
CONTINUING CONNECTED TRANSACTIONS

OVERVIEW

We will continue to carry out certain transactions with certain connected persons (as defined under the Listing Rules) upon [REDACTED]. Such transactions will therefore constitute continuing connected transaction (as defined under the Listing Rules) of our Group under Chapter 14A of the Listing Rules.

CONNECTED PERSONS

Shengmu Forage and Alxa Forage

Certain of our Ultimate Controlling Shareholders, namely, Mr. YAO Tongshan (姚同山), Ms. GAO Lingfeng (高凌鳳), Mr. WU Jianye (武建鄴), Mr. WANG Fuzhu (王福柱), Ms. SHI Jianhong (史建宏), Ms. YANG Yaping (楊亞萍) and Mr. WANG Zhenxi (王振喜), together with Mr. WANG Jishan (王繼山) (father of Mr. WANG Zhen (王鎮)) and Ms. QIN Yuan (秦源) (wife of Mr. WU Jianye (武建鄴)) hold approximately 33.82% equity interest in Shengmu Forage. Mr. WU Jianye (武建鄴) and Ms. GAO Lingfeng (高凌鳳) are also directors of Shengmu Forage. As a result, Shengmu Forage is a connected person of our Company as defined under Rule 14A.11(4) of the Listing Rules.

Alxa Forage is the wholly-owned subsidiary of Shengmu Forage. As a result, Alxa Forage is a connected person of our Company as defined under Rule 14A.11(4) of the Listing Rules.

Shengmu Pangu

Shengmu Pangu is a 55% owned subsidiary of our Group. The remaining 45% equity interest in Shengmu Pangu is owned by Mr. WU Jianye (武建鄴), one of our Ultimate Controlling Shareholders and an executive Director. As a result, Shengmu Pangu is a connected person of our Company as defined under Rule 14A.11(5) of the Listing Rules.

Shengmu Xiwang

Shengmu Xiwang is a 65% owned subsidiary of our Group. Mr. WANG Zhen (王鎮), one of our Ultimate Controlling Shareholders, holds 17.5% equity interest in Shengmu Xiwang. As a result, Shengmu Xiwang is a connected person of our Company as defined under Rule 14A.11(5) of the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTION

Biowaste Cleaning Services

Pursuant to the Long-term Strategic Cooperation Agreement with Shengmu Forage, Shengmu Forage will provide biowaste (i.e., cow dung) cleaning services to our organic dairy farms for free. Such services include collecting and cleaning unprocessed biowaste from our farms. In return, we supply such unprocessed biowaste from our organic dairy farms to Shengmu Forage for free. Due to the proximity of our organic dairy farms to Shengmu Forage, we only supply biowaste generated from our organic dairy farms (but not our non-organic dairy farms) to Shengmu Forage.

CONTINUING CONNECTED TRANSACTIONS

According to general industry knowledge from Frost & Sullivan, there is no readily available market for the biowaste produced by dairy cows to form a market price, and the biowaste has extremely low value without further processing. Accordingly, it is in line with the prevailing market practice for dairy farms to allow other parties to clean and remove biowaste from the farms for free. The costs of removing and transporting biowaste range from RMB10 to RMB60 per tonne. Dairy farms would normally charge a fee within the range of between RMB10.5 and RMB63 per tonne. If third parties require removal and transportation services of biowaste from dairy farms, we charge a service fee of approximately RMB10 per cubic metre on the biowaste generated from our non-organic dairy farms which are supplied to farmers who require our collecting and initial processing services. Upon conversion, the service fee we charge on the biowaste generated on our non-organic dairy farms would be approximately RMB25 per tonne, which is within the market price range.

Based on our historical herd size, we estimate that the aggregate amount of biowaste generated from our organic herds was approximately 131,000, 207,000 and 447,000 tonnes for the years ended December 31, 2011, 2012 and 2013, respectively. Based on the general industry knowledge from Frost & Sullivan as described above, for the years ended December 31, 2011, 2012 and 2013, respectively, (i) we would have incurred removal and transportation costs of around RMB1.3 million to RMB7.9 million, RMB2.1 million to RMB12.4 million, and RMB4.5 million to RMB26.8 million; and (ii) if we had charged service fees on all such organic biowaste at the same rate as we charged on the non-organic biowaste, we might have been able to generate processing fees of around RMB3.3 million, RMB5.2 million and RMB11.2 million, respectively.⁽¹⁾

We expect to grow our organic herd by a rate between 42% and 62% each year for the years ending December 31, 2014, 2015 and 2016. Assuming (a) growth rate for our organic herds of approximately 52% (being the mid-point of our expected growth rates) each year, (b) no change in the average biowaste generated by our organic dairy cows, (c) no change in the relevant estimated market costs and profit ranges based on the general industry knowledge from Frost & Sullivan as described above, for the years ending December 31, 2014, 2015 and 2016, respectively, we might be able to generate from our organic biowaste (i) service fees of around RMB7.1 million to RMB42.8million, RMB10.8million to RMB65.1million, and RMB16.5 million to RMB99.2 million, respectively, and (ii) profit of around RMB0.3 million to RMB2.0 million, RMB0.5 million to RMB3.1 million, and RMB0.8 million to RMB4.7 million, respectively.

However, the above discussion is purely hypothetical and for illustrative purpose only. We plan to supply all unprocessed biowaste generated from our organic dairy farms to Shengmu Forage for free only as we prefer and consider it more appropriate to concentrate our resources and management attention on the dairy farming business.

(1) Similarly, we estimate that the aggregate amount of biowaste generated from our non-organic herds was approximately 374,000, 515,000 and 436,000 tonnes for the years ended December 31, 2011, 2012 and 2013, respectively. We would have (i) incurred removal and transportation costs of approximately RMB3.7 million to RMB22.4 million, RMB5.2 million to RMB31.0 million and RMB4.4 million to RMB26.2 million for the years ended December 31, 2011, 2012 and 2013, respectively, and (ii) might have been able to generate processing fees of approximately RMB9.4 million, RMB12.9 million and RMB11.0 million, respectively, if we had charged service fees on all such non-organic biowaste.

CONTINUING CONNECTED TRANSACTIONS

Based on the applicable ratios, the transactions under the Long-term Strategic Cooperation Agreement with Shengmu Forage constitute a continuing connected transaction which is exempt from announcement, reporting, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions with Shengmu Forage

Purchase of Forage

Background and Historical Transaction Amount

Shengmu Forage and Alxa Forage grow organic forage (comprising primarily alfalfa, corn silage, corn kernel and oil sunflower) in the Ulan Buh desert where is in the proximity of our organic dairy farms. They have historically sold substantially all their organic forages to our Group. During the Track Record Period, our purchase of forage from Shengmu Forage and Alxa Forage amounted to approximately RMB0.7 million, RMB27.3 million and RMB111.8 million. In March 2014, we entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage for a term of 20 years, under which Shengmu Forage undertakes to continue its exclusive supply arrangement for organic forages with us and support our future expansion plans. For further details of such agreement, see “Business — Suppliers and Procurement — Organic Feed — Shengmu Forage.”

Forage Supply Framework Agreement

On June 25, 2014, Shengmu Forage and Shengmu Holding entered into framework agreement in relation to the purchase of forage by our Group from Shengmu Forage and its subsidiaries (including Alxa Forage) (“**Forage Supply Framework Agreement**”). Major terms of such agreement are summarized below:

Agreement period:	From January 1, 2014 to December 31, 2016.
Exclusive supply:	Shengmu Forage and its subsidiaries (including Alxa Forage) shall sell all the forage produced by it to us on an exclusive basis.

CONTINUING CONNECTED TRANSACTIONS

Purchase price and other terms: The pricing of forage to be purchased by us from Shengmu Forage and its subsidiaries under the Forage Supply Framework Agreement shall be determined with reference to (a) the prevailing market prices for organic forage if there is a readily available market price, or (b) the prevailing market prices of imported premium non-organic forage (excluding transportation cost) or domestic premium non-organic forage plus a mark up rate (“**Mark-up**”) which will be not more than the lower of (i) the percentage difference in the average selling prices between our organic raw milk and premium non-organic raw milk, and (ii) the percentage difference in the average selling prices between organic raw milk and premium non-organic raw milk in the comparable segments of PRC market (if available), in the 12 months before the determination of the prices for the relevant forage crops. To identify the relevant market prices, we will solicit quotes from at least two third party suppliers and ensure that our purchase price of forage from Shengmu Forage shall be no less favorable than the prices offered by third party suppliers.

Shengmu Holding shall provide Shengmu Forage in advance with the overall amount of forage requested for next year, in order for Shengmu Forage to prepare its planting plan.

Shengmu Forage shall deliver forage in batches as ordered by Shengmu Holding. Quality of forage supplied by Shengmu Forage shall comply with the specifications set by Shengmu Holding. Shengmu Forage shall be responsible for delivering forage to the farms of Shengmu Holding.

Payment and settlement: We shall inform Shengmu Forage in advance our estimated total purchase amount for the next year (the “**Delivery Year**”) in the last quarter of the current year (the “**Current Year**”). We shall also make advance payments for (a) not more than 15% of our estimated total purchase amount for the Delivery Year in the last quarter of the Current Year; and (b) in addition to the advance payments referred to in (a), not more than an additional 20% of our estimated total purchase amount during the forage crops’ growing period in the Delivery Year. Settlement of or payment for forage delivered shall be made within 90 days upon each delivery.

Amendment and termination: Any amendment to or the termination of the agreement shall be made in writing by the parties.

CONTINUING CONNECTED TRANSACTIONS

Regarding the pricing terms under the Forage Supply Framework Agreement, there is no prevailing market price currently available for organic forage in China because the supply of certified organic feed in China is dominated by a few players with the top three players commanding a total market share of approximately 85.9% in 2013 in terms of certified annual output volume of organic feeds in China, of which Shengmu Forage accounted for a 60.5% market share as the market leader. Although there is another organic feed supplier in Ulan Buh desert area, according to the F&S Report, it is a standard industry practice for organic alfalfa producer to supply for their internal use or for their affiliated dairy farms.

In respect of the Mark-up referred to in the pricing terms, the Directors expect it to be not more than 15% for 2014 (subject to the type and quality of the forage) by reference to the difference in the average selling prices between our organic raw milk and premium non-organic raw milk for 2013; whilst there is no available reference to the comparable segments of the PRC market as of the Latest Practicable Date because we are the largest organic milk company in China with a 54.2% market share based on 2013 organic raw milk production volume, according to the F&S Report.

Such pricing terms are arrived at after our negotiations with Shengmu Forage on an arm's length basis. The purchase price of Shengmu Forage's forage crops will be determined with reference to the then prevailing market price, taking into account the price premium for organic feed and/or organic raw milk over its premium non-organic counterpart. In addition, measures are in place under the Forage Supply Framework Agreement to solicit third-party quotations to identify relevant market prices and to ensure purchase prices from Shengmu Forage shall be no less favorable than those offered by third-party suppliers. On such basis, our Directors are of the view that the pricing under the Forage Supply Framework Agreement is on normal commercial terms and is in the interest of our Company and Shareholders as a whole, and the Joint Sponsors concur with the view of our Directors.

Reasons for and Benefits of the Transactions under the Forage Supply Framework Agreement

Shengmu Forage and Alxa Forage grow organic forage without using any synthetic pesticides or synthetic fertilizers. All of the growing fields developed by Shengmu Forage and Alxa Forage meet the E.U. standards by ECOCERT S.A. and are certified organic under the PRC standards by the COFCC. We believe these crops provide organic, nutritious feed for our dairy cows, allowing them to produce organic, nutritious milk. In addition, farms of Shengmu Forage and Alxa Forage in the Ulan Buh desert are in the proximity of our organic dairy farms. As such, it is commercially beneficial to our Group to continue to purchase forage from Shengmu Forage and Alxa Forage in view of their stable and reliable supply of good quality forage and the proximity of its forage farms to our dairy farms.

CONTINUING CONNECTED TRANSACTIONS

Estimated Annual Caps

Our Directors estimate that the total annual purchase amount by our Group from Shengmu Forage and Alxa Forage under the Forage Supply Framework Agreement will not exceed RMB392 million, RMB630 million and RMB911 million for each of the years ending December 31, 2014, 2015 and 2016. In determining such annual caps, our Directors have considered the following factors:

- (a) the anticipated significant increase in demand for organic forage by our Group for the three years ending December 31, 2016, having taken into account our dairy farming expansion plan. We plan to significantly expand our organic dairy farming operation from 2014 to 2016. We plan to construct an additional 18 organic dairy farms from 2014 to 2016 at the pace of six farms per year. The majority of such farms are expected to have a capacity to house between 2,500 to 4,500 dairy cows. We also plan to enhance the capacity and utilization of our existing dairy farms. As of December 31, 2013, we owned and operated 13 organic dairy farms with approximately 30,621 dairy cows and the capacity of housing a maximum number of 45,100 dairy cows. As a result, we plan to grow our organic herd from 30,621 dairy cows in 2013 to not less than 55,000 dairy cows in 2014, not less than 83,000 dairy cows in 2015 and not less than 120,000 dairy cows in 2016 through external purchase (domestically and from overseas) and organic growth;
- (b) the continuous improvement of our feed formulae for the nutrition requirement of our dairy cows which will result in an increase of our average feed costs. Our Directors do not expect that the increase in average feed costs would materially deteriorate our profit margin since the improved feed formulae are expected to lead to higher milk yield and enhanced nutrition contents of our raw milk and hence a higher selling price;
- (c) the historical market price (where available) and prevailing market price for the forage supplied by Shengmu Forage to us;
- (d) the historical transaction volume of forage purchased by our Group from Shengmu Forage during the Track Record Period. Our purchase of forage from Shengmu Forage and Alxa Forage increased from RMB0.7 million in 2011 to RMB27.3 million in 2012 and RMB111.8 million in 2013, primarily as a result of the rapid and significant expansion of our herd of organic dairy cows during the same period. Our organic herd size increased from 8,982 cows in 2011 to 14,111 cows in 2012 and 30,621 cows in 2013;
- (e) the expected expansion of Shengmu Forage’s operations as a result of increase in the area of its growing fields;
- (f) the expectation for Shengmu Forage to operate its organic growing fields primarily on its own without leasing material portion thereof to local farmers;
- (g) the purchase of additional type of organic forage, oil sunflower, since 2014;
- (h) the anticipated increase in the market prices for organic forage and imported or domestic non-organic premium forage; and

CONTINUING CONNECTED TRANSACTIONS

- (i) the possible future inflation in the PRC dairy industry.

Continuing Connected Transactions with Shengmu Pangu and Shengmu Xiwang

Purchase of Organic Raw Milk

Background and Historical Transaction Amount

Shengmu Pangu was established in June 2012 to be engaged in dairy farming. It commenced production of raw milk in July 2013 and its production was not fully ramped up until November 2013. It sells its organic raw milk to Shengmu Dairy, another subsidiary of our Group which is the processing center of our Group, on a priority basis under our centralized raw milk sale system. Sales of organic raw milk by Shengmu Pangu to Shengmu Dairy amounted to approximately RMB26.7 million in 2013.

Shengmu Xiwang was established in August 2013 to be engaged in dairy farming. It is expected to commence production of organic raw milk in September 2014. Same as Shengmu Pangu, it will sell its organic raw milk to us on a priority basis under our centralized raw milk sale system.

Milk Supply Framework Agreement

On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the purchase of organic raw milk by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang (“**Milk Supply Framework Agreement**”). Major terms of such agreement are summarized below:

Agreement period:	From January 1, 2014 to December 31, 2016.
Centralized sales management:	Organic raw milk of Shengmu Pangu and Shengmu Xiwang are subject to our centralized sales management. Both of them shall sell their organic raw milk to us on a priority basis to meet our requirement. Excessive organic raw milk can be sold to third parties as permitted and managed by Shengmu Holding.
Purchase price and other terms:	The price of organic raw milk to be purchased by us from Shengmu Pangu and Shengmu Xiwang under the Milk Supply Framework Agreement shall be determined pursuant to our pricing system and standards for intra-group purchase of organic raw milk by us from our other subsidiaries at the relevant time.
	Quality of milk supplied by Shengmu Pangu and Shengmu Xiwang shall comply with the specifications set by Shengmu Holding.

CONTINUING CONNECTED TRANSACTIONS

Shengmu Pangu and Shengmu Xiwang shall be responsible for delivering milk to the places designated by Shengmu Holding and/or its other subsidiaries.

Payment terms: Payment for milk purchased in the current month shall be settled by the end of the following month.

Amendment and termination: Any amendment to or the termination of the agreement shall be made in writing by the parties.

Reasons for and Benefits of the Transactions under the Milk Supply Framework Agreement

We manage our sales of raw milk under a centralized system and Shengmu Dairy serves as the processing center of raw milk for all our subsidiaries. As subsidiaries of our Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized sales system.

Estimated Annual Caps

Our Directors estimate that the total annual purchase amount by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang under the Milk Supply Framework Agreement will not exceed RMB160 million, RMB250 million and RMB400 million for each of the years ending December 31, 2014, 2015 and 2016. In determining such annual caps, our Directors have considered the following factors:

- (a) the historical and prevailing market price for organic raw milk;
- (b) the historical transaction volume of organic raw milk purchased by our Group (excluding Shengmu Pangu) from Shengmu Pangu during the Track Record Period;
- (c) the historical average annual milk yield of our Group;
- (d) the anticipated significant growth in the production of organic raw milk of Shengmu Pangu and Shengmu Xiwang for the three years ending December 31, 2016, having taken into account our dairy farming and expansion plans of Shengmu Pangu and Shengmu Xiwang. As of December 31, 2013, Shengmu Pangu had approximately 3,000 organic milkable cows while Shengmu Xiwang has not completed the construction of its farm. We plan to expand the herd size of Shengmu Pangu and Shengmu Xiwang to no less than 8,000 organic milkable cows in 2016; and
- (e) the possible future inflation in the PRC dairy industry.

CONTINUING CONNECTED TRANSACTIONS

Sale and Purchase of Cows

Background and Historical Transaction Amount

Shengmu Farming and IMU-Shengmu Dairy, both being our subsidiaries, commenced dairy farming earlier than Shengmu Pangu and Shengmu Xiwang. In 2013, Shengmu Farming and IMU-Shengmu Dairy sold cows bred and raised on their farms to Shengmu Pangu to set up its herd and support its dairy farming business. The amount of cows sold by Shengmu Farming and IMU-Shengmu Dairy to Shengmu Pangu in 2013 was approximately RMB41.1 million.

We manage our dairy farming on a centralized basis. Majority of our calves and heifers are raised by Shengmu Farming separately from milkable cows on other farms. Shengmu Farming further sells pregnant heifers to our other farms to replenish their herds.

As part of such centralized farming management, Shengmu Pangu sold majority of its calves and heifers bred on its farms to Shengmu Farming. The amount of cows sold by Shengmu Pangu to Shengmu Farming in 2013 was approximately RMB6.0 million.

Such arrangement with Shengmu Pangu will continue and will be also extended to Shengmu Xiwang from 2014.

Framework Agreement for Sale and Purchase of Cows

On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the sale and purchase of cows between our Group (excluding Shengmu Pangu and Shengmu Xiwang) and Shengmu Pangu and Shengmu Xiwang (“**Framework Agreement for Sale and Purchase of Cows**”). Major terms of such agreement are summarized below:

Agreement Period	From January 1, 2014 to December 31, 2016.
Centralized farming management:	Majority of the calves and heifers shall be raised on a centralized basis and separately from milkable cows.
Sale and purchase price:	The sale and purchase price shall be the same as the cost of the cows set out in the accounts of the selling party.
Amendment and termination:	Any amendment to or the termination of the agreement shall be made in writing by the parties.

Reasons for and Benefits of the Transactions under the Framework Agreement for Sale and Purchase of Cows

We manage our dairy farming on a centralized basis. As subsidiaries of our Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized management.

CONTINUING CONNECTED TRANSACTIONS

Estimated Annual Caps

Our Directors estimate that under the Framework Agreement for Sale and Purchase of Cows, (i) the total annual purchase amount by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang under the Framework Agreement for Sale and Purchase of Cows will not exceed RMB33 million, RMB62 million and RMB61 million, and (ii) the total sales amount by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang will not exceed RMB65 million, RMB55 million and RMB75 million, for each of the years ending December 31, 2014, 2015 and 2016. In determining such annual caps, our Directors have considered the following factors:

- (a) the historical market price of cows;
- (b) the historical transaction amounts of cows sold and purchased between our Group (excluding Shengmu Pangu) and Shengmu Pangu during the Track Record Period;
- (c) our dairy farming expansion plan for Shengmu Pangu and Shengmu Xiwang for the three years ending December 31, 2016. As of December 31, 2013, Shengmu Pangu had 4,363 dairy cows while Shengmu Xiwang has not completed the construction of its farm. We plan to expand the herd size of Shengmu Pangu and Shengmu Xiwang to a total of no less than 11,500 cows in 2016. Shengmu Pangu and Shengmu Xiwang will expand, replenish and replace their herds mainly by purchasing pregnant heifers from us. On the other hand, as a result of our centralized farming, calves and heifers bred on the farms of Shengmu Pangu and Shengmu Xiwang will be sold to and raised by Shengmu Farming separately; and
- (d) the possible future inflation in the PRC dairy industry.

Financial Assistance

Background and Historical Transaction Amount

Both Shengmu Pangu and Shengmu Xiwang are newly established companies and their farms are at their early stage. As a result, it would be difficult to obtain commercial loans and borrowings without guarantees provided by our other established subsidiaries, such as Shengmu Holding and Shengmu Farming. In 2013, Shengmu Holding provided guarantees for a total of RMB18 million loans of Shengmu Pangu, which has been released as at the Latest Practicable Date.

Financial Assistance Framework Agreement

On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement for a term from January 1, 2014 to December 31, 2016 in relation to the provision of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang (“**Financial Assistance Framework Agreement**”). Pursuant to such agreement, our Group will provide financial assistances (in the form of guarantees) to Shengmu Pangu and Shengmu Xiwang on normal commercial terms.

CONTINUING CONNECTED TRANSACTIONS

Reasons for and Benefits of the Transactions under the Financial Assistance Framework Agreement

It would be difficult for our newly established subsidiaries, including Shengmu Pangu and Shengmu Xiwang, to obtain commercial loans and borrowings without guarantees of our other established subsidiaries. Even if they could obtain such loans and borrowings on their own, they would incur higher financial cost on commercial loans and borrowings without guarantees by our other established subsidiaries. As such, it is commercially beneficial to our Group to continue to provide financial assistances to Shengmu Pangu and Shengmu Xiwang, which will also lower our overall financial cost.

Estimated Annual Caps

Our Directors estimate that the maximum daily balance of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang shall not exceed RMB60 million, RMB100 million and RMB120 million for each of the years ending December 31, 2014, 2015 and 2016. Such caps are determined mainly based on the expansion plans and corresponding financing requirements of Shengmu Pangu and Shengmu Xiwang. As mentioned above, we plan to expand herd size of Shengmu Pangu and Shengmu Xiwang from 4,363 cows in 2013 to a total of no less than 11,500 dairy cows in 2016. To achieve such plan, Shengmu Pangu and Shengmu Xiwang will require substantial funds to purchase forage and dairy cows, which will be financed out of their internal resources and bank borrowings. The amount of financial assistance (in the form of guarantee) required of us will increase accordingly.

DIRECTORS' VIEW

Our Directors (including our independent non-executive Directors) are of the view that (a) it is in the interests of our Group to continue the transactions under the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and Financial Assistance Framework Agreement; (b) such transactions are entered into in the ordinary and usual course of business of our Group; (c) the terms of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement are on normal commercial terms which are fair, reasonable and in the interests of our Shareholders as a whole; and (d) the annual caps for the transactions under each of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement are fair and reasonable and in the interests of our Shareholders as a whole.

JOINT SPONSORS' VIEW

The Joint Sponsors are of the view that (a) the continuing connected transactions under each of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement are entered into in the ordinary and usual course of business of our Group and on normal commercial terms, and are fair and reasonable and in the interests of our Shareholders as a whole; and (b) the annual caps for such transactions are fair and reasonable and in the interests of our Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

APPLICATION FOR WAIVER

Based on the applicable ratios, the transactions under each of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement constitute continuing connected transactions which are subject to announcement, reporting, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. As these transactions will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement and independent shareholders’ approval requirements in relation to the transactions within the annual caps set out above would be burdensome and impractical. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with the announcement and independent shareholders’ approval requirements under the Listing Rules in respect of the transactions under each of the Forage Supply Framework Agreement, the Milk Supply Framework Agreement, the Framework Agreement for Sale and Purchase of Cows and the Financial Assistance Framework Agreement for the three years ending December 31, 2016.

THE REVISED LISTING RULES GOVERNING THE CONTINUING CONNECTED TRANSACTIONS

The new Listing Rules governing the continuing connected transactions of the Company will be effective on July 1, 2014. We will, after the [REDACTED], comply with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions set out in this section of the [REDACTED], including but not limited to the reporting and annual review requirements.