You should carefully read and consider all of the risks and uncertainties described below before deciding to make any investment in our [REDACTED]. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The [REDACTED] of our [REDACTED] 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 [REDACTED].

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 [REDACTED] immediately upon completion of the [REDACTED], assuming that none of the [REDACTED] and options that have been granted under the Pre-[REDACTED] 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 [REDACTED] 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 [REDACTED] and assuming that none of the [REDACTED] and options that have been granted under the Pre-[REDACTED] 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 [REDACTED] as part of a sale of our Company and might reduce the price of our [REDACTED]. 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 [REDACTED] 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 [REDACTED] 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 [REDACTED], 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 [REDACTED] from the [REDACTED] 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 [REDACTED] from the [REDACTED], 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 [REDACTED] from the [REDACTED] 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.

[REDACTED]

[REDACTED]

[REDACTED]