Organic Raw Milk";

(h) the Framework Agreement for Sale and Purchase of Cows dated June 25, 2014, entered into among Shengmu Pangu, Shengmu Xiwang and Shengmu Holding in relation to the sale and purchase of cows between our Group (excluding Shengmu Pangu and Shengmu Xiwang) and Shengmu Pangu and Shengmu Xiwang for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Pangu and Shengmu Xiwang — Sale and Purchase of Cows";

(i) the Financial Assistance Framework Agreement dated June 25, 2014, entered into among Shengmu Pangu, Shengmu Xiwang and Shengmu Holding in relation to the provision of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Pangu and Shengmu Xiwang — Financial Assistance";

(j) a cornerstone investment agreement dated June 26, 2014 entered into among our Company, Bao Hua Investments Limited, BOCI Asia Limited and Goldman Sachs (Asia) L.L.C., details of which are included in the section headed "Cornerstone Investor" of this prospectus; and

(k) the Hong Kong Underwriting Agreement.

## 2. Intellectual Property Rights of Our Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

### (a) *Trademarks*

(i) As of the Latest Practicable Date, we have registered the following trademarks in the PRC:

| No. | Trademark | Class | Registered Owner | Place Registration | Registration Number | Effective Date | Expiry Date |
|---|---|---|---|---|---|---|---|
| 1..... | | 32 | Shengmu Holding | PRC | 9266504 | June 28, 2012 | June 27, 2022 |
| 2..... | 圣牧 | 31 | Shengmu Holding | PRC | 10190905 | February 21, 2013 | February 20, 2023 |
| 3..... | 圣牧高科 | 31 | Shengmu Holding | PRC | 10225753 | June 21, 2013 | June 20, 2023 |
| 4..... | | 29 | Shengmu Holding | PRC | 10225739 | January 28, 2013 | January 27, 2023 |
| 5..... | 塞上圣牧 | 29 | Shengmu Holding | PRC | 10225732 | January 28, 2013 | January 27, 2023 |
| 6..... | 圣牧有机牧场 | 29 | Shengmu Holding | PRC | 9677628 | October 21, 2012 | October 20, 2022 |
| 7..... | 圣牧牧场 | 29 | Shengmu Holding | PRC | 9677562 | October 21, 2012 | October 20, 2022 |
| 8..... | 金色圣牧 | 29 | Shengmu Holding | PRC | 9323882 | April 28, 2012 | April 27, 2022 |
| 9..... | | 32 | Shengmu Holding | PRC | 10080199 | December 14, 2012 | December 13, 2022 |
| 10... | | 30 | Shengmu Holding | PRC | 10080161 | December 14, 2012 | December 13, 2022 |
| 11... | | 29 | Shengmu Holding | PRC | 10080068 | December 14, 2012 | December 13, 2022 |
| 12... | 金色圣牧高科 | 29 | Shengmu Holding | PRC | 9323891 | April 28, 2012 | April 27, 2022 |
| 13... | 圣牧高科 | 29 | Shengmu Holding | PRC | 9153243 | March 7, 2012 | March 6, 2022 |

(ii) As of the Latest Practicable Date, we have applied for the registration of the following trademark in the PRC:

| No. | Trademark | Name of Applicant | Type and Class | Application Date | Application Number | Place of Application |
|---|---|---|---|---|---|---|
| 1...... | 圣牧 | Shengmu Holding | 29 | November 15, 2011 | 10190869 | PRC |
| 2...... | 童真 | Shengmu Holding | 32 | October 26, 2012 | 11658120 | PRC |
| 3...... | 童真 | Shengmu Holding | 29 | October 26, 2012 | 11658090 | PRC |
| 4...... | 圣牧全程 | Shengmu Holding | 29 | January 13, 2012 | 10424107 | PRC |
| 5...... | 圣牧 | Shengmu Holding | 29 | February 7, 2013 | 12167432 | PRC |
| 6...... | 圣牧 | Shengmu Holding | 1 | February 18, 2014 | 14034366 | PRC |
| 7...... | 圣牧 | Shengmu Holding | 2 | February 18, 2014 | 14034365 | PRC |
| 8...... | 圣牧 | Shengmu Holding | 3 | February 18, 2014 | 14034364 | PRC |
| 9...... | 圣牧 | Shengmu Holding | 4 | February 18, 2014 | 14034363 | PRC |
| 10.... | 圣牧 | Shengmu Holding | 5 | February 18, 2014 | 14034377 | PRC |
| 11.... | 圣牧 | Shengmu Holding | 10 | February 18, 2014 | 14034362 | PRC |
| 12.... | 圣牧 | Shengmu Holding | 11 | February 18, 2014 | 14034380 | PRC |
| 13.... | 圣牧 | Shengmu Holding | 16 | February 18, 2014 | 14034379 | PRC |
| 14.... | 圣牧 | Shengmu Holding | 30 | February 18, 2014 | 14034376 | PRC |
| 15.... | 圣牧 | Shengmu Holding | 31 | February 18, 2014 | 14034375 | PRC |
| 16.... | 圣牧 | Shengmu Holding | 32 | February 18, 2014 | 14034374 | PRC |
| 17.... | 圣牧 | Shengmu Holding | 33 | February 18, 2014 | 14034373 | PRC |
| 18.... | 圣牧 | Shengmu Holding | 34 | February 18, 2014 | 14034378 | PRC |
| 19.... | 圣牧 | Shengmu Holding | 43 | February 18, 2014 | 14034372 | PRC |

(b) ***Domain Names***

As of the Latest Practicable Date, we have registered the following domain names:

| No. | Domain Name | Registered Owner | Date of Registration | Expiry Date |
|---|---|---|---|---|
| 1...... | youjimilk.com | Shengmu Holding | November 28, 2011 | November 28, 2021 |
| 2...... | youjimilk.com.cn | Shengmu Holding | November 28, 2011 | November 28, 2021 |
| 3...... | youjimilk.cn | Shengmu Holding | November 28, 2011 | November 28, 2021 |

(c) ***Utility Patents***

As of the Latest Practicable Date, we have registered the following utility patents in the PRC:

| No. | Registered Owner | Title of Utility | Registration Number | Place of Registration | Effective Date | Expiry Date |
|---|---|---|---|---|---|---|
| 1.... | Shengmu Dairy | Organic milk tower-type display shelves | ZL201220280159.X | PRC | January 16, 2013 | January 15, 2023 |
| 2.... | Shengmu Dairy | Organic milk cabinet-type display shelf | ZL201220280109.1 | PRC | January 16, 2013 | January 15, 2023 |
| 3.... | Shengmu Dairy | Milk cartons | ZL201220088984.X | PRC | January 16, 2013 | January 15, 2023 |
| 4.... | Shengmu Dairy | Organic milk crates | ZL201220399239.7 | PRC | April 3, 2013 | April 2, 2023 |

(e) ***Design Patent***

As of the Latest Practicable Date, we have registered the following design patents in the PRC:

| No. | Registered Owner | Title of Design | Registration Number | Place of Registration | Effective Date | Expiry Date |
|---|---|---|---|---|---|---|
| 1...... | Shengmu Dairy | Box (organic milk big box) | ZL201230069694.6 | PRC | September 5, 2012 | September 4, 2022 |
| 2...... | Shengmu Dairy | Box (organic milk small box) | ZL201230069704.6 | PRC | September 5, 2012 | September 4, 2022 |
| 3...... | Shengmu Dairy | Box (children's milk) | ZL201330195050.6 | PRC | November 6, 2013 | November 5, 2023 |

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of Interests

#### (a) *Interests of Our Directors and the Chief Executive of Our Company in the Shares*

Immediately following the completion of the Capitalization Issue and the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under Share Option Scheme, the interests or short positions of our Directors and chief executive of our Company in our Shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

#### (i) **Long position in our Shares or underlying Shares**

| Name | Capacity/Nature of interest | Number of Shares/underlying Shares | Percentage |
|---|---|---|---|
| World Shining(1) | Beneficial Owner | 3,594,221,600 | 56.56% |
| YAO Tongshan (姚同山) | Interests held jointly with another person; interest of a controlled corporation(1) | 3,594,221,600 | 56.56% |
| | Beneficial Owner(2) | 70,419,200 | 1.11% |
| WU Jianye (武建鄴) | Interests held jointly with another person; interest of a controlled corporation(1) | 3,594,221,600 | 56.56% |
| | Beneficial Owner(2) | 64,876,800 | 1.02% |
| GAO Lingfeng (高淩鳳) | Interests held jointly with another person; interest of a controlled corporation(1) | 3,594,221,600 | 56.56% |
| | Beneficial Owner(2) | 31,992,000 | 0.50% |
| CUI Ruicheng (崔瑞成) | Interests held jointly with another person; interest of a controlled corporation(1) | 3,594,221,600 | 56.56% |
| | Beneficial Owner(2) | 31,992,000 | 0.50% |

(1) Pursuant to the acting-in-concert agreement dated 18 October 2010 and a supplementary agreement dated March 24, 2014, our Ultimate Controlling Shareholders (other than Mr. YAO) shall support Mr. YAO's decisions in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders of the member companies of our Group in accordance with the decision of Mr. YAO upon completion of the Reorganization. For more details, please refer to the section on "Relationship with our Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" of this Prospectus. As such, our Ultimate Controlling Shareholders together control 56.56% interest in the share capital of our Company through World Shining. As a result of the acting-in-concert agreement, each of our Ultimate Controlling Shareholders is deemed to be interested in such 56.56% interest in the share capital of the Company.

(2) Interests in options granted pursuant to Pre-IPO Share Option Scheme.

(ii) **Long position in the Shares of associated corporation**

| Name | Name of associated company | Percentage of interest |
|---|---|---|
| WU Jianye (武建鄴).................................... | Shengmu Pangu | 45% |

(b) ***Interests of the Substantial Shareholders***

So far as is known to any Director or chief executive of our Company, immediately following the completion of the Capitalization Issue and the Global Offering (assuming no exercise of the Over-allotment Option or any option which has been granted under the Pre- IPO Share Option Scheme or may be granted under Share Option Scheme), without taking into account the Offer Shares which may be taken up under the Global Offering, the following persons (including Director and the chief executive of our Company) will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, 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 of our subsidiaries:

| Name | Capacity/Nature of interest | Number of Shares/underlying Shares | Percentage |
|---|---|---|---|
| SHI Jianhong (史建宏)[1]........... | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| ZHU Jianhua (朱建華)[2] ........... | Interests of spouse | 3,594,221,600 | 56.56% |

| Name | Capacity/Nature of interest | Number of Shares/underlying Shares | Percentage |
|---|---|---|---|
| WANG Fuzhu (王福柱)[1] .......... | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| HOU Bo (侯波)[3] ..................... | Interests of spouse | 3,594,221,600 | 56.56% |
| YAO Tongshan (姚同山)[1] ......... | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 70,419,200 | 1.11% |
| ZHANG Junli (張軍力)[4] .......... | Interests of spouse | 3,664,640,800 | 57.67% |
| GUO Yunfeng (郭運鳳)[1] .......... | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| WANG Zhizhong (王志忠)[5] ...... | Interests of spouse | 3,594,221,600 | 56.56% |
| WU Jianye (武建鄴)[1] .............. | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 64,876,800 | 1.02% |
| QIN Yuan (秦源)[6] .................... | Interests of spouse | 3,659,098,400 | 57.58% |
| WANG Zhenxi (王振喜)[1]......... | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |

| Name | Capacity/Nature of interest | Number of Shares/underlying Shares | Percentage |
|---|---|---|---|
| WANG Ning (王寧)[7] | Interests of spouse | 3,594,221,600 | 56.56% |
| GAO Lingfeng (高凌鳳)[1] | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 31,992,000 | 0.50% |
| YUN Zhongping (雲中平)[8] | Interests of spouse | 3,626,213,600 | 57.06% |
| YUN Jindong (雲金東)[1] | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| GUO Haimei (郭海梅)[9] | Interests of spouse | 3,594,221,600 | 56.56% |
| YANG Yaping (楊亞萍)[1] | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| TENG Jie (騰傑)[10] | Interests of spouse | 3,594,221,600 | 56.56% |
| LU Shunyi (蘆順義)[1] | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| ZHAO Lizhen (趙麗珍)[11] | Interests of spouse | 3,594,221,600 | 56.56% |
| WANG Zhen (王鎮)[1] | Interests held jointly with another person; interest of a controlled corporation[1] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[20] | 11,160,000 | 0.18% |

| Name | Capacity/Nature of interest | Number of Shares/underlying Shares | Percentage |
|---|---|---|---|
| YANG Yali (楊亞利)[(1)] | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| YANG Feng (楊峰)[(12)] | Interests of spouse | 3,594,221,600 | 56.56% |
| ZHANG Junke (張俊科)[(1)] | Interests held jointly with another person; interest of a controlled corporation | 3,594,221,600 | 56.56% |
| ZHENG Yueqin (鄭月琴)[(13)] | Interests of spouse | 3,594,221,600 | 56.56% |
| CUI Ruicheng (崔瑞成)[(1)] | Interests held jointly with another person; interest of a controlled corporation[(1)] | 3,594,221,600 | 56.56% |
| | Beneficial Owner[(19)] | 31,992,000 | 0.50% |
| LI Liying (李麗英)[(14)] | Interests of spouse | 3,626,213,600 | 57.06% |
| Greater Honour[(15)] | Beneficial Owner | 514,242,400 | 8.09% |
| JIANG Jinzhi (蔣錦志)[(15)] | Interest of a controlled corporation | 514,242,400 | 8.09% |
| TANG Hua[(16)] | Interests of spouse | 514,242,400 | 8.09% |
| Greenbelt Global[(17)] | Beneficial Owner | 395,235,200 | 6.22% |
| Sequoia Capital[(18)] | Beneficial Owner | 378,320,000 | 5.95% |
| The Goldman Sachs Group, Inc.[(19)] | Beneficial Owner | 395,235,200 | 6.22% |

(1) Pursuant to the acting-in-concert agreement dated October 18, 2010 and a supplementary agreement dated March 24, 2014, our Ultimate Controlling Shareholders (other than Mr. YAO) shall support Mr. YAO's decisions in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders of the member companies of our Group in accordance with the decision of Mr. YAO upon completion of the Reorganization. For more details, please refer to the section on "Relationship with our Controlling Shareholders — Our Controlling Shareholders Acting in Concert" of this prospectus. As such, our Ultimate Controlling Shareholders together control 56.56% interest in the issued share capital of our Company through World Shining. As a result of the acting-in-concert agreement, each of our Ultimate Controlling Shareholders is deemed to be interested in such 56.56% interest in the issued share capital of the Company.

(2) ZHU Jianhua is the spouse of SHI Jianhong. Under the SFO, ZHU Jianhua is deemed to be interested in the same number of Shares in which SHI Jianhong is interested.

(3) HOU Bo is the spouse of WANG Fuzhu. Under the SFO, HOU Bo is deemed to be interested in the same number of Shares in which WANG Fuzhu is interested.

(4) ZHANG Junli is the spouse of YAO Tongshan. Under the SFO, ZHANG Junli is deemed to be interested in the same number of Shares in which YAO Tongshan is interested.

(5) WANG Zhizhong is the spouse of GUO Yunfeng. Under the SFO, WANG Zhizhong is deemed to be interested in the same number of Shares in which GUO Yunfeng is interested.

(6) QIN Yuan is the spouse of WU Jianye. Under the SFO, QIN Yuan is deemed to be interested in the same number of Shares in which WU Jianye is interested.

(7) WANG Ning is the spouse of WANG Zhenxi. Under the SFO, WANG Ning is deemed to be interested in the same number of Shares in which WANG Zhenxi is interested.

(8) YUN Zhongping is the spouse of GAO Lingfeng. Under the SFO, YUN Zhongping is deemed to be interested in the same number of Shares in which GAO Lingfeng is interested.

(9) GUO Haimei is the spouse of YUN Jindong. Under the SFO, GUO Haimei is deemed to be interested in the same number of Shares in which YUN Jindong is interested.

(10) TENG Jie is the spouse of YANG Yaping. Under the SFO, TENG Jie is deemed to be interested in the same number of Shares in which YANG Yaping is interested.

(11) ZHAO Lizhen is the spouse of LU Shunyi. Under the SFO, ZHAO Lizhen is deemed to be interested in the same number of Shares in which LU Shunyi is interested.

(12) YANG Feng is the spouse of YANG Yali. Under the SFO, YANG Feng is deemed to be interested in the same number of Shares in which YANG Yali is interested.

(13) ZHENG Yueqin is the spouse of ZHANG Junke. Under the SFO, ZHENG Yueqin is deemed to be interested in the same number of Shares in which ZHANG Junke is interested.

(14) LI Liying is the spouse of CUI Ruicheng. Under the SFO, LI Liying is deemed to be interested in the same number of Shares in which CUI Ruicheng is interested.

(15) Greater Honour is wholly owned by JIANG Jinzhi.

(16) TANG Hua is the spouse of JIANG Jinzhi. Under the SFO, TANG Hua is deemed to be interested in the same number of shares in which JIANG Jinzhi is interested.

(17) Greenbelt Global is held as to approximately 99.4% by The Baring Asia Private Equity Fund V, L.P.. Baring Private Equity Asia GP V, L.P. is the general partner of The Baring Asia Private Equity Fund V, L.P.. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited (the general partner of Baring Private Equity Asia GP V, L.P.). Jean Eric Salata disclaims beneficial ownership of such Shares, except to the extent of his economic interest in such entities. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P. , Baring Private Equity Asia GP V Limited and Jean Eric Salata is therefore deemed to be interested in the Shares held by Greenbelt Global under the SFO.

(18) Sequoia Capital is owned by Sequoia Capital China Growth 2010 Fund, L.P. as to 85.53%, Sequoia Capital China Growth 2010 Partners Fund, L.P. as to 7.10% and Sequoia Capital China Growth 2010 Principals Fund, L.P. as to 7.37%, or collectively, SCC 2010 Growth Funds. The SCC 2010 Growth Funds' general partner is SC China Growth 2010 Management, L.P., whose general partner is SC China Holding Limited, a company incorporated in the Cayman Islands. SC China Holding Limited is wholly owned by SNP China Enterprises Limited, a company wholly owned by Mr. SHEN Nanpeng. Mr. Shen disclaims beneficial ownership of the Shares held by Sequoia Capital, except to the extent of his pecuniary interest therein. Each of Sequoia Capital China Growth 2010 Fund, L.P., SC China Growth 2010 Management, L.P., SC China Holding Limited, SNP China Enterprises Limited and Mr. SHEN Nanpeng is therefore deemed to be interested in the shares held by Sequoia Capital under the SFO.

(19) Each of Saint Investment (Mauritius) and Broad Street is interested in 197,617,600 Shares, representing in aggregate 6.22% of the total issued share capital of our Company. Saint Investment (Mauritius) is a GBL1 (Global Business License Category 1) entity registered in Mauritius. Saint Investment (Mauritius)'s capital is derived from funds or monies managed and/or controlled by subsidiaries of The Goldman Sachs Group, Inc. Broad Street is an exempted limited partnership registered in the Cayman Islands. Its general partner is Broad Street (Cayman) GP Limited, a wholly-owned subsidiary of The Goldman Sachs Group, Inc. Its limited partner is Shanghai Broad Street Investment Center Limited Partnership, a subsidiary of Broad Street (Beijing) 2011 Investment Center (Limited Partnership), an investment fund managed and controlled by affiliates of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc. is therefore deemed to be interested in the number of Shares in which Saint Investment (Mauritius) and Broad Street are collectively interested. The Goldman Sachs Group, Inc. is an Independent Third Party.

(20) Interests in options granted pursuant to Pre-IPO Share Option Scheme.

(d) ***Interests of the Substantial Shareholders of Any Member of Our Group (other than Our Company)***

| Name | Name of member of associated company | Percentage of interest |
|---|---|---|
| WU Jianye (武建鄴) | Shengmu Pangu | 45.0% |
| Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司) | IMU-Shengmu Dairy | 30.0% |
| WANG Jinliang (王金良) | Shengmu Xintai | 45.0% |
| CHEN Qingjun (陳慶軍) | Shengmu Hateng | 35.0% |
| LI Yongqiang (李永強) | Shengmu Taohai | 45.0% |
| LI Yundong (李運動) | Shengmu Liuhe | 35.0% |
| WANG Qiang (王強) | Shengmu Wuxing | 35.0% |
| WANG Zhen (王鎮) | Shengmu Xiwang | 17.5% |
| SUN Xiyao (孫喜耀) | Shengmu Xiwang | 17.5% |
| LI Ruijun (李瑞軍) | Shengmu Qixing | 35.0% |
| YANG Bin (楊斌) | Shengmu Beidou | 35.0% |
| WANG Lixin (汪立新) | Shengmu Xinhe | 35.0% |
| CHANG Zhiba (常志拔) | Shengmu Zhenghe | 35.0% |
| HOU Liubin (侯留斌) | Shengmu Weiye | 35.0% |
| GUO Yongfeng (郭永豐) | Shengmu Zhaofeng | 35.0% |
| REN Junmin (任俊明) | Shengmu Sanli | 35.0% |
| HAO Kaiyun (郝凱雲) | Shengmu Shajin | 35.0% |

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

2. **Directors' Service Contracts**

***Executive Director(s)***

Each of our executive Directors has entered into a service agreement with our Company for an initial term of three years with effect from his date of appointment unless terminated by not less than 90 days notice in writing served by either such executive Director or our Company. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

Under his or her service contract, each of our executive Directors is entitled to a fixed basic salary, an annual bonus subject to the fulfilment of certain performance target, and participation in the Pre-IPO Share Option Scheme. In certain other circumstances, the agreement can also be terminated by our Company, including but not limited to certain breaches of our Director's obligations under the agreement or certain misconducts. The appointment of the executive Director is also subject to the provisions of retirement and rotation of Directors under the Articles. The executive Directors are officially stationed in the PRC, but may be required to work in Hong Kong or in other places, as may be determined by the Board from time to time.

***Non-Executive Directors***

Each of our non-executive Directors and independent non-executive Directors has signed an appointment letter with our Company for a term of three years with effect from their respective date of appointment. Each of our independent non-executive Director is entitled to a fixed director's fee. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, none of our Directors has proposed or is proposing to enter into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### 3. Directors' Remuneration

Our Directors have received remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) of approximately HK$513,320, HK$540,980 and HK$705,510 for each of the years ended December 31, 2011, 2012 and 2013.

No remuneration was paid by our Company to our Directors (a) as an inducement to join or upon joining any member of our Group or (b) as a compensation for loss of officer as director of any member of our Group or any other office in connection with the management affairs of any member of our Group in respect of each of the three years ended December 31, 2011, 2012 and 2013. Further, none of our Directors waived any remuneration during the same period.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2014 is estimated to be approximately RMB1,560,000.

### 4. Directors' Competing Interests

Save as disclosed in the section headed "Relationship with Controlling Shareholders — Directors' Interests in Competing Business", none of our Directors is interested in any business, apart from our Group's business, which competes or is likely to compete, directly or indirectly, with the business of our Group.

5. **Disclaimers**

Save as disclosed in this prospectus:

(a) none of our Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange;

(b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(c) none of our Directors nor any of the persons listed in the section headed "— Other Information — Qualification of Experts" below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(d) none of our Directors nor any of the persons listed in the section headed "— Other Information — Qualification of Experts" below are materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

(e) save as set out in the sections headed "Underwriting" and "Structure and Conditions of the Global Offering," none of the persons listed in the section headed "— Other Information — Qualification of Experts" below (i) has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Shares in any member of our Group; or (ii) is legally or beneficially interested in any securities of any member of our Group;

(f) none of our Directors have entered or have proposed to enter into any service contracts with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and

(g) none of our Directors or their respective associates (as defined under the Listing Rules), or the existing Shareholders (who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company) has any interest in any of the five largest customers or the five largest suppliers of our Group.

## D. PRE-IPO SHARE OPTION SCHEME

Our Company has conditionally approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of our Shareholders passed on April 30, 2014.

### Summary of Major Terms

*Purpose and Participants*

The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate our Directors, senior management of our Group and Shengmu Forage, to provide a means of compensating them through the grant of options under the Pre-IPO Share Option Scheme for their contribution to the growth and profits of our Group, and to allow them to participate in the growth and profitability of our Group. Participants of the Pre-IPO Share Option Scheme include (a) our executive Directors, (b) senior management of our Group, (c) management of our subsidiaries, and (d) management of Shengmu Forage.

*Conditions*

The Pre-IPO Share Option Scheme shall take effect conditional upon (i) the listing committee of the Stock Exchange granting approval of the Pre-Share Option Scheme, the granting of the options thereunder, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the options granted the Pre-Share Option Scheme; and (ii) the commencement of dealing in the Shares on the Stock Exchange. If the above conditions are not satisfied on or before December 31, 2015 (or such later date as the Board may decide): (i) the Pre-IPO Share Option Scheme shall forthwith terminate; (ii) any option granted or agreed to be granted pursuant to the Pre-IPO Share Option Scheme and any offer of such a grant shall be of no effect; and (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Pre-IPO Share Option Scheme or any option granted under the Pre-IPO Share Option Scheme.

*No grant of options on or after the Listing Date*

Save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

*Subscription Price*

The subscription price per Share of the options granted under the Pre-IPO Share Option Scheme is HK$1.56;

*Offer and Grant of Options*

An offer of the grant of an option shall be deemed to have been accepted and such option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of such offer duly signed by the grantee, together with a remittance in favor of the Company of HK$1.00 by way of consideration for each tranche of grant thereof is received by the Company.

*Duration of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme will remain in force for a period of four years commencing on the date on which an option is granted pursuant to the scheme.

*Vesting and Lapse of Options*

No option is exercisable until the expiry of (i) a year following the date of the grant of the option, and (ii) six months following the Listing Date, whichever is later (the "**Waiting Period**"). On the first business day immediately following the expiry of the Waiting Period (the "**Vesting Date**"), options granted under the Pre-IPO Share Option Scheme shall be fully vested on the relevant grantees subject to the following conditions being fulfilled:

| **Grantees** | **Vesting Conditions** |
|---|---|
| Executive Directors, senior management of our Group | Profit for the year of our Company for the year ending December 31, 2014 is not less than 95% of the targeted amount as approved by our Board. |
| Management of Shengmu Holding | (a) Profit for the year of our Company for the year ending December 31, 2014 is not less than 95% of the targeted amount as approved by our Board; and<br>(b) He/she accomplishes at least 95% of the performance targets assigned by Shengmu Holding to the department which he/she belongs to or, as the case may be, to him/her personally, for the year ending December 31, 2014. |
| Management of our other wholly-owned subsidiaries | (a) Profit for the year of our Company for the year ending December 31, 2014 is not less than 95% of the targeted amount as approved by our Board; and<br>(b) He/she accomplishes at least 95% of the performance targets assigned by Shengmu Holding to the company which he/she belongs to or, as the case may be, to him/her personally, for the year ending December 31, 2014. |

| Grantees | Vesting Conditions |
|---|---|
| Management of our non-wholly owned subsidiaries | The relevant company which he/she belongs to accomplishes at least 95% of the performance targets assigned by Shengmu Holding for the year ending December 31, 2014. |
| Management of Shengmu Forage | Shengmu Forage accomplishes at least 95% of the performance targets set out under the its cooperation agreement with Shengmu Holding for the year ending December 31, 2014. |

For the purpose of determining whether the conditions mentioned above are fulfilled, "profit for year of our Company" shall mean the profit for the year ending December 31, 2014 recorded in the audited consolidated financial statements of our Company provided that (i) any and all expenses or costs to our Company as a result, arising from or in connection with this scheme, or the grant, vesting or exercise of any option under this scheme, and (ii) all the costs and expenses relating to the Listing, shall be excluded and disregarded for the purpose of calculation of the "profit for year."

A resolution of the Board on whether the above-mentioned conditions for vesting are fulfilled on the Vesting Date shall be conclusive.

If any of the conditions mentioned above is not fulfilled in relation to the relevant category of grantees, the relevant options due to be vested on the relevant grantee had the conditions been fulfilled, shall neither be vested nor be exercisable on such Vesting Date and shall lapse automatically on the relevant Vesting Date.

An option granted under the Pre-IPO Share Scheme shall lapse immediately if the grantee ceases his/her employment with our Group or, as the case may be, Shengmu Forage, before the Vesting Date.

An option granted under the Pre-IPO Share Option Scheme which is vested on the Vesting Date must be exercised by the relevant grantee within six months after the Vesting Date. Options not exercised within such six months shall lapse immediately afterwards.

*Lock-up on the Shares*

Within two years after the Vesting Date, a grantee shall not sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme.

**Outstanding Options**

As at the date of this prospectus, options to subscribe to an aggregate of 504,480,000 representing approximately 7.94% of the enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming that all options granted under the Pre-IPO Share Option Scheme are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) have been conditionally granted by our Company under the Pre-IPO Share Option Scheme.

The options have been conditionally granted based on the performance of the grantees who have made important contributions or are important to the long-term growth and profitability of our Group. A total of 189 grantees, including 4 executive Directors, and a senior management (excluding the Directors) of our Company (as set out in the section headed ''Directors and Senior Management'' of this prospectus) and 11 directors of our subsidiaries (other than directors and senior management of the Company) have been conditionally granted options under the Pre-IPO Share Option Scheme.

All the options under the Pre-IPO Share Option Scheme were granted to the respective grantees on April 30, 2014. No options are held by connected persons of our Company other than those granted to the Directors and the directors of the subsidiaries of our Company, under the Pre-IPO Share Option Scheme. If a grantee is a connected person of our Company, such grantee shall not exercise any option granted under the Pre-IPO Share Option Scheme to the extent that our Company's public float will as a result of such exercise be less than the minimum requirements under the Listing Rules.

Exercise in full of all options granted under the Pre-IPO Share Option Scheme would result in an increase in the total number of Shares in issue immediately upon completion of the Global Offering (assuming there will be no further issue of Shares whether pursuant to the exercise of the Over-Allotment Option or any option granted under the Pre-IPO Share Option Scheme) by approximately 7.94%.

Further, assuming that (i) our Company had been listed on the Stock Exchange since January 1, 2013 with 6,354,400,000 shares in issue; and (ii) all the options granted under the Pre-IPO Share Option Scheme in respect of 504,480,000 Shares were exercised in full on January 1, 2013, the earnings per Share on a pro forma basis for the year ended December 31, 2013 would have been diluted from approximately RMB0.052 (unaudited) to RMB0.044 (unaudited).

**Summary of Grantees**

A summary of the grantees who have been granted options under the Pre-IPO Share Option Scheme is set out below:

| Grantee | Main Position in the Group | Address | Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme | Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme |
|---|---|---|---|---|
| ***Directors of our Company*** | | | | |
| YAO Tongshan (姚同山) ... | Director of the Company (Please refer to the section headed "Directors and Senior Management" for details of other positions) | 2-4-1 Jian She Ting Su She Xincheng District Yishuting Nanjie Hohhot City Inner Mongolia Autonomous Region PRC | 70,419,200 | 1.03% |
| WU Jianye (武建鄴) ... | Director of the Company (Please refer to the section headed "Directors and Senior Management" for details of other positions) | Flat 7 of Unit 1 Tower 7 of Fangting Garden Dongfeng Road Xincheng District Hohhot City Inner Mongolia Autonomous Region PRC | 64,876,800 | 0.94% |
| GAO Lingfeng (高淩鳳) ... | Director of the Company (Please refer to the section headed "Directors and Senior Management" for details of other positions) | Flat 3 of Unit 1 Tower 6 of Public Security Bureau Hailaerdong Road Xincheng District Hohhot City Inner Mongolia Autonomous Region PRC | 31,992,000 | 0.47% |
| CUI Ruicheng (崔瑞成) ... | Director of the Company (Please refer to the section headed "Directors and Senior Management" for details of other positions) | Flat 4 of Unit 5 Tower 4 of Caoyuanmingzhu Hailaerxi Road Huimin District Hohhot City Inner Mongolia Autonomous Region PRC | 31,992,000 | 0.47% |
| **Sub-total:**....... | | | **199,280,000** | **2.91%** |

| Grantee | Main Position in the Group | Address | Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme | Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme |
|---|---|---|---|---|
| ***Directors of subsidiaries of our Company not mentioned above*** | | | | |
| YANG Bin (楊斌) ....... | Director and General Manager of Shengmu Dairy | West Flat of 6th Floor of Unit 4<br>Tower 3 of Yingchunxiaoqu<br>Yingchun Lane<br>Yuquan District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | 19,790,400 | 0.29% |
| WANG Qiang (王強) ....... | Director, General Manager and Farm Manager of Shengmu Wuxing | Flat 10 of Unit 1<br>Tower 5 of Xiqu<br>Yingxin West Road<br>Yuquan District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | 19,641,600 | 0.29% |
| CHEN Qingjun (陳慶軍) ... | Director and General Manager of Shengmu Hateng | Flat 202 of Unit 5<br>Tower 2 of Juyuan<br>Lüzumiao Road<br>Huimin District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | 13,838,400 | 0.20% |
| YAN Shengmao (燕生茂) ... | Director of Shengmu Hateng, General Manager of Shengmu Farming | Flat 501<br>Tower 25 of Jinlinhuayuan<br>Qingshan District<br>Baotou City<br>Inner Mongolia Autonomous Region<br>PRC | 13,838,400 | 0.20% |
| WANG Jinliang (王金良) ... | Director, General Manager and Farm Manager of Shengmu Xintai | No. 651 of the First Neighborhood Committee<br>Mengxi Town<br>Etuoke Banner<br>Ordos City<br>Inner Mongolia Autonomous Region<br>PRC | 12,350,400 | 0.18% |

| Grantee | Main Position in the Group | Address | Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme | Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme |
|---|---|---|---|---|
| LI Yongqiang (李永強) ... | Director, General Manager and Farm Manager of Shengmu Taohai | Flat 302 of Unit 1 Tower 2 of Jiaogong Gongnongbing Road Huimin District Hohhot City Inner Mongolia Autonomous Region PRC | 11,904,000 | 0.18% |
| LI Ruijun (李瑞軍) ... | Director and General Manager of Shengmu Qixing | No. 149, Gucheng Village Gucheng Town Tuoketuo County Hohhot City Inner Mongolia Autonomous Region PRC | 11,160,000 | 0.16% |
| WANG Zhen (王鎮) ....... | Director and General Manager of Shengmu Xiwang | Flat 301 of Unit 4 Tower 6 of Xianghesanqu Youyi Lane Huimin District Hohhot City Inner Mongolia Autonomous Region PRC | 11,160,000 | 0.16% |
| CHANG Zhiba (常志拔) ... | Director, General Manager and Farm Manager of Shengmu Zhenghe | Flat 501 of Unit 4 Tower A1 of Xinxinjiayuan Jiangshe Road Linhe District Bayannur City Inner Mongolia Autonomous Region PRC | 11,085,600 | 0.16% |
| WANG Lixin (汪立新) ... | Director and General Manager of Shengmu Xinhe | Flat 501 of Unit 5 Tongjian Building Huanghe Road Linhe District Bayannur City Inner Mongolia Autonomous Region PRC | 8,813,400 | 0.13% |

| Grantee | Main Position in the Group | Address | Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme | Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme |
|---|---|---|---|---|
| ZHANG Aiqin (張愛琴) ... | Director of Shengmu Hateng, Centre Head of Shengmu Holding | Flat 8 of Tower 8 of Xiyitao<br>Huimin Road<br>Linhe District<br>Bayannur City<br>Inner Mongolia Autonomous Region<br>PRC | 1,636,800 | 0.02% |
| **Sub-total** ........ | | | **135,219,000** | **1.97%** |
| ***Senior management of our Company*** | | | | |
| LI Yundong (李運動) ... | Joint company secretary of the Company (Please refer to the section headed "**Directors and Senior Management**" for details of other positions) | Flat 3 of Unit 1<br>Tower 2 of Dian Li Er Gong Si Su Se<br>Xindong Road<br>Xincheng District<br>Hohhot City<br>Inner Mongolia Autonomous Region<br>PRC | **37,795,200** | **0.55%** |
| ***Other 13 grantees who are entitled to subscribe for not less than 1,636,800 Shares upon full exercise of his option under the Pre-IPO Share Option Scheme*** | | | | |
| GUAN Rong (菅榮) ....... | Farm Manager of Shengmu Pangu | No.4 of Wanqingshe<br>Nanchang Village<br>Dashetai Town<br>Urad Front Banner<br>Bayannur City<br>Inner Mongolia Autonomous Region<br>PRC | 4,464,000 | 0.07% |
| CHENG Yongli (程永利) ... | Farm Manager of Shengmu Hateng | No.190 of Yongfengshe<br>Qianjing Village<br>Xinan Town<br>Urad Front Banner<br>Bayannur City<br>Inner Mongolia Autonomous Region<br>PRC | 4,315,200 | 0.07% |

| Grantee | Main Position in the Group | Address | Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme | Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme |
|---|---|---|---|---|
| LI Junsheng (李俊生) ... | Farm Manager of Shengmu Xinhe | No.28 Lianfengqu Toudaoqiao Town Hangjin Back Banner Bayannur City Inner Mongolia Autonomous Region PRC | 4,132,200 | 0.06% |
| LIU Wenguang (劉文光) ... | General Manager of Shengmu Forage | No.132 Weigetu Dongfanghong Village Xinan Town Urad Front Banner Bayannur City Inner Mongolia Autonomous Region PRC | 2,976,000 | 0.04% |
| ZHAO Boyu (趙博宇) ... | Executive General Manager of Shengmu Dairy | No.319 Lingsanhu Shengle Town Horinger County Inner Mongolia Autonomous Region PRC | 2,976,000 | 0.04% |
| ZHAO Quangang (趙全剛) ... | Operation General Manager in General Manager Office of Shengmu Farming | Flat 103 of Unit 3 Tower 2 of Zone 3 Pipeline Bureau Guangyang District Langfang City Hebei Province PRC | 2,232,000 | 0.03% |
| LI Xia (李霞) | Feeding Nutrition Director of Feeding Nutrition Centre of Shengmu Holding | Student Dormitory of Inner Mongolia Agricultural University Xinjian East Street Saihan District Hohhot City Inner Mongolia Autonomous Region PRC | 1,934,400 | 0.03% |

| Grantee | Main Position in the Group | Address | Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme | Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme |
|---|---|---|---|---|
| ZHANG Jian (張健) ....... | President Assistant and Centre Head of Shengmu Holding | Flat 11 of Unit 4 Tower 3 of 14th Middle School Dormitories Dongfeng Road Xincheng District Hohhot City Inner Mongolia Autonomous Region PRC | 1,796,800 | 0.03% |
| DING Gaohuai (丁高懷) ... | Farm Manager of Shengmu Liuhe | No.2 of No.162 Courtyard Nannao Village Shandai Town Tumote Left Banner Inner Mongolia Autonomous Region PRC | 1,785,600 | 0.03% |
| ZHAO Guozhu (趙國柱) ... | Centre Head of Shengmu Holding | Dormitory of Inner Mongolia Talent Exchange Center No. 8 Courtyard Tuanjie Lane Xincheng District Hohhot City Inner Mongolia Autonomous Region PRC | 1,636,800 | 0.02% |
| FU Qin (付琴) | Centre Head of Shengmu Holding | Flat 5 of Unit 1 Tower 9 of Public Security Bureau Dormitories Hailaer East Road Xincheng District Hohhot City Inner Mongolia Autonomous Region PRC | 1,636,800 | 0.02% |

| Grantee | Main Position in the Group | Address | Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme | Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme |
|---|---|---|---|---|
| HU Weiye (胡偉業) ... | Centre Head of Shengmu Holding | No.50 of Inner Mongolia General Term China Construction Materials and Geological Prospecting Center Luojiaying Village Bayan Town Saihan District Hohhot City Inner Mongolia Autonomous Region PRC | 1,636,800 | 0.02% |
| YUN Yongfeng (雲永峰) ... | Manager of the 13th Farm of Shengmu Holding | No.29 of Guerdanba Village Shaerying Township Tumote Left Banner Inner Mongolia Autonomous Region PRC | 1,636,800 | 0.02% |
| **Sub-total:**....... | | | **33,159,400** | **0.48%** |
| **Other 154 grantees who are employees of our Group**........ | | — | **95,157,600** | **1.39%** |
| **Other 6 grantees who are employees of Shengmu Forage**....... | | — | **3,868,800** | **0.06%** |
| **Total** ............. | | | **504,480,000** | **7.36%** |

*Note 1:* All the percentage figures are subject to round-up and represent approximate percentage only.

Save and except as set out above, no other options have been granted or agreed to be granted by our Company under the Pre-IPO Share Option Scheme. Each of the Grantees has made the remittance by way of consideration for the tranche of grant on April 30, 2014 as set out above.

## E. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme approved by the resolutions of our Shareholders passed on June 18, 2014:

### 1. Purpose of the Share Option Scheme

The purpose of this Share Option Scheme is to attract, retain and motivate employees, Directors and such other Participant, and to provide a means of compensating them through the grant of options pursuant to the terms of the Share Option Scheme ("**Options**") for their contribution to the growth and profits of our Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of our Group.

### 2. Conditions and Present Status of the Share Option Scheme

The Share Option Scheme shall take effect conditional upon (i) the listing committee of the Stock Exchange granting approval of the Share Option Scheme, the granting of the Options, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options; and (ii) the commencement of dealing in the Shares on the Stock Exchange. If the above conditions are not satisfied on or before December 31, 2014 (or such later date as the Board may decide): (i) the Share Option Scheme shall forthwith terminate; (ii) any Option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any such Option.

As at the date of prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. No option is expected to be granted under the Share Option Scheme prior to the Listing Date.

### 3. Eligible Participants

Our Board may, at its discretion, invite any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of our Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to our Group ("**Participants**") to take up the Options. The basis of eligibility of any of the class of the Participants to the grant of any Option shall be determined by the Board from time to time on the basis of their contribution to the development and growth of our Group and any invested entity.

### 4 Offer and Grant of Options

No offer of the grant of an Option shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing

Rules) for the approval of our Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules), and (ii) the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no Option may be granted.

An offer of the grant of an Option ("**Offer**") shall be deemed to have been accepted and the Option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Participant ("**Grantee**") with the number of Shares in respect of which such offer is accepted clearly stated therein, together with a remittance in favor of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company. Such remittance shall in no circumstances be refundable.

5. **Subscription Price**

The subscription price ("**Subscription Price**") shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option), but in any case the Subscription Price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a Business Day ("**Offer Date**"), (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the date of grant, and (c) the nominal value of a Share.

6. **Maximum number of Shares and entitlement of an eligible Participant**

(a) The overall limit on the 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 other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 30% of the Shares in issue from time to time ("**Scheme Limit**").

(b) The Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares in issue on the Listing Date, being a total of 635,440,000 Shares ("**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating this Scheme Mandate Limit.

(c) Our Company may seek approval of our Shareholders in general meeting for refreshing the Scheme Mandate Limited. However, the Scheme Mandate Limited as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of the approval of our Shareholders. Options previously granted under the Share Option Scheme or any other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including Options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option scheme of our Company) will not be counted for the purpose of calculating the limit as "refreshed."

A circular containing the information required under the Listing Rules, including the information required under Rule 17.02(2)(d) of the Listing Rule and the disclaimer required under Rule 17.02(4) of the Listing Rules, shall be sent to our Shareholders in connection with the meeting at which their approval will be sought.

(d) Our Company may seek separate approval by our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit (as refreshed) provided the Grantee(s) of such Option(s) must be specifically identified by our Company before such approval is sought. A circular containing a generic description of the specified Grantees who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting such Options to the Grantees with an explanation as to how the terms of Options serve such purpose and other information required the Listing shall be sent to our Shareholders.

(e) The total number of Shares issued and to be issued upon exercise of the Options granted to each eligible Participant (including exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the Shares in issue (the "**Individual Limit**"). Any further grant of Options to an eligible Participant which would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such eligible Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limited shall be subject to our Shareholders' approval in general meeting with such eligible Participant and his associates (such term shall have the meaning ascribed to the definition of "associate" under the Listing Rules) abstaining from voting. A circular containing the information required under the Listing Rules shall be sent to our Shareholders. The number and terms (including the Subscription Price) of the Options to be granted to such eligible Participant must be fixed before our Shareholders' approval is sought and the date of the meeting of the Board for proposing such further grant of Option should be taken as the date of grant for the purpose of calculating the Subscription Price.

7. **Grant of Options to Connected Persons**

(a) Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or their respective associates must be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who is the Grantee).

(b) Where our Board proposes to grant any Option to a Participant who is a substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or an independent non- executive director of our Company, or any of their respective associates would result in our Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the proposed Offer Date of such grant (the "**Relevant Date**"):

(i) representing in aggregate more than 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the total number of Shares in issue on the Relevant Date; and

(ii) having an aggregate value, based on the closing price of our Shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the Relevant Date, in excess of HK$5,000,000 (or such other higher amount as may from time to time be specified by the Stock Exchange),

such proposed grant of Options must be approved by our Shareholders (voting by way of poll). In such a case, our Company shall send a circular to our Shareholders containing all those terms as required under the Listing Rules. The Participant concerned and all other connected persons of our Company must abstain from voting in favor of the resolution at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his/her intention to do so has been stated in the circular to be sent to our Shareholders in connection therewith.

8. **Exercise of Options**

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme ("**Option Period**").

9. **Vesting**

Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules to which this Scheme may be subject, including the Listing Rules or regulations of any stock exchange on which the Shares may be listed and quoted. Furthermore, the Shares to be issued and allotted to a Grantee pursuant to the exercise of any Option under this Scheme may or may not, at the discretion of the Board, be subject to any retention period.

10. **Performance Target & Minimum Period before Exercise**

Unless otherwise determined by our Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is no general requirement for any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised.

11. **Options are personal to the Grantee**

An Option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favor of any third party over or in relation to any Option, except for the transmission of an Option on the death of the Grantee to his personal representative(s) according to the terms of the Share Option Scheme.

12. **Rights on death, or termination of employment, our Directorship, office or appointment**

(a) in the event of the Grantee ceasing to be an employee (whether full time or part time) of our Company or its subsidiaries, including any executive Director ("**Eligible Employee**"), by reason of non-renewal of his or her employment contract upon termination, or retirement, or internal reorganization, or if the Grantee is a Director, the cessation as a Director upon rotation, the Grantee shall be entitled within a period of three (3) months from the date of cessation of employment which shall be the last actual working day with our Company or the relevant subsidiary to exercise any Option in whole or in part (to the extent which has become exercisable but not yet exercised prior to such date of cessation). In the event of the Grantee ceasing to be an Eligible Employee for any reason other than those stated above or his or her death or the termination of his or her employment on one or more of the grounds specified in the Share Option Scheme, the Grantee may exercise the Option in accordance with the provisions of the Share Option Scheme up to his or her entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine; and

(b) in the event that the Grantee ceases to be a Participant (as the case may be) by reason of death (provided that none of the events which would be a ground for termination of his or her employment arises prior to his or her death), the legal personal representative(s) of this Grantee shall be entitled within a period of twelve (12) months from the date of death (or such longer period as the Board may determine) to exercise the Option in whole or in part (to the extent which has become exercisable and not already exercised prior to such date of death).

13. **Voluntary winding-up of our Company**

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 despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or her legal personal representative(s)) shall be entitled to exercise all or any of his or her or its Options (to the extent which has become exercisable and not already exercised) at any time not later than three (3) Business Days 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 immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank pari passu with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

14. **Rights on take-over**

In the event of a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares (or all such holders other than the offer or and/or any person controlled by the offer or and/or any person acting in association or concert with the offeror), our Company shall use all reasonable endeavors to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by exercise in full of the Options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a Grantee shall be entitled to exercise his Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in exercise of his Option at any time before the close of such offer (or any revised offer).

15. **Rights on a compromise or arrangement**

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement, and thereupon any Grantee (or her legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two (2) months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her or its Option (to the extent which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its Option so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

16. **Effects of alterations to capital structure**

In the event of any alteration in the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganization of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding alterations (if any) shall be made in (a) the number or nominal amount of Shares subject to the Option so far as unexercised, and/or (b)the Subscription Price, and/or the method of exercise of the Option, as the auditors or the financial adviser of our Company retained for such purpose shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such alteration shall remain the same as that to which he or she or it was entitled before such alteration and that the aggregate Subscription Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of our Group as consideration in a transaction.

17. **Lapse of Options**

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 date or the expiry of the periods for exercising the Option;

(c) the date on which the offer (or as the case may be, revised offer) closes;

(d) the date of the commencement of the winding-up of our Company;

(e) the date when the proposed compromise or arrangement becomes effective;

(f) the date on which the Grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on any one or more of the grounds that he or she voluntarily resigns, or has been guilty of misconduct or has found to have breached the terms of employment during his or her employment (regardless of whether such employment contract has already been terminated) leading to a material loss or damage to our Group, or his or her employment has terminated by reason of the failure of such employment to pass the annual evaluation, or has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that employment of a Grantee has or has not been terminated shall be conclusive and binding on the Grantee;

(g) the date on which the Grantee commits a breach or the Options are cancelled in accordance with the Share Option Scheme; or

(h) if the Board at their absolute discretion determines that the Grantee (other than an Eligible Employee) has committed any breach of any contract entered into between the Grantee on the one part and any member of our Group on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her or its creditors generally, the Board shall determine that the outstanding Options granted to the Grantee (whether exercisable or not) shall lapse. In such event, his or her or its Options will lapse automatically and will not in any event be exercisable on or after the date on which the Board has so determined.

18. **Ranking of Share allotted upon exercise of Options**

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Memorandum and Articles of Association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

19. **Duration of the Share Option Scheme**

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by resolution of our Shareholders.

20. **Cancellation of Options granted**

Our Board may, with the consent of the relevant Grantee, at any time at its absolute discretion cancel any Option granted but not exercised. An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date on which the Option is cancelled by our Board as provided above.

21. **Termination of the Share Option Scheme**

Our Company may terminate the operation of the Share Option Scheme at any time by resolution of the Board or resolution of our Shareholders in general meeting and in such event no further Option will be 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 the Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provision of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

22. **Alteration of the provisions of the Share Option Scheme**

Subject to the provisions of the Share Option Scheme, the Board may amend any of the provisions of the Share Option Scheme (including with limitation to amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date).

## F. OTHER INFORMATION

1. **Estate duty, tax and other indemnity**

The Covenantors have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of our present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters:

(a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 11 of the Laws of Hong Kong) or the equivalent or similar thereof under the laws of any jurisdictions outside Hong Kong) to any member of our Group on or before the Listing; and

(b) tax liabilities (including all fines, penalties, costs, charges, liabilities, expenses and interests incidental or relating 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 Listing.

The Ultimate Controlling Shareholders are under no liability under the deed of indemnity in respect of any taxation:

(a) to the extent that provision has been made for such taxation in the audited combined accounts of our Company and its subsidiaries as set out in the Accountant's Report set out in Appendix I to this prospectus or in the audited accounts of the relevant members of our Group for the three financial years ended December 31, 2013;

(b) to the extent for which any member of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date of deed of indemnity; and

(c) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in the Cayman Islands or the PRC coming into force after the date of deed of indemnity or to the extent such claim arises or is increased by an increase in the rates of taxation after the date of deed of indemnity with retrospective effect;

Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

## 2. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed "Business — Legal Proceedings and Compliance" in this prospectus, no member of our Group was engaged in any litigation, arbitration or administrative proceedings which had a material adverse effect on our financial conditions or results of operations, and no litigation, arbitration or administrative proceedings was known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on our financial condition or results of operations.

## 3. Joint Sponsors

The Joint Sponsors made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue, the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option).

As The Goldman Sachs Group, Inc. holds more than 5% shareholding in the Company upon the Listing, Goldman Sachs (Asia) L.L.C. is not considered as an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

As disclosed in the paragraph headed "History, Reorganization and Group Structure — Reorganization" in this prospectus, as a result of a series of fund transfers, an aggregate amount of US$66.8 million remains payable by Greater Honour and World Shining to the Macau Branch of Bank of China Limited as at the Latest Practicable Date. As BOC International Holdings Limited and its subsidiaries hold less than 5% shareholding in the Company upon the Listing and the loan provided by the Macau Branch of Bank of China Limited to World Shining and Greater Honour accounted for less than 10% of the total assets of Bank of China Limited, the ultimate holding company of BOCI Asia Limited, as of December 31, 2013, BOCI Asia Limited is considered as an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The total sponsorship fee payable by our Company to the Joint Sponsors amounts to HK$5.4 million.

4. **Shares will be eligible for CCASS**

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares.

All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. **No material adverse change**

Our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2013 (being the date on which our latest audited combined financial statements was made up) up to the date of the Prospectus.

6. **Qualification of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

| Name | Qualification |
|---|---|
| BOCI Asia Limited.................. | Licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO |
| Goldman Sachs (Asia) L.L.C.... | Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) of the regulated activities under the SFO |
| Ernst & Young ........................ | Certified Public Accountants |
| Maples and Calder .................. | Legal advisers to our Company on the Cayman Islands laws |
| Jingtian & Gongcheng............. | Legal advisers to our Company on the PRC laws |
| Jones Lang LaSalle Corporate Appraisal and Advisory Limited................................ | Valuer |
| Frost & Sullivan...................... | Independent Industry Consultant |

7. **Consents of experts**

Each of the experts whose names are set out in the paragraph headed "6. Qualification of Experts" in this Appendix has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or valuation certificates and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

As at the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the paragraph headed "6. Qualification of Experts" in this Appendix has any shareholding interests in any of our Company or any of our subsidiaries or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

8. **Agency fees or commissions received**

Save as disclosed in the section headed "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this prospectus.

9. **Promoter**

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of our Company nor is any cash, securities or benefit intended to be paid, allotted or given in connection with the Global Offering or the related transactions described in this prospectus.

10. **Preliminary expenses**

The preliminary expenses incurred by our Company in relation to our corporation were approximately US$2,500 and have been paid by our Company.

11. **Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. **Taxation of holders of Shares**

(a) ***Hong Kong***

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of or of the fair value of, the Shares being sold or transferred, whichever is higher. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(b) ***Cayman Islands***

Under the Cayman Islands law currently in force, there is no stamp duty payable in the Cayman Islands on transfers of our Shares, save for those which hold interests in land in the Cayman Islands.

(c) ***Consultation with professional advisers***

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising rights attached to them. It is emphasized that none of our Company, our Directors or the other parties, involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attached to them.

13. **Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

14. **Miscellaneous**

(a) Save as disclosed in this prospectus:

(i) within the two years immediately preceding the date of this prospectus, 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;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of our Company or any of our subsidiaries;

(iv) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;

(v) no founder shares, management shares or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;

(vi) there is no arrangement under which future dividends are waived or agreed to be waived;

(vii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus;

(viii) our Company has no outstanding convertible debt securities or debentures; and

(ix) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange no is any listing or permission to deal being or proposed to be sought.

## 1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) copies of material contracts referred to in "Statutory and General Information — Further Information About Our Business — Summary of Material Contracts" in Appendix IV; and

(c) the written consents referred to in "Statutory and General Information — Other Information — Consents of experts" in Appendix IV.

## 2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Wilson Sonsini Goodrich & Rosati (in association with Chen & Associates), Unit 1001, 10/F, Henley Building, 5 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the Accountant's Report for the years ended 31 December 2011, 2012 and 2013 from Ernst & Young, the text of which is set out in Appendix I;

(c) the report on the unaudited pro forma financial information from Ernst & Young, the text of which is set out in Appendix II;

(d) the legal opinions issued by Jingtian & Gongcheng, our legal advisers on the PRC law in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(e) the letter prepared by Maples and Calder, our legal advisers on Cayman Islands laws, summarizing certain aspects of the Cayman Islands company law referred to in Appendix III;

(f) the material contracts referred to in "Statutory and General Information — Further Information About Our Business — Summary of Material Contracts" in Appendix IV to this prospectus;

(g) the written consents referred to in "Statutory and General Information — Other Information — Consents of experts" in Appendix IV;

(h) the service contracts and letters of appointment referred to in "Statutory and General Information — Further Information About Our Directors and Substantial Shareholders — Directors' Service Contracts" in Appendix IV;

(i) the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme and the details on the grantees holding options under the Pre-IPO Share Option Scheme; and

(j) the Cayman Companies Law.

CHINA SHENGMU ORGANIC MILK LIMITED
中國聖牧有機奶業有限公司