
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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 (蘆順義), 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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] and [REDACTED] (but excluding any [REDACTED] which may be allotted and issued pursuant to the exercise of the [REDACTED] or any option which has been granted under the Pre-[REDACTED] 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 [REDACTED] 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 [REDACTED], 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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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 [REDACTED].

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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

“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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- *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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- 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 [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range stated in this [REDACTED]), we estimate that the net proceeds of [REDACTED] will be approximately HK\$[REDACTED]. 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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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 [REDACTED] 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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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 [REDACTED] remain [REDACTED] on the [REDACTED]; (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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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).

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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.