

*This section discusses information regarding our operations and product. We commissioned Euromonitor International, an experienced consultant in the dairy sector, to prepare an industry report from which information and statistics have been included in this Prospectus. Unless otherwise indicated, information and statistics relating to the global and the PRC dairy sector in this and other sections of this Prospectus have been derived from the report prepared by Euromonitor International.*

## **OVERVIEW**

We are a leading dairy farming company in China in terms of herd size as well as in terms of production volume in 2012, and are dedicated to the production of super premium raw milk. Located in Heilongjiang and Jilin, China, our four dairy farms collectively raised 37,000 dairy cows and produced approximately 460 tonnes of raw milk per day as of 31 December 2012. The average annual milk yield per cow of all our farms was 8.9 tonnes in 2012, which is approximately 62% higher than the industry average. By leveraging our management expertise, we have been able to standardize our operating process, including breeding, feed management and designing comfortable living environments for our dairy cows. This has enabled us to consistently produce raw milk of a quality that surpasses the EU raw milk quality standard, which is among the highest industrial standards for raw milk and other dairy products in the world, and to sell our raw milk at premium prices. In 2012, the average selling price of our raw milk reached approximately RMB4,100 per tonne, approximately 25% higher than the average selling price of raw milk from major production regions in China. As of 30 June 2013, we had a total of 38,788 dairy cows. The average selling price of our raw milk reached approximately RMB4,527 per tonne for the six months ended 30 June 2013, an increase of 10.9% from the six months ended 30 June 2012.

As of 30 June 2013, all of the dairy farms that we owned and operated were located within the Songnen Plain, which is comprised of parts of Heilongjiang and Jilin, the two most northeastern provinces in China. The Songnen Plain is considered a primary agricultural region in China. The Songnen Plain is composed of abundant pastures and arable land, and has a significantly higher average farmland per person than the national average, which ensures stable feed supplies for our current operations and future expansion plans. In particular, the Songnen Plain is located in a temperate zone similar to the world's foremost dairy regions, such as Brittany, France and Hokkaido, Japan. Like these major dairy regions, the Songnen Plain has the dry weather and cool temperatures to make it suitable for raising high-quality dairy cows and producing premium raw milk.

Our dairy farms, each having an actual designed capacity ranging from 6,000 to 18,000 dairy cows, are among the largest dairy farms in China, and are designed and constructed to have modern layouts and automated equipment to ensure high milk yields and cost efficiency. We have implemented rationalized farm designs and layouts, standardized operating procedures, centralized management functions and automated information systems at all of our farms, enabling us to enjoy efficient management and low operating costs.

According to *Euromonitor International* and based on its trade interviews with industry experts and dairy farming companies, the raw milk we produce falls into the classification of super premium raw milk. The average microbe count and SCC of our raw milk are as low as 4K/ml and 162K/ml, respectively, while the average percentages of protein and fat of our raw milk are as high as 3.4% and 4.2%, respectively. As measured by such parameters, our raw milk is considered the safest and most

nutritious in China and therefore is in high demand among leading domestic dairy products manufacturers. During the Track Record Period, our top five customers were Yili Group, Mengniu Group, Feihe Dairy Group, Bright Dairy Group and Aibeite, a majority of which are leading dairy products manufacturers in China. Among these leading manufacturers, Mengniu Group and Feihe Dairy Group, two of China's top dairy brands, sourced our super premium raw milk primarily for the production of their high-end dairy products. For the year ended 31 December 2012 and the six months ended 30 June 2013, we generated RMB689.1 million and RMB385.1 million from sales of 168,070 tonnes and 85,079 tonnes of raw milk, respectively.

We enjoy wide recognition for our large operating scale and the premium quality of raw milk. Leveraging our leading position in the premium raw milk supply chain and the quality of our raw milk, we plan to partner with world-renowned dairy products manufacturers and dairy farm operators to expand our business, continue to build our brand and improve breeding technologies in China. For example, in June 2013, we entered into a non-legally binding memorandum of understanding with Select Services, a U.S. dairy products supplier and dairy farm operator, contemplating a joint collaboration arrangement with respect to certain aspects of our operations, including importing quality embryos into China, advancing heifer breeding techniques and know-how, licensing and adopting innovative milk processing and dispensing technologies, and designing and building dairy facilities, to improve our overall operating efficiency and profitability. We expect that this arrangement will bring us new business opportunities and future profit growth, while also enhancing our corporate image.

We experienced significant revenue growth during the Track Record Period. Our total sales volume increased from 95 tonnes in 2010 to 35,722 tonnes in 2011, and to 168,070 tonnes in 2012. Our total sales volume increased from 80,209 tonnes for the six months ended 30 June 2012 to 85,079 tonnes for the six months ended 30 June 2013. Our total revenue increased from RMB0.3 million in 2010 to RMB148.8 million in 2011, and to RMB689.1 million in 2012. Our total revenue increased from RMB327.4 million for the six months ended 30 June 2012 to RMB385.1 million for the six months ended 30 June 2013. Our gross profit increased from RMB113,000 in 2010 to RMB51.4 million in 2011, and to RMB260.5 million in 2012. Our gross profit increased from RMB127.3 million for the six months ended 30 June 2012 to RMB150.5 million for the six months ended 30 June 2013.

### OUR COMPETITIVE STRENGTHS

We believe that our corporate culture is the core of our competitive strengths and our success. Since our inception, our philosophy has been to value cattle welfare as our first priority. We strive to maintain a harmonious environment among our human workforce and cattle stock, and are committed to promoting the health and welfare of our cattle (“人牛和諧”). We believe that the following strengths contribute to our leading position in China's dairy farming industry:

#### ***We produce raw milk of the highest quality in China.***

According to *Euromonitor International*, our raw milk is of the highest quality in China's dairy market in terms of the safety standard and nutritional standard. Our advanced breeding, feeding and feed management, and herd management techniques, coupled with the location of our dairy farms and management philosophy, enable us to consistently produce raw milk that our customers and consumers can rely on. Our raw milk is utilized by a number of customers for the production of their high-end dairy products due to its super premium quality. We believe that our raw milk is well qualified for the

## BUSINESS

production of pasteurized milk, which requires the use of very safe and high-quality raw milk as its raw material because the pasteurization process does not involve sterilization. As a result, we are able to charge higher prices for our raw milk than most other dairy farming companies in China.

The quality of raw milk is assessed using four indicators that are commonly recognized in the industry, namely, microbe count and SCC to determine product safety, and fat content and protein content to determine nutritional value. According to *Euromonitor International*, the quality of our raw milk based on key milk quality indicators far exceeds the EU Standard and the China Standard. The table below sets forth the average key milk quality indicators of our raw milk compared to the average indicators of raw milk produced by the top ten dairy farming companies in China, as well as the key indicators under the China Standard and the EU Standard:

	Our Group <sup>(1)</sup>	Average among top ten dairy farming companies in China <sup>(2)</sup>	China Standard <sup>(3)(4)</sup>	EU Standard <sup>(4)(5)</sup>
<b>Safety Standard</b>				
Microbe count <sup>(6)</sup> . . . . .	4K/ml	143K/ml	≤2,000K/ml	≤100K/ml
SCC <sup>(6)</sup> . . . . .	162K/ml	370K/ml	N/A	≤400K/ml
<b>Nutritional Standard</b>				
Protein <sup>(7)</sup> . . . . .	3.4%	3.2%	≥2.8%	N/A
Fat <sup>(7)</sup> . . . . .	4.2%	3.8%	≥3.1%	N/A

*Notes:*

- (1) Indicators according to our inspection report before delivery of raw milk in 2012.
- (2) Calculated by averaging each of the four quality indicators of raw milk produced by the top ten dairy farming companies in China, including us, in terms of raw milk production volume in 2012 according to *Euromonitor International*. See “Industry Overview — Dairy Farming Industry in China — Competitive Landscape of the Dairy Farming Industry in China.”
- (3) As set forth in the National Food Safety Standard — Raw Milk published on 26 March 2010.
- (4) Indicators for freshly milked raw milk and before treatment.
- (5) As set forth in the Raw Milk Quality Standards in Council Directive 92/46/EEC of 16 June 1992 adopted in the EU.
- (6) Microbe count and SCC are two of the major indicators used to determine safety quality of raw milk. Generally a lower SCC indicates better animal health, while a lower microbe count indicates improved sanitation. The China Standard does not impose a maximum SCC requirement.
- (7) Fat content and protein content are two major indicators used to determine the nutritional value of raw milk. Generally a higher fat and protein content indicates higher quality. The EU Standard does not impose a minimum fat or protein requirement.

*Sources: Ministry of Health of the PRC, EUR-Lex, a database of EU Law and Euromonitor International*

The premium quality of our raw milk is partly attributable to the genetics and quality of our cows as well as the favorable climate where our farms are located. Our high-quality and healthy Holstein cows imported from Uruguay, New Zealand and Australia, in addition to our high-quality self-bred heifers, 100% of which are offspring of American and Canadian bulls and our imported cows, ensure the consistency of our raw milk quality. The cool, dry weather and clean air and water in the Songnen Plain,

where the farms are located, is conducive to raising healthy dairy cows and sourcing quality feed supplies. Our feed management system ensures stable and quality supplies of formulated feed to enhance the quality and yield of our raw milk. Our professional nutritionists formulate feed mixtures by selecting the appropriate types and amounts of imported and local feed ingredients in accordance with the nutritional requirements of cows at different stages of growth. We also maintain and continuously upgrade our comprehensive quality control system which we implement throughout the value chain from procurement to sales. By integrating our advanced production systems, such as the parallel milking system, with our comprehensive quality control and feed management systems, we are able to produce super premium raw milk, which we believe has enabled us to earn the trust and confidence of our customers.

We are able to charge a premium for our raw milk due to its quality. In 2012, the average selling price of our raw milk reached approximately RMB4,100 per tonne, which was approximately 25% higher than the average selling price of raw milk from major production regions in China. A number of customers, who are reputable dairy products manufacturers in China, use our raw milk for the production of their high-end dairy products, such as *Milk Deluxe* (特侖蘇) by Mengniu Group and *AstroBaby* (星飛帆) by Feihe Dairy Group. We are confident that the super premium quality of our raw milk will enable us to maintain our leading position in China's dairy farming industry.

***Strategically located in Heilongjiang and Jilin, our farms benefit from favorable geographical conditions and supportive government policies.***

As of 30 June 2013, all of the dairy farms that we owned and operated were located within the Songnen Plain, which is comprised of parts of Heilongjiang and Jilin, the two most northeastern provinces in China. Heilongjiang is one of the largest farming bases in China. Approximately 84% of its 473,000 km<sup>2</sup> area consists of agricultural land and its average farmland per person is three times the national average. Jilin is also one of China's major agricultural and dairy farming provinces and its average farmland per person is twice the national average. For the past decade, Jilin has consistently ranked as one of the top three provinces in terms of corn production in China. We chose to construct and operate our dairy farms in the Songnen Plain because it is generally considered a primary agricultural region in China and comprises abundant arable land, which ensures stable and quality feed supplies for our current operations and future expansion plans. As the quality and yield of milk produced by a dairy cow are largely determined by the nutritional composition of its diet, stable supplies of quality feed are critical to our operations. For example, at our three farms located in Heilongjiang, which has the most cultivated land in China, we are able to provide each cow with approximately three mu of corn silage reserve. We source feed products mostly from carefully selected feed suppliers located within proximity to our farms, allowing us to secure stable supplies of quality feed all year round. We also procure our forage supplies from local suppliers who grow the crop according to our specifications to ensure consistent feed quality and quantity. Abundant land resources in the Songnen Plain enable us to provide our cows with a comfortable living environment and facilitate our plans to build new farms. The availability of abundant land near our farms also facilitates our waste management and lowers the costs of waste disposal.

The Songnen Plain is located in the temperate zone similar to the world's foremost dairy regions, such as Brittany, France and Hokkaido, Japan. Like these major dairy regions, the Songnen Plain has the dry weather and cool temperatures to make it suitable for raising dairy cows and producing premium

raw milk. The relatively cold temperatures also inhibit the growth of micro-organisms, which helps us to control the quality of feed products and raw milk, facilitate disease control and prevention, and process cow waste in an environmentally friendly manner.

Due in part to the strategic locations of our farms, we enjoy strong support from the central and provincial governments of Heilongjiang and Jilin in the form of beneficial tax treatment, which is granted to us as part of a policy to improve milk safety and quality standards through the development of large-scale dairy farming businesses. In addition, we were involved in the *Heilongjiang Thousands of Millions Milk Strategic Plan (2008–2012)* (黑龍江省千萬噸奶戰略工程規劃 (2008–2012)), an initiative to help the Heilongjiang government meet targeted numbers of dairy cows and raw milk production volumes during that period. In turn, our business operations have benefited from the Heilongjiang government's support in the form of land grants for our farms, loans with interest rebates and extended government subsidies. We believe that we will continue to enjoy significant benefits with respect to government grants, tax and financing.

***We are a leading dairy farming company in China in terms of herd size and, by leveraging our management expertise, we are able to operate mega-scale dairy farms with high milk yield and enjoy economies of scale.***

Development of large-scale dairy farms is critical to China's dairy farming industry and supported by the PRC Government because China's dairy farming industry is highly fragmented, comprising numerous small-scale dairy farms, which occasionally result in food safety and quality concerns. Large-scale dairy farms, especially the mega-scale dairy farms, are able to adopt standardized operating procedures, centralized management functions, automated information systems and rationalized farm designs and layouts so as to raise the safety and quality of dairy products across China's dairy sector.

Establishing a mega-scale dairy farm requires substantial capital and technical investments, abundant land and other resources, certain weather and temperature conditions, management's experience, as well as government support. With such relatively high entry barriers, more than 99.9% of dairy farms in China are individual, small- and mid-scale farms raising fewer than 1,000 dairy cows, according to *Euromonitor International*. Located in Heilongjiang and Jilin, we enjoy abundant land, temperate weather and strong government support, and are able to construct and operate mega-scale dairy farms. As a leading dairy farming company in China in terms of herd size, we owned and operated four large-scale dairy farms, including two mega-scale farms, raising a total of 38,788 dairy cows as of 30 June 2013. Each of our farms is among the largest dairy farms in China, and is designed and constructed to have modern layouts as well as automated and standardized equipment to ensure high milk yields, consistent quality of raw milk, product safety and cost efficiency.

We conduct our business pursuant to standardized operating procedures which can be replicated on our future farms, including establishing free stall farms, transferring heifers from mature farms, feeding, breeding, calving, milking, delivery, culling and waste management. We have implemented strict quality and disease control systems and installed Dairy Star to better manage our herd and overall operations. In addition, our management team considers all of our dairy farms when making business judgments and our procurement department makes centralized purchases of feed, bull semen and medicines for all of our farms. The abundant resources in the regions where our farms are located and the management

expertise of our Directors and management enable us to operate large-scale dairy farms, especially mega-scale dairy farms, in a cost efficient manner. With our standardized operating procedures, we are also able to quickly train personnel required for our future expansion.

Due to the standardized operating procedures on our large-scale farms and management expertise utilized to operate such farms, our average annual milk yield per cow was 8.9 tonnes in 2012, while the industry average annual milk yield per cow in China was 5.5 tonnes in the same year. Milk yield is affected by a number of factors, including a cow's breed, genetics, living environment and feed. In order to increase our milk yield, we first procure the semen of selected Holstein bulls from international suppliers either directly or through third-party domestic trading companies. We believe this optimizes the genetic mix of our self-bred cows. With stable supplies of quality feed from overseas feed suppliers through either third-party domestic trading companies or agents, and local suppliers, we select and formulate the optimal type and combination of feed for our cows. As part of our commitment to responsible cattle health and welfare practices, we have equipped our dairy farms with free stall ventilated barns and designed our facilities to suit the local climate.

With the scale of our farms, our management philosophy and our ability to expand, we believe that we are well positioned to capitalize on the continued growth of China's high-end dairy market.

***We have established solid and stable customer relationships with certain top dairy companies in China.***

We have developed and maintained solid and stable relationships with our key customers. We have continued to supply raw milk to each of our customers from the time of each respective customer's initial purchase from us. We believe that our customers have selected us as their preferred supplier because we have consistently supplied them with raw milk of premium quality that they can trust. Most of our customers' processing facilities are located in close proximity to our dairy farms, which enables us to deliver our freshly produced raw milk in a timely, cost-efficient, and direct manner, thereby shortening delivery times and minimizing the risk of raw milk contamination during transportation. During the Track Record Period, Mengniu Group and Feihe Dairy Group, two of China's top dairy brands, sourced our super premium raw milk primarily for the production of their high-end dairy products. Our sales to Mengniu Group, Yili Group and Bright Dairy Group, the three largest dairy products manufacturers in China with an aggregate market share of 21.8% in 2012, increased from 23,001 tonnes in aggregate in 2011 to 122,435 tonnes in aggregate in 2012, accounting for 64.4% and 72.8%, respectively, of our total sales volume in 2011 and 2012. Our sales volume to these three customers increased from 55,177 tonnes for the six months ended 30 June 2012 to 56,250 tonnes for the six months ended 30 June 2013, accounting for 68.8% and 66.1% of our total sales volume, respectively.

In recent years, consumers in China have become increasingly aware of the health benefits of drinking milk. As a result, and combined with the effect of urbanization, rising income levels, dairy products, most notably liquid milk, have become a core part of the daily diets of many consumers. Several leading dairy products companies in China have focused on introducing high-end dairy products to take advantage of this trend. Moreover, in the wake of the melamine incident in 2008, these companies have focused on securing reliable and high-quality raw milk supplies for their high-end dairy products. Because the quality of our raw milk has continued to meet or surpass the strict requirements of leading dairy products manufacturers in China, certain leading dairy products manufacturers had been



---

## BUSINESS

---

sourcing our raw milk during the Track Record Period. Demand from these customers of super premium raw milk greatly exceeded our supplies. All of our customers have expressed their intention to continue procuring their raw milk supplies from us.

In addition, the government's efforts to raise the safety and quality of dairy products through the development of the high-end segment of dairy products industry have created significant growth opportunities for large-scale raw milk producers like us. We believe that we are able to leverage our established relationships with leading dairy brands to strengthen our competitiveness. Since we are one of very few producers of super premium raw milk operating large-scale dairy farms in China, we believe that we will continue to be the supplier of choice for these leading dairy brands.

***Our capable management team and experienced personnel have extensive industry experience that ensures the successful development of our business.***

We are led by a capable management team with extensive industry expertise. Our executive management team includes Mr. Wang Shaogang and Mr. Fu Wenguo, each of whom has over 15 years of experience in the dairy and dairy farming industry. Leveraging both their foresight and in-depth industry knowledge, our management team is able to formulate sound business strategies, assess and manage risks, anticipate changes in consumer preferences, and capture significant market opportunities. For example, although we commenced commercial sales of raw milk in 2010, we have grown rapidly to become one of very few large-scale producers of super premium raw milk in China. In addition, our Directors and senior management have played a key role in instilling and fostering a distinct corporate culture that promotes responsibility, achievement and innovation, which in turn ensures the delivery of consistent and quality raw milk.

Our Directors and senior management value cattle welfare as our first priority. We seek to maintain a harmonious environment among our human workforce and cattle stock, and are committed to promoting the health and welfare of our cattle to ensure high-quality raw milk. We also have highly experienced personnel who bring their knowledge and expertise to our farm operations. For example, our nutrition specialists are experienced in the field of animal nutrition, and our operating team comprises members who have considerable experience working on large-scale dairy farms. We believe that our Directors and senior management members possess the leadership, commitment and qualifications, and our professional team and experts have the experience and knowledge, to sustain our business and ensure our continued growth.

### OUR BUSINESS STRATEGIES

Our principal business objective is to maintain and further strengthen our position in China as a leading dairy farming company. Key strategies for reaching our goal are as follows:

***Expand our business scale through the replication of our business model in strategic locations***

As we expect demand for high-quality milk to continue to grow rapidly, we plan to build additional large-scale dairy farms in the Songnen Plain where our existing farms are located. We plan to continue developing and employing comprehensive, modern and scientific breeding and feeding techniques and know-how at our future farms. With our access to abundant land and other natural resources as well as government support, we plan to build five additional farms in the Songnen Plain within the next three years, including one farm for educational tours, one farm dedicated to raising

reserve cows and three farms for commercial production, and aim to attain a total herd size of approximately 100,000 dairy cows by 2017. We seek to replicate our business model of operating mega-scale dairy farms at our future farms, which we expect will each have a capacity ranging from 12,000 to 15,000 dairy cows, with the exception of our new farm for educational tours. We believe that, in addition to increasing our milk production and sales volumes, the expansion of our business scale will enable us to increase our operating efficiency, optimize our systematic farm management and control our operating costs to achieve further economies of scale.

We plan to continuously standardize our farm operations by implementing uniform farm designs and layouts, systematic operating procedures, centralized management functions and automated information systems throughout our existing farms as well as our future farms. With our expertise in operating large-scale free stall dairy farms in China and the application of modern and scientific practices as well as strict quality control standards, our replicable business model and management experience will enable us to operate our farms in a more efficient and reliable way. Partly due to the strategic locations of our farms, we have benefited from favorable government policies and enjoyed government support, particularly in Heilongjiang. We believe that supportive government policies, especially in obtaining land resources and supportive financing, will shorten the preparation period, expedite the approval process and ease our burden on the capital required for our business expansion.

***Enhance our brand recognition in China's dairy sector by developing downstream distribution channels and penetrating the high-end dairy products market***

While focusing on the expansion of our dairy farming operations, we plan to develop strategic relationships with internationally renowned brands and leaders in the dairy sector to expand downstream into China's high-end dairy products market. For example, we entered into a non-legally binding memorandum of understanding in June 2013 with Select Services, a U.S. dairy products supplier. Select Services was formed by Select Milk Producers, Inc., a leading U.S. dairy cooperative, to address the increasing global focus on food security by leveraging the proven dairy design, construction, operations, and management practices that the cooperative members of Select Milk Producers, Inc. have developed on their own dairy farms and processing plants. We plan to utilize patented milk processing and dispensing technologies to produce high-end milk concentrate products processed from our own raw milk and marketed under a brand co-established with Select Services. Our primary target customers for these milk concentrate products will be international food and beverage chains located in China. We believe that, by leveraging Select Services' experience in branding and developing dairy products and utilizing nationwide distribution channels, we will be able to gain market recognition for these high-end dairy products as well as enhance our reputation for producing super premium raw milk. In the longer term, we also plan to produce high-end dairy products under our own brand to cater to the growing consumer demand for safe and high-quality dairy products. We believe that consumer confidence in the quality of our raw milk will contribute significantly to the success of our downstream expansion which will in turn enable us to broaden our consumer base and promote the growth of our sales and business. As of the Latest Practicable Date, we did not have any concrete plans for the downstream expansion of our business.



***Enhance our feeding, breeding and production technologies to maximize our production efficiency***

We believe that, by integrating and implementing innovative technologies in our feeding and breeding programs, we will be able to fine tune our feed mixtures and enhance our herd quality to further increase average milk yields. To fine tune our feed mixture, we plan to work closely with other market leaders to optimize our feed formulas. For example, by leveraging our relationship with Select Services, we intend to adopt advanced feeding techniques that have been employed on farms operated by Select Services and its affiliated dairy farm operators. We will also strengthen our business relationships with suppliers to ensure our access to higher quality ingredients for our feed formulas. To enhance the quality of our herd, we will work with international suppliers to select the semen of Holstein bulls that have a proven track record of producing offspring with higher milk yields. We also seek to team with bull semen suppliers to integrate innovative biological technologies and advanced sex control techniques into our breeding programs, which we believe will improve the genes of future generations and further increase milk yields. Moreover, we plan to work with Select Services or its affiliates to facilitate our access to technical support in the breeding and supply of high-quality embryos. We believe that utilizing industry leading technologies will enable us to more cost-effectively realize higher milk yields of premium quality raw milk, thereby maximizing our overall production efficiency.

In addition, we plan to build a new testing center where we will be able to work closely with other market leaders and our suppliers to further strengthen our quality control and product safety programs. In order to facilitate these technological advancements, we intend to enhance our in-house research and testing capabilities, purchase advanced equipment, and hire additional research and testing personnel in the next three years.

***Diversify our revenue stream by expanding our business to encompass upstream operations***

We believe that we will be able to become an integrated operator in China's dairy farming industry by leveraging our strategic location, management expertise and experience in the dairy farming industry. We plan to enhance the health of our cattle and the quality of our raw milk by exercising increased control over our supplies. To that end, we intend to expand our business to encompass upstream operations, including the production and sale of feed and organic fertilizers by developing our own feed farms and through strategic cooperative arrangements with local farmers in neighboring regions. For example, we plan to cooperate with Dinghe Group to develop business of feed production. We believe such cooperation will reduce our relevant operation costs by utilizing Dinghe Group's experience in feed farming business. We believe that extending our business operations to include feed farming will help to ensure stable supplies of quality feed for our operations.

To promote our own self-sufficiency and the environmental sustainability of our operations, we also plan to recycle a portion of the processed waste from our operations through our recycling systems to produce fertilizers. We plan to enrich our own feed planting fields with these fertilizers and to sell any excess quantities to local farmers who supply us with feed. We believe that this waste treatment and recycling process will help us and local farmers to minimize the amount of commercial fertilizers purchased externally, reduce the impact of our operations on the environment and lower our operating costs.

As of the Latest Practicable Date, we did not have a definitive timetable set for commencing our upstream operations.

---

## BUSINESS

---

### OUR PRODUCT

We are dedicated to the production of premium quality raw milk from dairy cows at our dairy farms. We commenced commercial sales in October 2010. We sell raw milk to some leading dairy products manufacturers in China, a number of which process it for the downstream production of high-end dairy products. Our raw milk has average microbe count and SCC of as low as 4K/ml and 162K/ml, which is at a significantly higher safety level compared to the China Standard. Our raw milk also surpasses the EU Standard, which is among the highest industrial standards for raw milk and other dairy products in the world. Additionally, our raw milk is of high nutritional value, with average protein content and fat content as high as 3.4% and 4.2%, respectively.

As part of our quality control measures, we submit our raw milk to the livestock breeding guidance center in Heilongjiang, a center directly affiliated with the Livestock Husbandry and Veterinary Bureau of Heilongjiang, which is a government entity, to inspect the quality of our raw milk. The table below sets forth the key milk quality indicators of our raw milk at each dairy farm according to the inspection reports in April 2013:

	<u>Gannan Oumei Farm</u>	<u>Kedong Oumei Farm</u>	<u>Kedong YST Farm</u>	<u>Zhenlai Farm Phase I</u>
<b>Safety Standard</b>				
Microbe count. . . . .	2.3 K/ml	2.1 K/ml	2.6 K/ml	3.1 K/ml
SCC . . . . .	119 K/ml	126 K/ml	143 K/ml	164 K/ml
<b>Nutritional Standard</b>				
Protein. . . . .	3.8%	3.6%	3.5%	3.4%
Fat . . . . .	4.8%	4.5%	4.3%	4.3%

We had a high raw milk yield of approximately 460 tonnes per day as of 31 December 2012. Our sales volume of raw milk was 95 tonnes, 35,722 tonnes, 168,070 tonnes, 80,209 tonnes and 85,079 tonnes for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. We were able to sell our raw milk at an average selling price of approximately RMB4,100 per tonne in 2012, which was approximately 25% higher than the average selling price of raw milk from major production regions in China, due to its high quality. Our revenue from sales of raw milk was RMB0.3 million, RMB148.8 million, RMB689.1 million, RMB327.4 million and RMB385.1 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively.

### OUR BUSINESS OPERATION

#### *Overview*

We are a leading dairy farming company in China in terms of herd size as well as in terms of production volume in 2012, and are dedicated to the production of super premium raw milk. We sell super premium raw milk to our customers for downstream processing of dairy products. A number of customers purchase our super premium raw milk for the production of their high-end dairy products.

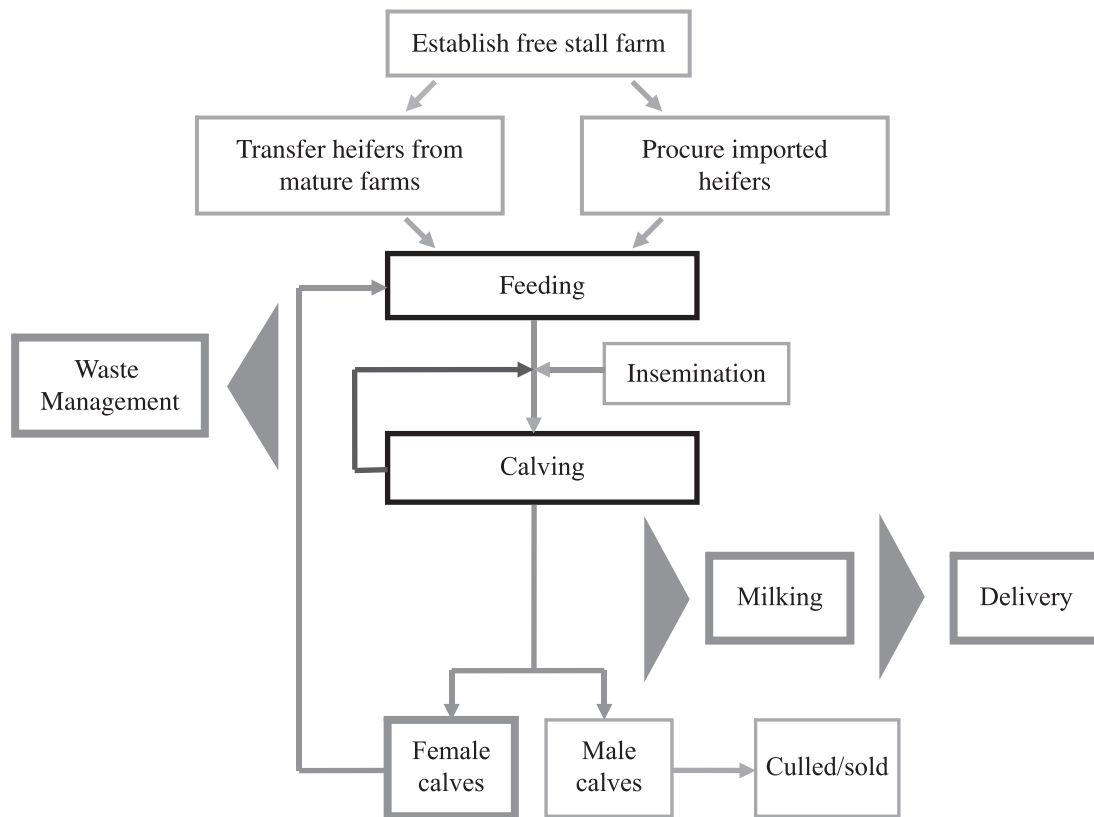
---

## BUSINESS

---

Our dairy cows are fed with customized feed mixture. We operate large-scale industrialized free stall dairy farms typically with an actual designed capacity ranging from 6,000 to 18,000 dairy cows per farm. As a result of our economies of scale, superior breeding technologies, scientific feed processing and management, automated milking systems and strict quality control, we are able to produce raw milk of a higher yield and higher quality than other large-scale dairy farms.

All of our dairy farms have a standardized design and follow established management procedures. The following diagram is a simplified illustration of our business model:



### ***Establish Free Stall Farm***

All of our farms are constructed using the free stall design. Our well-designed and properly-constructed free stall farms lower our construction and maintenance costs, facilitate herd management and provide our dairy cows with comfortable, safe and stress-free living environments. The free stall design enhances cattle welfare because it allows the cows ample room for unrestrained movement and enables them to feed and exercise at will.

### ***Procure Imported Heifers***

Historically, we procured Holstein heifers aged at six to 16 months which were imported from Uruguay, New Zealand and Australia. From March 2011 up to the Latest Practicable Date, we did not procure any imported heifers because we were able to sustain the operations at all of our farms using our self-bred heifers during this period.

### *Transfer Heifers from Mature Farms*

As part of our strategy for achieving self-sustainability, we breed our own heifers at our farms. We maintain our self-bred heifers at mature farms, and transfer them to new farms after construction of the essential facilities at such new farms is completed.

### *Feeding*

Feeding is an important aspect of the dairy farm operations because of its direct impact on raw milk production, animal health and reproduction. Our procurement department is responsible for selecting suitable feed suppliers, purchasing feed and coordinating with our quality control personnel to ensure that the delivered feed meets our specifications and requirements. We have standardized feeding procedures for all farms to make sure that all of our cows are always fed the same way. Our feed is freshly prepared, formulated and delivered to the cows three times each day, and is pushed up the feed mangers so that cows can eat frequently and maximize their feed intake. Additionally, we have adopted the “grouping strategies” feeding method at all of our farms to ensure that our milkable cows at different stages of growth receive a balanced diet according to their physical condition. We divide our milkable cows into five groups, namely, cows that are expected to give birth in 21 days, cows that have just given birth for the first time, the high-yield milking cows, the low-yield milking cows and the cows that are undergoing the 60-day dry period. Our team of professional nutritionists customizes a feeding formula for each of these groups of dairy cows. Furthermore, we have adopted the total mixed ration, or TMR, feeding method, by which we can weigh and blend all feed ingredients into a complete ration to ensure that our dairy cows receive adequate nourishment, including energy, protein, minerals and vitamins.

### *Breeding*

#### **Insemination**

Breeding is important for reproduction, as well as for the quality and yield of raw milk. When Holstein heifers reach approximately 13 months old, they reach a suitable age for insemination. We inseminate the mature heifers and suitable milking cows with the semen of selected Holstein bulls from Canada and the United States, to improve the genes of future generations and to further increase milk yield. We also use sex-controlled semen for mature heifers in order to achieve significantly higher female birth rates, which will enable us to more aggressively grow the herd. All of our four farms are equipped with an automated activity monitoring system, an advanced heat detection technology that enables us to determine the best time to inseminate our cows. Additionally, the breeding technicians at our farms are trained to follow strict semen handling procedures and artificial insemination techniques. Such procedures and techniques enable us to increase the accuracy of heat detection in order to maximum the chance of pregnancy.

#### **Calving**

After a pregnancy term of approximately nine months, a heifer will give birth to a calf and, now a milkable cow, will begin to produce raw milk. The cow is inseminated again approximately 55 days following the birth of the calf. We sell all male calves and raise a majority of the female calves until they reach a suitable age for insemination and the cycle described above is repeated. A dairy cow is generally raised for a total of eight to nine years during which it typically gives birth to up to six calves.

### ***Milking***

Milking is an important production process for dairy farms. Improper milking procedures or poor milking equipment may lead to the infection of udders, high levels of microbe count and SCC, thereby adversely affecting the milk yield per cow and the safety and quality of raw milk. Good milking practices enable cows to be milked effectively and in a timely manner. We use standard milking procedures at all of our dairy farms. We carry out the extraction of raw milk in an automated and sanitary environment to ensure milk safety and quality. At our dairy farms, disinfectants are used both before and after milking to protect the cows from infection. Our raw milk is cooled immediately after it is milked from dairy cows and flows through a series of pipes to our central milk tank, which we maintain at 4°C. The raw milk is stored in the central milk tank for less than 24 hours before it is delivered to our customers.

### ***Delivery***

Most of our customers' processing facilities are located within close proximity to our dairy farms, which enables us to deliver our raw milk in a timely manner to ensure its safety and quality. One of our customers, Aibeite, arranges for its own transportation of the raw milk they purchase from us. For other customers, we engage third-party logistics providers to deliver our raw milk directly to our customers.

### ***Waste Management***

Waste management is critical to the daily operations of large-scale dairy farms and to environmental protection. The main waste produced on our dairy farms is cow manure. We have installed cow waste treatment facilities to treat the cow manure at all of our farms. Except for Zhenlai Farm Phase I, all of our dairy farms are equipped with power generation systems, which are currently in trial operation. The waste produced at these three farms is collected and processed through the power generation systems into biogas, which is in turn used to generate electricity. The remaining waste at these three farms and the waste produced at our Zhenlai Farm Phase I is recycled through the recycling systems for conversion into fertilizers, which is then hauled off to local suppliers who we have contracted to grow corn silage for our feed supplies.

### ***Culling***

We have adopted culling as part of our herd management practices to maintain the high quality and yield of raw milk produced by our herd. Female calves that are deemed unfit by our breeding and veterinary specialists are culled and either treated in accordance with our disease control protocols or sold. Our veterinary and breeding specialists monitor the health conditions of our dairy cows twice per day and grade the body condition of our dairy cows every month. The mature milkable cows will be culled and sold when they are no longer able to give birth to calves. The number of dairy cows that were culled was 257, 971, 4,930 and 2,050 for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. Our culling program complements our controlled breeding efforts to continuously enhance the genetic quality, reproductive fitness and production yields of our herd over time.

### OUR DAIRY FARMS

#### *Overview*

As of 30 June 2013, we operated four dairy farms with an aggregate gross land area of approximately 3,220,667 sq.m. We commenced commercial sales at our Kedong YST Farm and Zhenlai Farm Phase I in 2010 and 2011, respectively, and acquired Gannan Oumei Farm and Kedong Oumei Farm from Feihe Dairy HLJ and Mr. Ma Jinyan in 2011. See “History, Development and Reorganization — Our Relationship with Feihe Dairy Group.” As of the Latest Practicable Date, we had three farms in Heilongjiang Province and one farm in Jilin Province, each of which had an actual designed capacity ranging from 6,000 to 18,000 dairy cows.

We decided to construct and operate our dairy farms in the Songnen Plain, an alluvial plain formed by Songhua River (松花江) and Nen River (嫩江) and situated across the southwestern part of Heilongjiang and northwestern part of Jilin. The total area of the Songnen Plain is approximately 180,000 km<sup>2</sup>. Due to its fertile black soil and abundant farming lands, the Songnen Plain has long been one of China’s major agricultural regions for the production of feeds, corn, wheat, sorghum and other crops, which ensures stable and quality feed supplies for our current operation and future expansion. The Songnen Plain is located in the temperate zone and has average temperatures that range from 2°C to 6°C, similar to the world’s foremost dairy regions, such as Brittany, France and Hokkaido, Japan. Like these major dairy regions, the dry weather and cool temperatures of the Songnen Plain make it suitable for raising dairy cows and producing premium raw milk. The relatively cold temperatures also inhibit the growth of micro-organisms, allowing us to control the quality of feed products and raw milk.

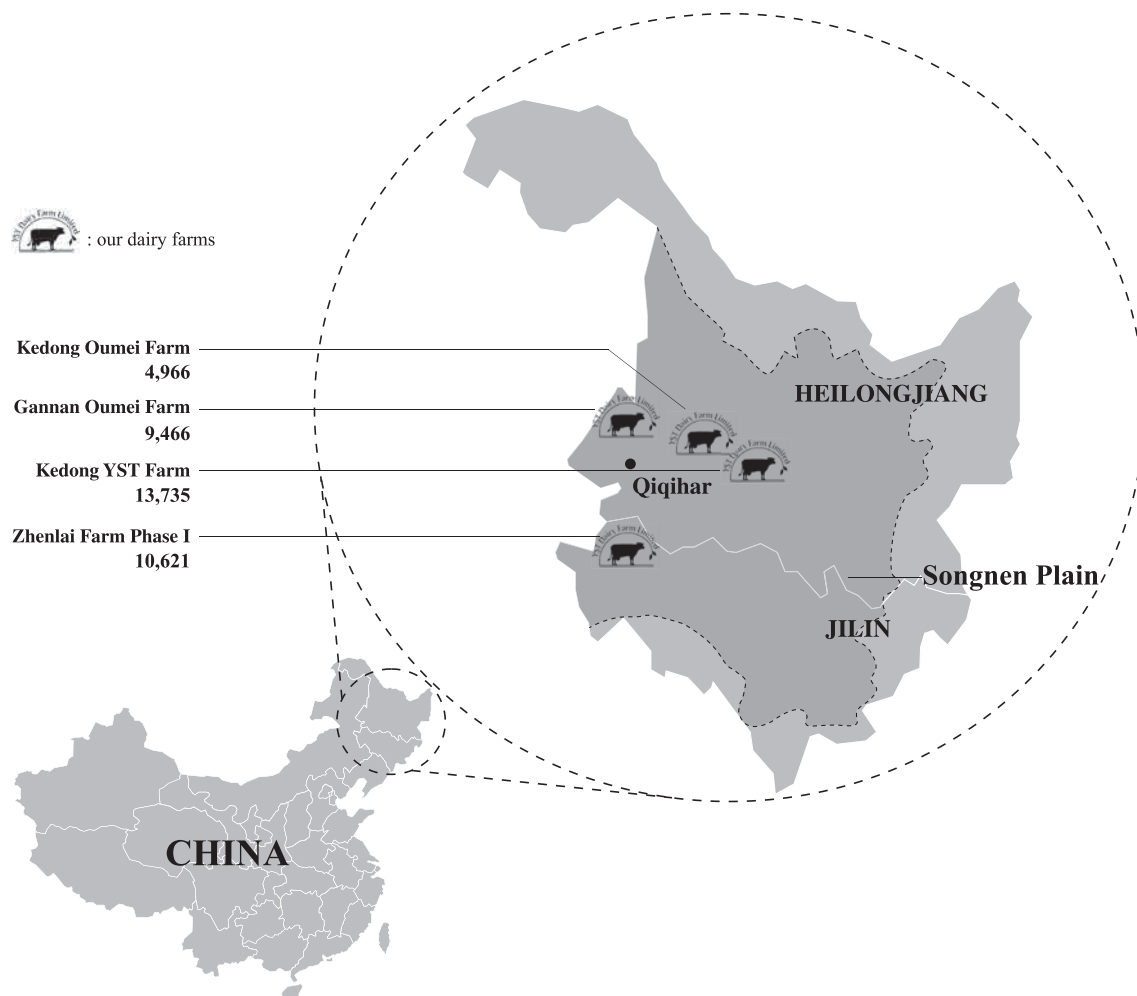
Heilongjiang is one of the largest farming bases in China. Approximately 84% of its 473,000 km<sup>2</sup> area consists of agricultural land and the average farmland per person is three times the national average. Both its total farmland area and the reserved land resources account for one-tenth or more of the nation’s total. According to the data published on the website of *Heilongjiang Provincial Bureau of Statistics*, Heilongjiang ranked No. 1 in terms of farmland and forest area, No. 2 in terms of land reserved for farming, No. 4 in terms of land to be developed and No. 7 in terms of area of pastures.

Jilin is also one of the largest farming bases in China. Approximately 86% of its 187,400 km<sup>2</sup> area consists of agricultural land. Jilin ranked ninth in China in terms of farmland, and Jilin’s average farmland per person is twice the national average. Furthermore, Jilin has a 11,000 km<sup>2</sup> area consisting of black soil, which is highly favored by China’s corn plantation industry. For the past decade, Jilin has consistently ranked as one of the top three provinces in terms of corn production in China.



## BUSINESS

Most of our customers' processing facilities are located in close proximity to our dairy farms. The following map sets forth the locations and the number of dairy cows of our four farms as of 30 June 2013:



The following table sets forth details of our four farms as of 30 June 2013 on an aggregated basis:

	Our four farms
<b>Background data:</b>	
Breed of herd	Holstein dairy cow
Method of farming	Free stall
Land size	3,220,667 sq.m.
Herd size	38,788
Average milk yield per cow for the six months ended 30 June 2013	8.6 tonnes
Average age of dairy cows	33.8 months
Imported/self-bred ratio <sup>(1)</sup>	55.6%
Average number of lactation cycles of milkable cows	2.07

*Note:*

- (1) The imported/self-bred ratio applies to our dairy cows and 100% of our self-bred dairy cows are the offspring of either American or Canadian bulls and our imported heifers. For more information, see “— Our Dairy Cows.”

## BUSINESS

### *Summary Information for Our Four Farms*

All of our farms have been accredited China Good Agricultural Practice, or China GAP, Certification since 2012. China GAP is based on the control points and compliance criteria of Euro Good Agricultural Practice, characterized by Chinese agricultural growing and breeding standards. China GAP standards were established to promote a reduction in the use of chemicals and medicines in agriculture, preserve agricultural sustainable development, ensure a set of criteria for safe production of primary agricultural products, and increase consumer confidence in food quality and safety. Products with China GAP Certification are much more acceptable and competitive in domestic and overseas markets.

The following table sets forth the details of our existing farms as of 30 June 2013:

	<b>Gannan Oumei Farm</b>	<b>Kedong Oumei Farm</b>	<b>Kedong YST Farm</b>	<b>Zhenlai Farm Phase I</b>	<b>Total</b>
Location (province) . . . . .	Heilongjiang	Heilongjiang	Heilongjiang	Jilin	N/A
Commencement of construction . . .	2007	2007	2009	2010	N/A
Year of acquisition . . . . .	2011	2011	N/A	N/A	N/A
Commencement of commercial production . . . . .	November 2008	November 2008	October 2010	July 2011	N/A
Area (sq.m.) . . . . .	986,333	384,000	784,000	1,066,667	3,221,000
Actual designed capacity (number of dairy cows) <sup>(1)</sup> . . . . .	12,000	6,000	18,000	15,000	51,000
Operational scale . . . . .	Large-scale <sup>(2)</sup>	Large-scale <sup>(2)</sup>	Mega-scale <sup>(3)</sup>	Mega-scale <sup>(3)</sup>	N/A
Number of milkable cows . . . . .	5,909	3,565	7,408	4,003	20,885
Number of female calves and heifers . . . . .	3,557	1,401	6,327	6,618	17,903
Spare capacity (number of dairy cows) <sup>(2)</sup> . . . . .	2,534	1,034	4,265	4,379	12,212

*Notes:*

- (1) The actual designed capacity is based on our farm design plan, confirmed by the construction contractor.
- (2) A large-scale dairy farm refers to a farm with 1,000 heads and more.
- (3) A mega-scale dairy farm refers to a farm with 10,000 heads and more.
- (4) Representing the actual designed capacity deducted by the total number of dairy cows at our farms. We will maintain our self-bred heifers at our existing dairy farms, and transfer them to new farms after construction of the essential facilities at the new farms is completed.

The construction of a standard dairy farm takes approximately two years. We maintain our self-bred heifers at mature farms, and transfer them to new farms after construction of the essential facilities at such new farms is completed. After the heifers become milkable cows, which typically takes approximately nine to 15 months, the newly established farm is ready to commence commercial production. The average payback period of a farm is generally six years from the commencement of its construction, or five years if we transfer the cows from mature farms to the new farm. The cash breakeven point of a farm generally occurs in the fourth year from the commencement of its construction.

## BUSINESS

### *Expansion Plan of Our New Dairy Farms*

We intend to continue to grow our business through building new farms to increase our overall production capacity and increase our gross margin due to economies of scale. We plan to build five additional farms in the Songnen Plain within the next three years, including one farm for educational tours, one farm dedicated to raising reserve cows and three farms for commercial production. We expect each farm to have a capacity ranging from 12,000 to 15,000 dairy cows, with the exception of our new farm for educational tours, and aim to increase our total herd size to approximately 100,000 dairy cows by 2017. In this regard, we have already acquired land for one of these new farms and are seeking to acquire land for the remaining farms. In addition, we are in the process of obtaining the requisite licenses and permits for Tiefeng Farm, Baiquan Farm and Kedong Yongjin Farm, and will obtain the licenses and permits for Honghai Farm and Sifang Farm in 2014. We expect these new farms to be located in Heilongjiang. We will adopt the same safety standards at our future farms and expect our raw milk yields at these farms to be at similar levels.

As of 30 June 2013, we did not incur any capital expenditure for these new farms. According to our current plan, for the years ending 31 December 2013, 2014 and 2015, we expect to incur capital expenditures of approximately RMB88 million, RMB729 million and RMB564 million, respectively, for the new farms. The projected capital expenditures for Tiefeng Farm, Baiquan Farm, Kedong Yongjin Farm, Honghai Farm and Sifang Farm is approximately RMB47 million, RMB329 million, RMB147 million, RMB429 million and RMB429 million, respectively. The estimated amount of expenditure may vary from the actual amount for a variety of reasons, including changes in market conditions, competition and other factors. The construction of these new farms will be funded using primarily the proceeds received from the Pre-IPO Investments and the Global Offering, loans from banks and cash flow from operations.

The table below summarizes the details of our new farms:

	<b>Tiefeng Farm</b>	<b>Baiquan Farm</b>	<b>Kedong Yongjin Farm</b>	<b>Honghai Farm</b>	<b>Sifang Farm</b>
Location (province) .	Heilongjiang	Heilongjiang	Heilongjiang	Heilongjiang	Heilongjiang
Expected completion of construction <sup>(1)</sup> .	Fourth quarter of 2014	Second quarter of 2015	Fourth quarter of 2014	Fourth quarter of 2015	Fourth quarter of 2015
Expected commencement of operation/ commercial production <sup>(1)</sup> . . . .	Fourth quarter of 2014	Second quarter of 2015	Fourth quarter of 2014	Fourth quarter of 2015	Fourth quarter of 2015
Designed capacity (number of dairy cows) . . . . .	450	15,000	12,000	15,000	15,000
Purpose of construction . . . . .	Educational tours	Commercial production	Raising of reserve cows	Commercial production	Commercial production
Size (sq.m.) . . . . .	200,010	994,000	714,000	1,000,000	673,333

*Note:*

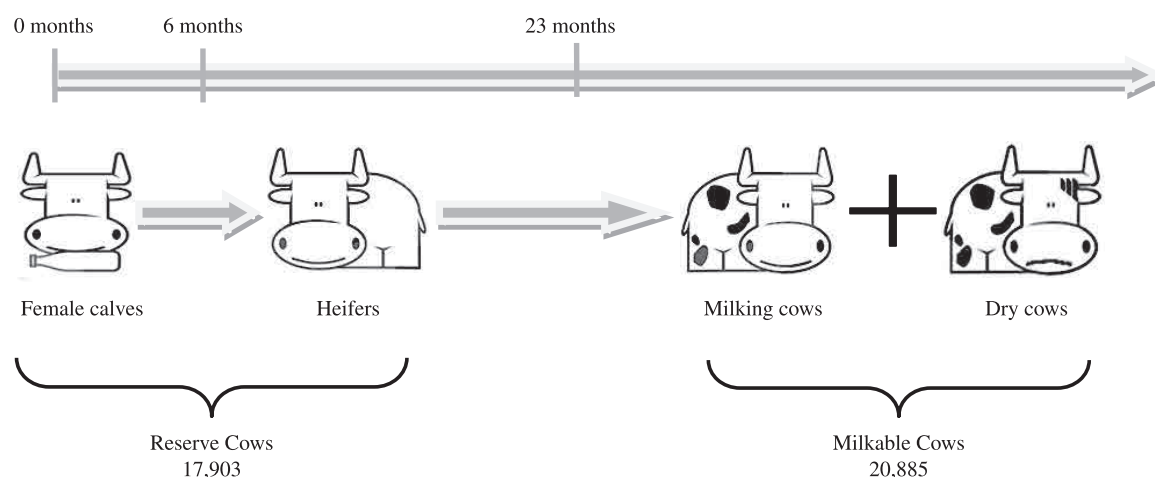
- (1) We generally commence commercial production after construction of the essential facilities at the new farms is completed. As a result, the date of expected commencement of commercial production could be earlier than the date of expected completion of construction.

Because (i) we expect that each of our four existing farms will reach full capacity by the end of 2014, and (ii) the construction of a standard dairy farm will take approximately two years, we plan to commence construction of our new farms while our existing farms still have spare capacity. We will transfer our self-bred heifers to new farms after construction of the essential facilities at the new farms is completed. In addition, we plan to build five additional farms within the next three years as our herd size grows following the maturity of our self-bred calves and heifers. See “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Results of Operations and Financial Condition — Size and expansion of our herd” for more information.

### ***Our Dairy Cows***

When we commenced operations at our first farm, Kedong YST Farm, we procured Holstein heifers aged six to 16 months which were imported from Uruguay, New Zealand and Australia. From March 2011 up to the Latest Practicable Date, we did not procure any imported heifers because we were able to sustain the operations at all of our farms using our self-bred heifers during this period. Because of our advanced insemination and feeding technologies as well as carefully selected bull semen from international sources, the cessation of our procurement of imported heifers did not materially affect the overall quality of our dairy cows, the quality of our raw milk, our production costs and profit margin.

Our dairy cows consist of female calves and heifers, which are our reserve cows, and milking cows and dry cows, which are our milkable cows. A female calf becomes a heifer after six months of her birth and further grows to become a milkable cow once she gives birth to her first calf. Not all milkable cows are being milked at all times. We give each pregnant milkable cow a dry period of approximately 60 days immediately prior to its confinement to ensure the quality and quantity of its raw milk as well as the quality of its health. The following chart illustrates the categorization and basic information of our dairy cows as of 30 June 2013:



## BUSINESS

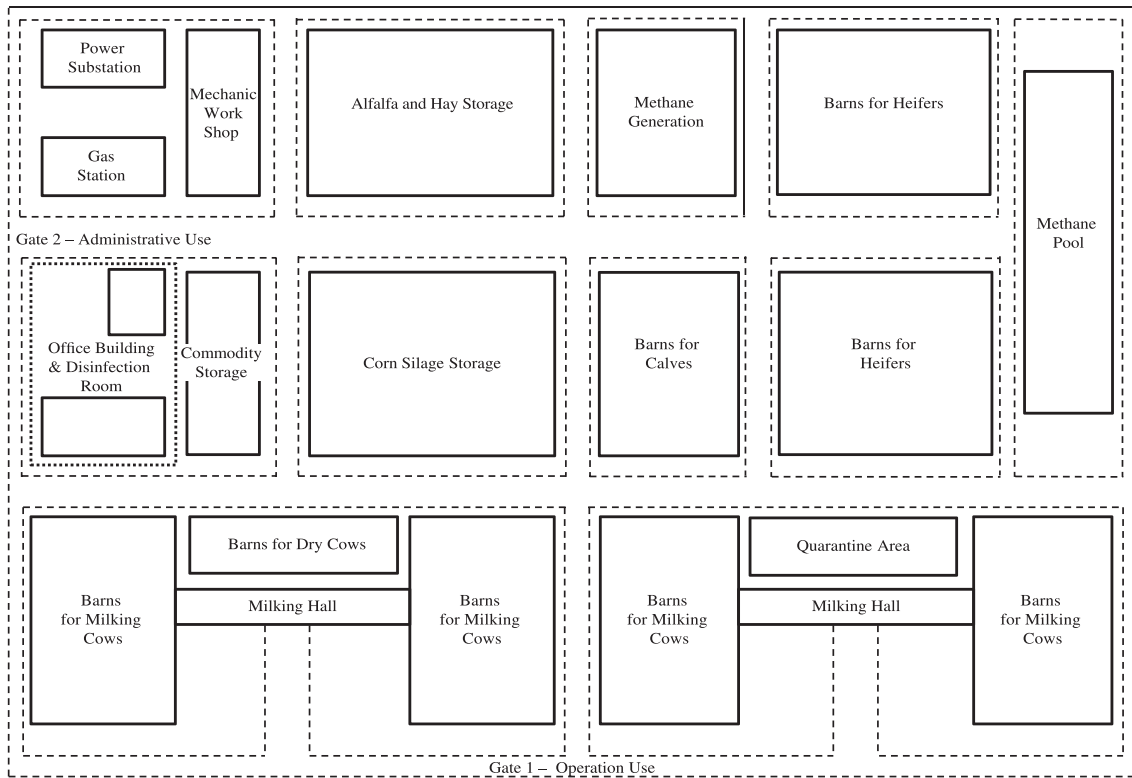
The following table sets forth a breakdown of our dairy cows as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
<b>Reserve cows</b> . . . . .	7,796	17,269	16,357	17,903
Female calves . . . . .	67	4,422	3,312	4,582
Heifers . . . . .	7,729	12,847	13,045	13,321
<b>Milkable cows</b> . . . . .	97	14,950	20,643	20,885
<b>Total</b> . . . . .	7,893	32,219	37,000	38,788

### *Farm Layout*

Our standard dairy farms are designed and constructed using a modern and scientific layout to maximize yield and productivity. Our farms are primarily comprised of milking halls, barns for calves, barns for mature cows, isolated areas for cows infected with diseases, waste treatment facilities and feed warehouses.

Below is a sample layout of our standard dairy farm design:



## BUSINESS

### *Individual Farms*

#### **Gannan Oumei Farm**

Our Gannan Oumei Farm is located in Fuyu Village, Gannan County, Qiqihar City of Heilongjiang and is approximately 76 km northwest of Qiqihar City. The following table sets forth details of Gannan Oumei Farm as of 30 June 2013:

	<u>Gannan Oumei Farm</u>
<b>Background data:</b>	
Breed of herd . . . . .	Holstein dairy cow
Method of farming . . . . .	Free stall
Land size . . . . .	986,333 sq.m.
Herd size . . . . .	9,466
Actual designed capacity . . . . .	12,000 dairy cows
Average age of dairy cows . . . . .	38.4 months
Imported/self-bred ratio <sup>(1)</sup> . . . . .	43.6%
Utilization rate for milking systems <sup>(2)</sup> . . . . .	78.3%

*Notes:*

- (1) The imported/self-bred ratio applies to our dairy cows and 100% of our self-bred dairy cows are the offspring of either American or Canadian bulls and our imported heifers. For more information, see “— Our Dairy Cows.”
- (2) Utilization rate is calculated by the number of milkable cows being milked divided by the maximum number of milkable cows that can be handled by the milking machines in operation at full capacity in a specific dairy farm.

The following table sets forth our raw milk sales volumes and a breakdown of our dairy cows registered at Gannan Oumei Farm as of and for the periods indicated:

	<b>As of and for the year ended 31 December</b>			<b>As of and for the six months ended 30 June</b>	
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
Average milk yield per cow for the year/period (tonnes) . . . . .	<u>7.3</u>	<u>8.8</u>	<u>8.9</u>	<u>9.0</u>	<u>8.6</u>
Raw milk sales volume for the year/period (tonnes) . . . . .	<u>13,965</u>	<u>33,125</u>	<u>45,539</u>	<u>22,579</u>	<u>22,995</u>
Milkable cows as of the year/period end . . . . .	1,943	4,925	5,377	5,156	5,909
Female calves and heifers as of the year/period end . . . . .	<u>4,874</u>	<u>2,982</u>	<u>3,446</u>	<u>2,974</u>	<u>3,557</u>
Dairy cows as of the year/period end . . . . .	<u>6,817</u>	<u>7,907</u>	<u>8,823</u>	<u>8,130</u>	<u>9,466</u>

We acquired Gannan Oumei Farm from Feihe Dairy HLJ and Mr. Ma Jinyan in September 2011, taking over its raw milk production business. Raw milk produced by Gannan Oumei Farm is supplied to Mengniu Group, Feihe Dairy Group and Aibeite, and processed at their local processing facilities.



## BUSINESS

### Kedong Oumei Farm

Our Kedong Oumei Farm is located in Wanfa Village and Jianhua Village, Kedong County, Qiqihar City of Heilongjiang and is approximately 196 km northeast of Qiqihar City. The following table sets forth details of Kedong Oumei Farm as of 30 June 2013:

	<u>Kedong Oumei Farm</u>
<b>Background data:</b>	
Breed of herd . . . . .	Holstein dairy cow
Method of farming . . . . .	Free stall
Land size . . . . .	384,000 sq.m.
Herd size . . . . .	4,966
Actual designed capacity . . . . .	6,000 dairy cows
Average age of dairy cows . . . . .	44.8 months
Imported/self-bred ratio <sup>(1)</sup> . . . . .	66.4%
Utilization rate for milking systems <sup>(2)</sup> . . . . .	66.0%

*Notes:*

- (1) The imported/self-bred ratio applies to our dairy cows and 100% of our self-bred dairy cows are the offspring of either American or Canadian bulls and our imported heifers. For more information, see “— Our Dairy Cows.”
- (2) Utilization rate is calculated by the number of the milkable cows being milked divided by the maximum number of milkable cows that can be handled by the milking machines in operation at full capacity in a specific dairy farm.

The following table sets forth our raw milk sales volumes and a breakdown of our dairy cows registered at Kedong Oumei Farm as of and for the periods indicated:

	<u>As of and for the year ended 31 December</u>			<u>As of and for the six months ended 30 June</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
Average milk yield per cow for the year/period (tonnes) . . . . .	<u>9.4</u>	<u>8.9</u>	<u>8.5</u>	<u>8.7</u>	<u>9.1</u>
Raw milk sales volume for the year/period (tonnes) . . . . .	<u>37,463</u>	<u>54,788</u>	<u>59,961</u>	<u>30,465</u>	<u>16,100</u>
Milkable cows as of the year/period end . . . . .	5,970	6,422	3,924	7,730	3,565
Female calves and heifers as of the year/period end . . . . .	<u>4,379</u>	<u>6,174</u>	<u>917</u>	<u>4,110</u>	<u>1,401</u>
Dairy cows as of the year/period end . . . . .	<u>10,349<sup>(1)</sup></u>	<u>12,596<sup>(2)</sup></u>	<u>4,841</u>	<u>11,840</u>	<u>4,966</u>

*Notes:*

- (1) In 2010, 5,573 dairy cows of Kedong Oumei Farm were raised at Kedong YST Farm, so the actual number of dairy cows in Kedong Oumei Farm was 4,776.
- (2) In 2011, 7,552 dairy cows of Kedong Oumei Farm were raised at Kedong YST Farm, so the actual number of dairy cows in Kedong Oumei Farm was 5,044.

We acquired Kedong Oumei Farm from Feihe Dairy HLJ and Mr. Ma Jinyan in September 2011, taking over its raw milk production business. Raw milk produced by Kedong Oumei Farm is supplied to Mengniu Group, Yili Group, Bright Dairy Group, Feihe Dairy Group and Aibeite, and processed at their local processing facilities.

## BUSINESS

### Kedong YST Farm

Our Kedong YST Farm is located in Furao Village, Runjin Town, Kedong County, Qiqihar City of Heilongjiang and is approximately 201 km northeast of Qiqihar City. The following table sets forth details of Kedong YST Farm as of 30 June 2013:

	<u>Kedong YST Farm</u>
<b>Background data:</b>	
Breed of herd . . . . .	Holstein dairy cow
Method of farming . . . . .	Free stall
Land size . . . . .	784,000 sq.m.
Herd size . . . . .	13,735
Actual designed capacity . . . . .	18,000 dairy cows
Average age of dairy cows . . . . .	30.2 months
Imported/self-bred ratio <sup>(1)</sup> . . . . .	58.2%
Utilization rate for milking systems <sup>(2)</sup> . . . . .	69.2%

*Notes:*

- (1) The imported/self-bred ratio applies to our dairy cows and 100% of our self-bred dairy cows are the offspring of either American or Canadian bulls and our imported heifers. For more information, see “— Our Dairy Cows.”
- (2) Utilization rate is calculated by the number of milkable cows being milked divided by the maximum number of milkable cows that can be handled by the milking machines in operation at full capacity in a specific dairy farm.

The following table sets forth our raw milk sales volumes and a breakdown of our dairy cows registered at Kedong YST Farm as of and for the periods indicated:

	<u>As of and for the year ended 31 December</u>			<u>As of and for the six months ended 30 June</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
Average milk yield per cow for the year/period (tonnes) . . . . .	<u>10.8</u>	<u>10.3</u>	<u>10.1</u>	<u>9.0</u>	<u>8.6</u>
Raw milk sales volume for the year/period (tonnes) . . . . .	<u>95</u>	<u>6,960</u>	<u>30,915</u>	<u>10,760</u>	<u>30,773</u>
Milkable cows as of the year/period end . . . . .	97	1,049	7,542	3,490	7,408
Female calves and heifers as of the year/period end . . . . .	<u>2,589</u>	<u>3,865</u>	<u>5,554</u>	<u>2,681</u>	<u>6,327</u>
Dairy cows as of the year/period end . . . . .	<u>2,686<sup>(1)</sup></u>	<u>4,914<sup>(2)</sup></u>	<u>13,096</u>	<u>6,171</u>	<u>13,735</u>

*Notes:*

- (1) In 2010, our actual number of dairy cows at Kedong YST Farm was higher than 2,686 because 5,573 dairy cows of Kedong Oumei Farm were raised in Kedong YST Farm.
- (2) In 2011, our actual number of dairy cows at Kedong YST Farm was higher than 4,914 because 7,552 dairy cows of Kedong Oumei Farm were raised in Kedong YST Farm.

Raw milk produced by Kedong YST Farm is supplied to Yili Group, Mengniu Group, Feihe Dairy Group and Aibeite, and processed at their local processing facilities.

## BUSINESS

### Zhenlai Farm Phase I

Zhenlai Farm Phase I is located in Zhenlai County, Baicheng City of Jilin and is approximately 45 km northeast of Baicheng City. The following table sets forth details of Zhenlai Farm Phase I as of 30 June 2013:

	<u>Zhenlai Farm Phase I</u>
<b>Background data:</b>	
Breed of herd . . . . .	Holstein dairy cow
Method of farming . . . . .	Free stall
Land size . . . . .	1,066,667 sq.m.
Herd size . . . . .	10,621
Actual designed capacity . . . . .	15,000 dairy cows
Average age of dairy cows . . . . .	29.2 months
Imported/self-bred ratio <sup>(1)</sup> . . . . .	54.2%
Utilization rate for milking systems <sup>(2)</sup> . . . . .	41.4%

*Notes:*

- (1) The imported/self-bred ratio applies to our dairy cows and 100% of our self-bred dairy cows are the offspring of either American or Canadian bulls and our imported heifers. For more information, see “— Our Dairy Cows.”
- (2) Utilization rate is calculated by the number of milkable cows being milked divided by the maximum number of milkable cows that can be handled by the milking machines in operation at full capacity in a specific dairy farm.

The following table sets forth our raw milk sales volumes and a breakdown of our dairy cows registered at Zhenlai Farm Phase I as of and for the periods indicated:

	<u>As of and for the year ended 31 December</u>			<u>As of and for the six months ended 30 June</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
Average milk yield per cow for the year/period (tonnes) . . . . .	<u>N/A</u>	<u>9.7</u>	<u>8.8</u>	<u>9.6</u>	<u>8.3</u>
Raw milk sales volume for the year/period (tonnes) . . . . .	<u>N/A</u>	<u>4,149</u>	<u>31,655</u>	<u>16,406</u>	<u>15,234</u>
Milkable cows as of the year/period end . . . . .	0	2,554	3,800	4,080	4,003
Female calves and heifers as of the year/period end . . . . .	<u>5,207</u>	<u>4,248</u>	<u>6,440</u>	<u>5,575</u>	<u>6,618</u>
Dairy cows as of the year/period end . . . . .	<u>5,207</u>	<u>6,802</u>	<u>10,240</u>	<u>9,655</u>	<u>10,621</u>

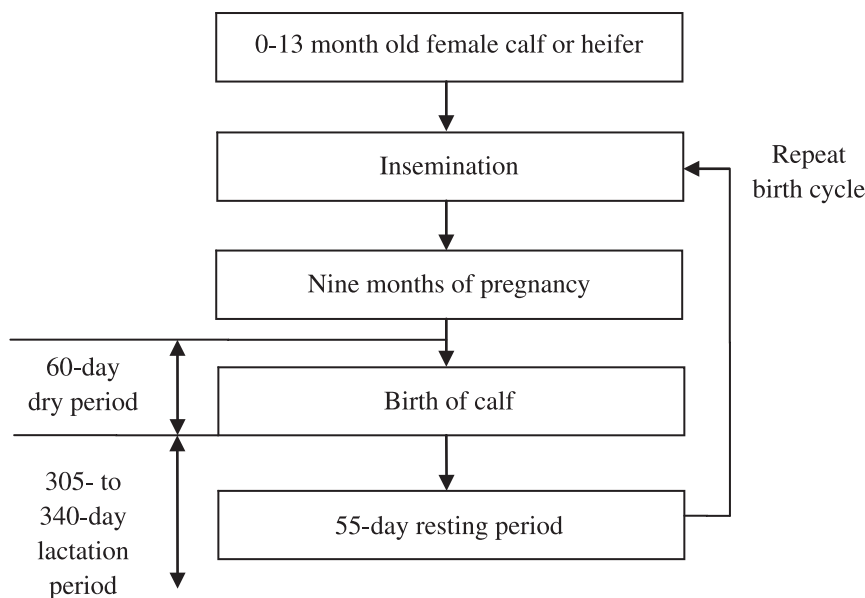
Raw milk produced by Zhenlai Farm Phase I is supplied to Yili Group, Mengniu Group, and Aibeite and processed at their local processing facilities.

**HERD MANAGEMENT*****Breeding***

As part of our overall expansion plans, we breed our own high-quality Holstein dairy cows to support our own farms. We primarily use artificial insemination technologies to breed our dairy cows and we generally source the semen of selected Holstein bulls from Canada and the United States. We usually request the selected suppliers to provide us with a list of the most productive Holstein bulls of that year. Taking into consideration factors such as the milk yield of the bull's offspring, age, type of dairy cow and the nutritional content of the raw milk produced by the bull's offspring, we select the most suitable semen that we believe will optimize the genetic mix of our dairy cows.

Additionally, we use sex-controlled semen for mature heifers in order to achieve significantly higher female calf birth rates. A normal female calf birth rate without sex-controlled semen is approximately 48%. Using sex-controlled semen enables us to attain a high female calf birth rate of approximately 70%, which will enable us to more aggressively grow the herd. Our suppliers of Hostein bull semen are responsible for after-sales services and for providing training by experienced personnel to our staff in relation to disease control and breeding techniques.

The diagram below illustrate the overall birth cycle of dairy cows:



It typically takes a new born female calf approximately 13 months to become a heifer of the appropriate breeding weight. At this stage, the heifer will be inseminated. Approximately nine months following a successful insemination, the heifer, now a milkable cow, will give birth to a calf. The cow will be given a resting period of 55 days before insemination is attempted again.

After calving, the lactation period begins and the cow is typically milked for approximately 305 to 340 days before a dry period. A cow has the highest milk production six to eight weeks post calving, after which its milk production will decrease. A sufficient dry period is required to maximize the cow's

milk production post calving and typically the cow is given a dry period of approximately 60 days prior to calving. In order to maximize the milk production over the life of a cow, it is important to use breeding management to control the length of the lactation period.

### ***Feeding***

Our feed includes concentrates and forages. Concentrates, which primarily consist of corn, soybean meal and cotton seed meal, are easily accessible commodities nationwide. Forages mainly consist of corn silage, grass forage and alfalfa. Feed quality can materially affect the quality of milk and yield of a cow. To optimize the feed formulas, we source concentrates and forages from international suppliers through either third-party domestic trading companies or agents, and domestic suppliers. We select suppliers based on the feed's quality and price. When the feed arrives at our farms, we conduct sampling inspection on various things, including the content of aflatoxin and the nutritional content. Corn silage is one of the most important feed ingredients for our dairy cows. While we do not directly control the corn plantation, we contract with local suppliers to produce the corn silage for us and provide them with recommendations as to which corn silage hybrids to plant. We determine the harvest time and harvest the corn silage using our own large-scale harvesters to ensure the quality of the corn silage.

Furthermore, we install different facilities in the warehouses for different feed. We store a certain quantity of feed to secure the needs of our dairy cows for at least two months to avoid any interruption of feed supply. Due to the dry and cool weather in Heilongjiang and Jilin, we are able to store our feed at relatively low costs compared to the farms located in southern part of China.

The feed nutrients required by each dairy cow can vary depending on a number of factors, such as age, stage of lactation and milk production level. To ensure that our dairy cows receive a balanced diet containing the amount and type of nutrients suitable for them at their particular stages of growth, we have adopted the “grouping strategies” feeding method at all of our farms. Our expert nutritionists prepare feed for different groups of dairy cows by blending together ingredients with different nutritional values to meet the particular needs of each group. To further improve dairy cows' daily nutritional intake and digestion, our suppliers of premix add certain supplements to the feed, such as vitamin and mineral supplements. We do not use hormonal growth substances to feed our dairy cows.

We take measures to ensure the good health of our female calves, which are fed four liters of colostrum as soon as they are born. They are then fed two more liters in six to eight hours to ensure successful passive transfer of immunity, after which they are switched to regular milk and fed six liters per day for eight weeks. In addition to milk, the female calves are given grains and water. Once they begin to consume approximately one and a half kg of grain per day for three consecutive days, they are ready for weaning, and are kept on the same calf grain for one more week before they are fed a calf grower.

### ***Herd Management Technologies***

We rely, to a large extent, on the Dairy Star for the management of our dairy farms. This software allows us to monitor each cow, including but not limited to its basic information, genetic connection, medical history and milk yield, and also allows us to track every step of the production process, including tracking the breeding cycle. The software generates various types of reminders to prevent mistakes due to employee negligence or misconduct, including, among other things, the dry period reminders for pregnant milking cows, the insemination reminders for mature heifers, the weaning

reminders for female calves and the barn-switching reminders. The Dairy Star improves the operating efficiency of our dairy farms and accuracy of the herd management. Additionally, the Dairy Star allows us to track the family tree of all bulls whose semen we have used for insemination. We utilize this software to avoid utilizing semen from a bull to inseminate any offspring of the same bull.

Furthermore, the software will generate various types of reports regarding different aspects of our operation, including but not limited to, reports on different groups of cows, namely, milking cows and pregnant cows, reports on the daily milk yield per cow and reports on total milk yield. The software also consolidates all the information of our four farms on a single network to allow central monitoring and data analysis, and greatly enhances the uniformity and standardization of our farm management.

Additionally, we utilize the automated activity monitoring system for heat detection to determine the best time to inseminate our cows, thereby improving the rate of successful inseminations leading to a higher rate of pregnancies, shortened calving periods and increased milk yields.

### ***Cattle Welfare***

It is our management philosophy to give priority to cattle welfare. Cows produce more milk, have fewer health problems, and live longer if they live in a comfortable environment. We carefully select the type and design of facilities that are suitable for the particular climates of Heilongjiang and Jilin, where our dairy farms are located. We equip our dairy farms with free stall ventilated barns, which allow the cows to walk freely between the bedding and the feeding area and keep the cows warm in extremely cold winters. We use sand, which is believed to be the most comfortable material for cows and is known for its ability to control the spread of mastitis in cattle housing, as bedding material to bed our cow stalls. However, during extreme winter months that are accompanied by freezing temperatures, we use rice straw or rice hulls to keep our cows warm. To prevent cows from slipping and feet injury, we utilize certain non-slip grooves in cows barns and non-slip mat in milking halls and passways from cows barns to the milking halls. Furthermore, we house our female calves in naturally ventilated barns, which are heated during the winter months to keep them warm.

### ***Cow Health and Disease Control***

We have implemented a strict and effective disease control policy to maintain the overall health of our herd. We perform routine checks on our dairy cows twice per day. The incidence and prevalence of lameness and mastitis, the two most common diseases affecting dairy farms, are relatively low on our farms. We believe this is attributable to our good hygiene practices, our well-managed free stalls, the clean environment of our facilities and the attention towards the health and welfare of our cattle.

### **Strict protocol for entering the farm and production facility**

Employees are required to change and disinfect themselves before entering the production facilities, and vehicles must be disinfected before entering the farm. In addition, unauthorized vehicles, persons, animals and equipment are prohibited from entering the farm.



### **Regular and frequent disinfection of equipment and facilities**

We disinfect our staff living quarters, milking halls and our veterinary hospital regularly. For example, we disinfect the veterinary hospital every day. Employees are required to wear masks, hats and gloves when handling dairy cows or milk.

### **Disease control measures**

Infectious diseases, such as FMD, brucellosis, and bovine TB, are the major threats to the dairy farming industry. We have adopted several disease control measures at our dairy farms, including regularly administering the FMD vaccination and regularly testing for brucellosis and bovine TB. We vaccinate all young female calves that are over three months of age and the whole herd four times a year as part of our FMD prevention measures. Because there is no vaccine to prevent bovine TB, we conduct regular testing of the herd to keep the herd clean. We also require our employees to conduct regular testing to make sure they will not carry the disease to the farm. To prevent brucellosis, a disease that can spread quickly and lead to miscarriages, we regularly examine our herd at all of our farms. Where there is substantial risk of infection, we carry out farm-wide disinfection and immunization to prevent the spread of the disease.

In 2010, prior to our acquisition of Gannan Oumei Farm, several employees on such farm contracted brucellosis as a result of the improper handling of the brucellosis vaccine. No dairy cow was infected in the incident but the then operator of the Gannan Oumei Farm had vaccinated all of the dairy cows to prevent any recurrence of brucellosis at this farm. We have obtained a confirmation letter from the Livestock Husbandry and Veterinary Bureau of Gannan County of Heilongjiang, where Gannan Oumei Farm is located, confirming that there was no incident of animal infection since Gannan Oumei Farm's incorporation in 2008. To the best knowledge of our Directors, there were no other occurrences of brucellosis or other diseases or infections at any of our farms, prior to or after it was under our operation, and our cows had never been infected by any major diseases during the Track Record Period and up to the Latest Practicable Date.

We have established disease control committees at all of our dairy farms, comprising our farm managers, veterinary personnel and heads of each department. Immediately upon detecting any signs of a disease outbreak, our veterinary personnel are required to report the circumstances to the relevant veterinary department head, who in turn is required to report to the farm manager. Our general manager will be informed after the farm manager has conducted an on-site inspection and confirmed that there is an indication of a disease outbreak. Upon such confirmation by the farm manager, we immediately quarantine the diseased dairy cows in a secured barn and carry out farm-wide inspections and disinfection procedures to prevent the spread of the disease. We also suspend the transfer of cows between different barns. In addition, we are required to file reports with the local veterinary bureaus regarding any outbreak of certain classified diseases, such as FMD. Please see "Regulations" in this Prospectus for more details.

### **Quarantine and treatment of diseased and dead cows**

We quarantine our diseased dairy cows in separate barns and our veterinary personnel inspect them promptly. We collect biopsy samples and carry out testing in our laboratories to determine the cause and severity of the disease. Where medical treatment is not cost-effective or not feasible, the diseased dairy cows are culled, their bodies are cremated, and the affected areas are disinfected. Dairy cows that have

---

## BUSINESS

---

been cured of any disease are milked in a separate milking hall until their milk passes all of our tests and examinations. Generally, dead cows and aborted fetuses are disposed of by our veterinary personnel within a few hours of death.

### **Mandatory disease control training for new staff**

We require all of our new staff to complete mandatory disease control training before they begin to work. Mandatory disease control training is given to all employees at our farms at least once a year.

### **Stock-take on dairy cows**

We perform a stock-take on sample size of 30% of dairy cows at the end of each month and conduct a full stock-take on a quarterly basis. Our operation staff provide the written records on dairy cows, including their numbers and locations, to the accounting personnel, after which the accounting personnel conduct stock-take. When any difference between the accounting records and operating records arises, the operation staff must explain the difference and show evidence to the accounting personnel, failing which a gain or loss on biological assets will be booked by the accounting department. During the Track Record Period, no such gain or loss was recorded. In order to better control the physical existence of our biological assets, we tag our milkable cows with electronic identification devices that enable us to identify our cows and track the times at which they enter the milking hall. In addition, our staff conduct daily examinations on our herd, and document any increase in number, transfer and disposal of cows in the database of Dairy Star. As a result, the records of Dairy Star are an important reference for checking the stock-take results, as well as for the internal controls over physical existences of our cows.

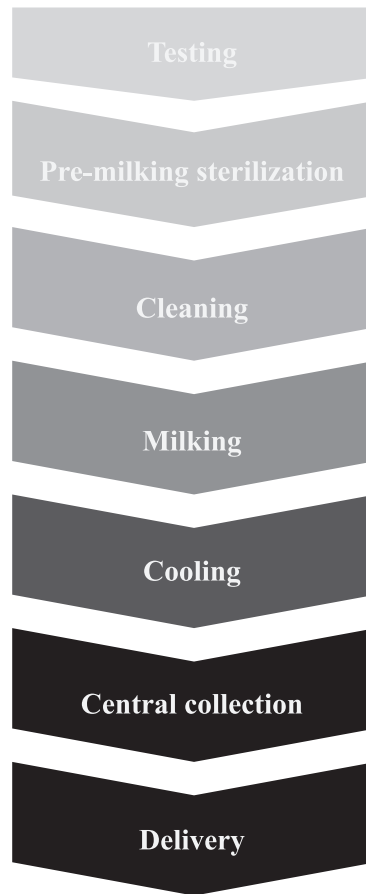
## **OUR PRODUCTION OPERATIONS AND FACILITIES**

### ***Overview***

We are primarily engaged in the business of dairy farming by production and sales of premium raw milk. We utilize advanced feeding technologies at our farms to feed our high-quality dairy cows. During the Track Record Period, we focused on developing our dairy farms and increasing our production capacity.

### *Production Process*

We prohibit direct contact with our raw milk throughout the entire production process. We milk our milking cows three times each day through an automated and sanitary process. Raw milk from our dairy cows is transported automatically through a series of pipes directly to our central milk tank, which is maintained at 4°C. Cooled raw milk is then transported through pipes from the central tank to the trucks of our customer or third-party logistics providers in a timely manner. The following diagram illustrates the milk production process:



The milk production process comprises the following steps:

- *Testing* — to ensure the quality and safety of raw milk, we discard the first three squeezes of raw milk from the milking cows. Our dairy workers also check the health condition of the milking cows' udders at this stage, which includes checking the appearance of udders or if there are any lumps in the first three squeezes of raw milk. Upon observation of any signs of mastitis, the milking cow will be immediately quarantined and checked by our veterinary personnel.
- *Pre-milking sterilization* — before milking, the udders and teats of milking cows are sprayed with sanitizing fluids. We also clean and sterilize the teat cups before milking.
- *Cleaning* — the udders and teats of milking cows are wiped dry with dry towels within 30 seconds after sterilization.

- *Milking* — to commence the milking process, the dairy workers will attach the teat cups, which are connected directly to a central milk tank, to our milking cows' udders promptly after finishing the above procedures to minimize the risk of infection.
- *Cooling* — the raw milk produced from milking cows is immediately cooled to around 4°C.
- *Central collection* — we pipe all milk directly to our central milk tank and store the milk at around 4°C.
- *Delivery* — we directly pipe the raw milk from our central milk tank to the trucks of our customer who collects the raw milk at our farms or third-party logistics providers who deliver the raw milk to our customers.

### ***Facilities***

#### **Milking systems**

All of our farms are equipped with the parallel milking system, a modern system that allows us to pump milk up to 320 milking cows on a farm at the same time. Utilization rates of the milking systems at our four farms ranged from 41.4% to 78.3% as of 30 June 2013, largely depending on how many milking cows are on each farm. The utilization rates of the milking systems are designed to reach 100% at mature farms when the herd mix of milkable cows and calves and heifers stabilizes.

As of 30 June 2013, we had a total of 21 milking machines at our four farms and a majority of our milking machines were purchased from overseas suppliers. Our milking systems, which are highly automated and require low involvement of individual workers throughout the milking process, transport our raw milk through pipes directly to our central milk tank from our milking cows. The milking process is completely insulated from any external contact and therefore minimizes the risks of tampering or contamination. We perform inspections of our milking facilities and equipment three times per day. During the Track Record Period, we did not experience any material or prolonged interruption in our operations.

#### **Storage facilities**

We installed storage facilities at all of our four farms. The storage facilities are well-designed for storing high moisture corn, which is a key ingredient that we use in our feed.

#### **Cow facilities**

We carefully designed and constructed our facilities for the comfort of our cows. We use naturally or mechanically ventilated barns at all of our dairy farms. For example, we use the low profile cross ventilation barn design, or LPCV barn design, which uses mechanically ventilated barns, for milkable cows at Kedong YST Farm and Zhenlai Farm Phase I. LPCV barns were first designed and used in the United States in 2005. The LPCV barns stabilize temperatures throughout the year to maintain a comfortable environment for our cows. In extremely cold winters, the inside temperature of the LPCV barns is at least 10°C to 15°C higher than the outside temperature, and in the summer months, cows housed in LPCV barns are cooled effectively with evaporative cooling pads without generating additional waste water.

**QUALITY CONTROL**

Quality control is essential for dairy products in China. As such, we place great emphasis on quality control and have installed and implemented strict monitoring and quality control systems to manage our operations. The strict quality control systems contribute to the safety and high quality of our raw milk. For example, the control over the quality of dairy cows and our efforts to keep a clean living environment for our cows enable us to produce high-quality raw milk with low microbe count and low SCC. Generally speaking, raw milk at the time of leaving the udder of healthy cows, which are not infected with mastitis, normally contains very low numbers of micro-organisms and a low SCC. After the raw milk is milked, the microbe count could increase due to external contamination. For more details, please see “Industry Overview — Dairy Farming Industry in China — Assessment of Raw Milk Quality — Safety standard.” In order to ensure the safety of our raw milk, we perform routine checks on our dairy cows twice per day to lower the incidence and prevalence of mastitis. We also use sand, which is known for its ability to control the spread of mastitis, as bedding material to bed our cow stalls, and clean the barns and other facilities regularly. In addition, we adopt strict disinfection procedures during milking and carry out the extraction of raw milk in an automated and sanitary environment to minimize the chance of our raw milk being contaminated with microbe. After the milk is milked from dairy cows, we cool the raw milk immediately and transport it through pipes directly to our central milk tank, which is temperature controlled, all of which help to minimize the risk of external contamination of our raw milk. For more details, please refer to “ — Herd Management” and the quality control measures described below.

At different stages of the whole production process, we perform a number of quality inspections and testing procedures, including sensory testing, physicochemical index evaluation, total bacterial count testing, veterinary drug residue testing, somatic cell testing and pathogenetic bacteria testing, to ensure that our raw milk complies with applicable PRC health and safety regulations for food products. In addition to our own routine inspections, we also submit our raw milk to the livestock breeding guidance center in Heilongjiang to inspect the quality of our raw milk.

In the wake of the melamine incident in 2008, the general public in China, including our customers and consumers as well as the government, have become seriously concerned about the safety of China’s raw milk and dairy products, particularly with respect to any additives, chemicals or other artificial substances that might be added to raw milk. Our customers, as dairy products manufacturers, are required by law to carry out melamine contamination tests before their dairy products are sold on the market. Our customers also carry out the melamine contamination tests when our raw milk is delivered. As we have never added any additive or chemical substances in our raw milk for any purpose, our raw milk has never been found to contain melamine or any artificial substance.

As of the Latest Practicable Date, we had a total of seven technicians, all of whom have professional qualifications with respect to one of the three areas, namely food inspection, dairy products inspection and disease inspection. Each of our dairy farms is equipped with a laboratory to closely monitor our production process. The reports on the safety and quality of our raw milk are generated in the laboratory center and submitted to the enterprise management department and the managers in charge of the quality control. Our raw milk had never been contaminated during the Track Record Period and up to the Latest Practicable Date. In addition, since the commencement of our operations in

2010 up to the Latest Practicable Date, we had not received any safety or quality related complaints regarding our raw milk or been subject to any product dispute or recall or return of our product which could have a material adverse effect on our financial condition or results of operations.

Our comprehensive quality control system is divided into four stages: (i) control over the quality of dairy cows; (ii) control over the quality of feed; (iii) quality control during the milking process; and (iv) quality control during storage and transportation.

### ***Control Over the Quality of Dairy Cows***

The quality of dairy cows directly affects the safety and quality of raw milk. Currently we breed our own high-quality Holstein dairy cows. We inseminate our dairy cows with the semen from selected Holstein bulls sourced from Canada and the United States, to improve the genetic mix of our herd. We purchase frozen semen of selected Holstein bulls from international suppliers either directly or through third-party domestic trading companies, and require a quarantine report of each bull that supplied the semen before the semen is accepted. We assess the semen based on various factors, including the nutritional content of raw milk produced by the bull's offspring, and the milk yield and health condition of the bull's offspring.

We also have a set of comprehensive disease control standards and procedures designed to ensure and maintain the high quality of our dairy cows. We vaccinate all young female calves that are over three months of age and the whole herd four times a year as part of our FMD prevention measures. With the exception of the vaccines and medical treatments for the diseased cows, we have never injected our cows with any chemical or artificial substances, including hormones, for any purpose. We also perform routine checks on the herd at our four farms in order to prevent major diseases. Up to the Latest Practicable Date, our heifers imported from Uruguay, New Zealand and Australia had never been found to be contaminated by any harmful substances. Furthermore, we carry out routine health inspections at least twice per day, based on, among other things, movement and rumination of our dairy cows. Additionally, we have installed the Dairy Star at all of our farms to monitor the quality and health of each dairy cow. Upon detection of any signs of illness, such dairy cow will be immediately quarantined in a separate barn and examined by our veterinary personnel. As of 30 June 2013, we had a total of 137 personnel with backgrounds or training in the area of veterinary medicine at our farms.

### ***Control Over the Quality of Feed***

Feed quality can materially affect the quality and yield of raw milk. We have implemented a centralized system for feed procurement and inspection which helps us to maintain stable and high-quality feed supplies, and we purchase the concentrates and forages from international suppliers through either third-party domestic trading companies or agents, and domestic providers. We have contracted with local suppliers to plant corn silage for us. Feed delivered to our dairy farms by our suppliers is quarantined while our laboratories perform the requisite sampling inspections. Such feed is accepted and stored in our warehouse only after approval by our enterprise management department. Feed that fails the inspection is rejected and immediately returned to the suppliers.

We store different types of feed separately in our warehouses to prevent cross-contamination. We have installed storage facilities at all of our farms. The storage facilities are well-designed for storing corn, which has high moisture content. In addition, due to the relatively cooler temperatures and lower



humidity levels of Northeastern China, where our dairy farms are located, we believe that we are exposed to a lower risk of feed contamination compared with our competitors who operate dairy farms in warmer and more humid environments, such as eastern and southern parts of China.

Additionally, we standardize feeding procedures at all of our farms to make sure our cows are fed using the same methods at all times. We deliver the fresh feed to our cows three times a day and clean the feed mangers once a day to prevent spoilage.

### ***Quality Control During the Milking Process***

We adopt standard milking procedures at all of our dairy farms. We carry out the extraction of raw milk in an automated and sanitary environment to ensure milk quality and safety. We continuously monitor our milking process and carry out inspections during the process to ensure consistency in the quality of our raw milk and compliance with applicable milk safety standards. To ensure the safety and quality of raw milk, we spray the teats of dairy cows with sterilizing fluid before milking commences and clean dairy cows' teats with dry towels before attaching the milking cups. We discard the first three squeezes of raw milk from the dairy cows. After the milking process is complete, we sanitize the teats of dairy cows once again to protect cows from infection. We also clean and sterilize the teat cups before milking. Such milking procedures, combined with our strict disease control procedures to maintain the overall health of our herd and clean living environment for our cows, enable us to produce high quality raw milk with low microbe count and low SCC.

We utilize the parallel milking system, which allows us to cool the raw milk immediately after it is milked from dairy cows and transport it through pipes directly to our central milk tank, which is temperature controlled. The parallel milking system lowers the involvement of individual employees and eliminates the risk of external contamination during the milking process.

### ***Quality Control During Storage and Transportation***

Following completion of the milking process, we carry out further testing and inspection before the raw milk leaves our farms and is delivered to our customers. Prior to delivery, we inspect and test our raw milk for, among other things, veterinary drug residues, SCC, microbe count, protein content and fat content, and we generate a quality report for our internal records. All of the raw milk in the storage tank will be discarded if we detect any amount of veterinary drug residues that exceeds our safety standards, and there was no such incident during the Track Record Period.

Except for Aibeite, who collects raw milk from our dairy farms and arranges for its own raw milk transportation, we contract with various independent third-party logistics providers to deliver our raw milk to our customers. We have checked their certificates to confirm the qualifications of these independent third-party logistics providers to deliver fresh raw milk. Their transportation infrastructure is designed to maintain optimal storage conditions for the safety and quality of our raw milk during transit. The storage tanks and milk containers in their delivery trucks are cleaned and sanitized regularly in accordance with our quality control procedures. Throughout the whole process, our milk is stored at temperatures below 4°C to ensure that it maintains its freshness. Each thermo-insulated milk truck is lead sealed before leaving our farms and is opened only by our customers upon arrival. If our customers observe any sign of damage to the lead seal, the milk truck will immediately return to our dairy farms and such milk will be discarded. No such incident has happened in the past. We do not keep any raw milk stock at our farms, and all raw milk produced is transported within 24 hours.

### RISK MANAGEMENT POLICIES AND PROCEDURES

We have established risk management systems consisting of relevant policies and procedures that we believe are appropriate for our business operations. There are two main risks for dairy farming companies, namely the outbreak of major diseases and product contamination. A major outbreak of any illness or disease at any of our dairy farms could have a significant adverse impact on our raw milk production capacity and volume. At each of our dairy farms, we vaccinate different groups of dairy cows to prevent certain diseases, such as FMD, according to the different stages of their growth and perform routine checks on the health condition of our dairy cows. For more details on disease control, see “— Herd Management — Cow Health and Disease Control.”

Product safety and quality are crucial to our business. Product contamination could harm our business and reputation and subject us to product liability claims and regulatory action. As a result, we adhere to a series of strict quality control procedures to manage our operations. See “— Quality Control.”

### SALES AND MARKETING

#### *Customers*

During the Track Record Period, our top five customers were Yili Group, Mengniu Group, Feihe Dairy Group, Bright Dairy Group and Aibeite, a majority of which are leading dairy products manufacturers in China. During the Track Record Period, our revenue from these five customers collectively accounted for 100.00%, 99.83%, 99.98%, 100.00% and 100.00% of our total revenue for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. In 2012, Mengniu Group, Yili Group and Bright Dairy Group, all of which were engaged in the production and distribution of dairy products in China, were the three largest dairy products manufacturers in China with a consolidated market share of 21.8%. The other two of our top five customers were Feihe Dairy Group, also a leading dairy products manufacturer in China in 2012, and Aibeite, which is primarily engaged in the processing of infant formula products. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, revenue from our largest customer was RMB0.3 million, RMB52.8 million, RMB305.3 million, RMB141.1 million and RMB153.3 million, respectively, and accounted for 100%, 35.5%, 44.3%, 43.1% and 39.8% of our total revenue, respectively.

We intend to maintain these relationships in order to maintain and grow our revenue. Prior to 2012, Mr. HL Zhao and Mr. Fu Wenguo held 18.39% and 24.52% equity interests in Aibeite, respectively, and they did not have any interest in Aibeite as of the Latest Practicable Date. To the best knowledge of our Directors, none of other Directors, their associates or any of our Shareholders holding more than 5% of our issued capital, is related to or owns any interest in any of our top five customers.

#### *Contract Terms*

During the Track Record Period, we sold our raw milk to customers mainly through one-year contracts. In the past, we entered into contracts with Feihe Dairy Group and Bright Dairy Group pursuant to which we agreed to supply these two customers with all the raw milk produced at certain of our farms on a daily basis. At the same time, they also agreed to offtake our raw milk at such farms. In addition, our past contracts with Bright Dairy Group and Aibeite required us to obtain the consents of

---

## BUSINESS

---

these two customers prior to selling raw milk to other customers, failing which we would be liable for breach of contract and required to pay damages. During the Track Record Period, in certain circumstances we breached our contractual obligations to sell raw milk produced at certain of our farms to Feihe Dairy Group on an exclusive basis and to obtain Bright Dairy Group's written consent prior to selling raw milk to other customers. This failure was due to the fact that, during the initial stages of our contractual relationship with these customers and as we were gradually assuming the role of a major raw milk supplier for their production of high-end dairy products, our production volumes increased significantly such that these customers needed more time to reallocate their procurement volumes among their suppliers in order to absorb all of the raw milk with which we were contracted to supply them. As such, there was implicit understanding between our customers and us to waive our obligations. In addition, we have obtained written waivers from each of them to document their implied waivers for our defaults historically and of their respective claims or rights arising from such breaches. The new sales contracts we entered into with these customers in 2013 do not contain exclusivity terms or require us to obtain the consent of any customer prior to selling raw milk to others. Furthermore, we have established a contract management system to oversee the execution, modification, termination and management of our contracts, in order to minimize the risk of defaulting on our contracts going forward. Under such system, the contract undertaking department is required to submit the relevant contracts and annexes, within 30 days after the performance of contracts or resolution of contract disputes, to the administration department, which is required to compile contract lists and monitor contract status. In addition, the contract undertaking department is required to determine if certain contracts need to be renewed before such contracts expire.

Pursuant to the Oumei Transfer Agreement, we agreed, as consideration for the acquisition of Gannan Oumei Farm and Kedong Oumei Farm, to make the first payment in cash and to supply raw milk valued at a specified amount to Feihe Dairy HLJ on a quarterly basis in lieu of a second cash payment. Under the agreement, we agreed to supply Feihe Dairy HLJ with raw milk produced at these two farms exclusively and would only be permitted to sell raw milk to other customers after supplying Feihe Dairy HLJ with raw milk valued RMB122.4 million per quarter for 18 months after the closing date of such acquisition in September 2011. Furthermore, we had agreed to continue to provide raw milk exclusively to Feihe Dairy HLJ from these two farms at the fair market price upon request even after the satisfaction of the supply obligation set forth in the contract. This exclusivity term in the contract was subsequently replaced by the raw milk priority supply term in the supplemental agreement we entered into with Feihe Dairy HLJ in April 2013, pursuant to which Feihe Dairy HLJ has priority to purchase our raw milk under the same conditions as those governing our contracts with other dairy products manufacturers. This priority supply term was retrospectively effective from its execution date and is expected to expire when all the acquisition consideration has been repaid. In addition, pursuant to the supplemental agreement, we are required to supply Feihe Dairy HLJ with raw milk valued RMB48.4 million in total on a quarterly basis for 33 months from 1 April 2013, or pay Feihe Dairy HLJ the shortfall of such quarterly payment in cash.

In the first half of 2013, we entered into new sales contracts with our top five customers, respectively. The new sales contracts generally have contract terms of one year, and are renewable upon expiration. Pursuant to the new contracts, we are obligated to supply our top five customers, except for Aibeite, with a minimum amount of raw milk per day, with 5% to 20% flexibility. We agreed to supply raw milk to Aibeite on a daily basis with an amount based on the actual availability. The contracted minimum sales volumes mentioned above were preliminary volumes that both parties agreed upon when

entering into the contracts, and the actual executed volumes were subject to adjustments based on further negotiations, market conditions and the allocation of our total production volumes among our customers.

We are generally required to provide raw milk that meets qualifications stipulated in our sales contracts. Our customers have the right to refuse acceptance of our raw milk if the raw milk: (i) fails to pass the safety and quarantine inspection conducted by our customers; (ii) is produced by milking cows that gave birth within seven days of production, were undergoing antibiotic treatment when milked or had been milked within seven days after receiving such treatment, or by cows that were suffering from any infectious diseases, such as mastitis, bovine TB, or brucellosis, when milked; (iii) is spoiled or adulterated; or (iv) fails to meet other safety and quality standards stipulated by laws and regulations.

Under the new sales contracts with Yili Group, Mengniu Group, Bright Dairy Group and Feihe Dairy Group, we have agreed to arrange for the deliveries of our raw milk to their processing plants by third-party logistics providers. Under the sales contracts with Aibeite, Aibeite collects raw milk directly from our farms for its processing plant.

Under a majority of our sales contracts, our customers are required to compensate us for losses incurred as a result of any undue refusal of delivery of qualified raw milk, or any unreasonable imposition of heightened safety and quality standards of raw milk not specified in the contracts. Accordingly, we are required to deliver raw milk to our customers on a daily basis, failing which we are required to pay a penalty of RMB5,000 per customer per day.

### ***Credit Policy***

During the Track Record Period, sales of our raw milk to our customers were made pursuant to our general credit policy and payment terms, except for Feihe Dairy Group, to which we supply raw milk to settle the consideration for the acquisition of two dairy farms. Our trading terms with our customers are mainly on credit, generally with credit terms of up to 30 days. Our customers are required to make payments on raw milk purchases in the previous month, based on the actual purchase quantities and prices.

### ***Pricing Policy***

In general, the purchase price of our raw milk is determined through a formula which is calculated with reference to a base price taking into account any upward or downward adjustments for exceeding or failing certain safety and quality standards including, among other things, the microbe count, the level of protein content and fat content and the freezing point of raw milk. For example, pursuant to our contract with one of our customers, an upward adjustment of RMB200 per tonne is attached to the base price when the microbe count of our raw milk falls below 100K/ml. The base price is adjusted from time to time based on market price, and is affected by consumer demand, which is high in the first and fourth quarters and relatively low in second and third quarters in a year. A price cap is set along with the base price. We apply similar price adjustment mechanisms to all of our customers. We negotiate the selling price with each of our customers from time to time, depending on the changes of market condition. We confirm that the selling prices of the raw milk that we sold to Feihe Dairy Group during the Track Record Period were at similar levels compared to the selling prices of the raw milk that we sold to other

customers. Based on their due diligence, the Joint Sponsors concur with the above confirmation. Therefore, the profitability of our sales to Feihe Dairy Group was also similar to the profitability of our sales to other customers.

In 2012, the Heilongjiang government implemented a guided-price of approximately RMB3,310 per tonne, which is a benchmark price for raw milk sold in the province and significantly lower than our average selling price of approximately RMB4,100 per tonne in the same year. In fact, due to the super premium quality of our raw milk, a number of customers use our raw milk for the production of their high-end dairy products and, as a result, we are able to charge raw milk prices that are higher than the prices charged by a majority of other dairy farming companies in China.

### MAJOR SUPPLIERS

Our primary raw material is feed for our dairy cows. Our feed consists of a mixture of both concentrates, such as corn, soybean meal and cotton seed meal, and forages, such as corn silage, grass forage and alfalfa. While the concentrates are commodities that can be readily purchased on the market, forages are much more difficult to procure as they must be planted and harvested according to certain specifications in order to preserve their nutritional values.

Our procurement department is responsible for acquiring feed, selecting suitable suppliers, and coordinating with our quality control personnel to ensure that the delivered feed meets our specifications and requirements. As the quality and yield of raw milk produced by a dairy cow are largely determined by the nutritional composition of its feed, we only source feed products from carefully selected feed suppliers in and outside China to ensure reliable and high-quality feed supplies. We currently procure approximately 50% to 80% of our alfalfa supplies from U.S. suppliers and a portion of oat supplies from Australian suppliers through either third-party domestic trading companies or agents. We select suppliers mainly through mutual negotiation, which enables us to procure high-quality feed at reasonable costs. We compare the quality and prices of feed from several suppliers, where possible, and consider each supplier's ability to satisfy our volume and delivery requirements. We provide specifications for feed, including certain percentages of protein for calf feed, freshness requirement for alfalfa and certain percentage of water content for cotton seed meal. We procure almost all the feed from multiple suppliers at the same time to minimize our dependence on any single supplier.

We have not entered into any long-term contracts with any of our suppliers. We maintain good relationships with our feed suppliers, and did not experience any material disputes with our suppliers or supply shortages during the Track Record Period. Our Directors confirm that the raw materials required for our production are readily available in the market and our Directors do not expect any interruption to our feed supplies.

We typically purchase our concentrates from domestic suppliers. Because of our scale and the quantity we typically purchase, we are able to obtain favorable terms on prices for many of our concentrate components. For our forage supplies, we generally enter into short-term purchase agreements shorter than five months with trading companies to purchase high-quality imported alfalfa, and purchase agreements with domestic suppliers to buy other forages. We also enter into short-term purchase agreements of between eight to 12 months with local suppliers, under which the local suppliers grow the corn silage according to our specifications. We determine the harvest time and we harvest the corn silage using our own large-scale harvesters to ensure the quality of the corn silage. We maintain the right to refuse the delivery of concentrates and forages if the feed fails to meet our standards.

---

## BUSINESS

---

In order to maintain the high quality and high yield production of our raw milk, we purchase the semen of selected bulls from Canadian and U.S. suppliers either directly or through third-party domestic trading companies. The selected suppliers provide us with a list of the most productive Holstein bulls of that year. Taking into consideration factors such as age and type of dairy cows, we select the most suitable semen that can best optimize the genetic mix of our dairy cows.

Three of our feed suppliers, namely Dinghe Feeds, Dinghe Modern and Dinghe Qinggang, were owned by Mr. HL Zhao with 60.0%, 66.7% and 66.7% of equity interests, respectively, as of the Latest Practicable Date. All of our other suppliers are Independent Third Parties. We have business relationships of longer than two years with three of our five largest suppliers, which are all feed suppliers. These suppliers do not include any of our customers. We were granted credit terms ranging from two to six months during the Track Record Period. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our largest supplier accounted for 24.5%, 5.6%, 19.9% and 5.8%, respectively, of our total purchases, and our five largest suppliers together accounted for 44.1%, 19.3%, 35.0% and 21.9%, respectively, of our total purchases. To the best knowledge of our Directors, none of our Directors, their respective associates or any of our Shareholders holding more than 5% of our issued capital, is related to or owns any interest in any of our five largest suppliers.

As of the Latest Practicable Date, we were not involved in any outstanding disputes with our existing suppliers.

### INDEPENDENT THIRD-PARTY CONTRACTORS

During the Track Record Period, we engaged independent third-party contractors, who are experienced workers within and around the regions in which we operate, primarily to build our dairy farms. As of 30 June 2013, we had a total of 25 independent third-party construction contractors.

#### *Scope of Work*

Our independent third-party contractors carry out work that is labor intensive and requires them to possess experience in the construction of large-scale dairy farms. We contract with third-party contractors to build components for our dairy farms, including barns for different groups of dairy cows, milking halls, feed warehouses and supporting infrastructure. We also engage these contractors for other assignments, such as erecting steel structures, installing equipment and building production facilities. In addition, under several construction contracts, the contractors are liable for any accidents that occur during construction, including monetary losses or personal injuries, arising directly from their lack of safety management or violation of applicable laws. There were no such accidents that materially affected our business during the Track Record Period. Our authorized employees supervise the construction undertaken by our independent third-party contractors and communicate with them regarding the construction from time to time. Our independent third-party contractors are also required to construct the dairy farm in accordance with relevant laws and will be liable for any failure to pass the governmental inspections. In the event that the completed facilities fail to meet our requirements for the daily operation of our dairy farms, the contracts require the independent third-party contractors to pay us damages.

We believe that maintaining a stable relationship with our contractors and the contractors' satisfactory performance are both critical to the success of our business operations. During the Track Record Period, we were not involved in any disputes with, and were not held liable for any regulatory



---

## BUSINESS

---

non-compliance by, independent third-party contractors that would have resulted in a material adverse effect on our business, financial condition or results of operations. In addition, we did not experience any suspensions or delays as a result of any improper act by the independent third-party contractors during the Track Record Period. All independent third-party contractors are selected in accordance with our selection criteria, see “— Our Selection Criteria.”

### *Our Selection Criteria*

In selecting third-party contractors, we obtain quotes from various independent third-party contractors based on their construction capability, quality, price, skill and experience. Prior to entering into contracts, we also require the independent third-party contractors to possess the requisite certificates issued by the relevant administrative authorities. Such third-party contractors are required to carry out their work in accordance with the design and schedule of the relevant assignments as well as with our quality, safety, environmental, labor, social insurance and social insurance-related standards.

### *Contract Fees*

According to the contracts, the contract price can be either an adjusted amount which can be changed upon both parties’ approvals, or a fixed amount in the signed contract, which is determined by the agreed-upon terms of the contract. Monetary damages may be incurred in case of either party’s breach of contract, the contractors’ delayed completion of the project or our delayed payment. During the Track Record Period, we did not incur damages as a result of any breach of contract.

## LOGISTICS

For Yili Group, Mengniu Group, Feihe Dairy Group and Bright Dairy Group, we contract with several logistic providers to deliver our raw milk to the processing facilities of these customers, while Aibeite arranges for its own raw milk delivery. We do not own or operate any trucks used for raw milk transportation. We have stringent criteria for the selection of a logistics provider, such as price, industry experience and track record. We implement a set of strict quality control standards for them to follow. All of our logistics providers have experience in the raw milk delivery.

Under the logistics agreements that we entered into with logistics providers, the raw milk must be transported to the appointed place in accordance with the contract terms. In addition, we have the right to supervise the logistics providers’ transportation operations, and require them to be equipped with certain devices and facilities in accordance with the relevant PRC laws and regulations on raw milk transportation. The logistics providers are liable for any damages resulting from their failure to deliver raw milk to our customers under certain circumstances, such as the drivers’ reckless driving, breach of their contractual obligations and where their trucks fail our quality control inspections. The logistics agreements are mainly one-year contracts, and some of these agreements will be automatically renewed absent any disputes between the parties. We believe that by engaging professional logistics providers, we are able to manage the delivery of our raw milk more efficiently and further strengthen our quality and safety control. All of our logistic providers are specialized milk transporters. Their ability to customize their transportation facilities and procedures in accordance with our quality standards helps to ensure the quality of our raw milk.



---

## BUSINESS

---

During the Track Record Period, we did not experience any material disruption or delay in the delivery of our raw milk. We believe this outsourcing arrangement allows us to focus our resources on our core business, reduce our capital investment and minimize the risk of liability for transportation accidents, delivery delays or losses. We also believe that alternative qualified logistics providers are readily available in the market, and that we are able to substitute our current logistics providers with alternative logistic providers if they fail to meet our requirements.

### COMPETITION

The dairy farming industry in China is extremely fragmented. According to *Euromonitor International*, in 2012, among approximately 2.2 million dairy farms, more than 99.9% had fewer than 1,000 cows. As a result, large-scale dairy farms that are equipped with modern technologies and advanced farming processes have significant opportunities to expand market share through further growth and improved milk yields. We are a leading dairy farming company in China in terms of herd size as well as in terms of production volume in 2012, and are dedicated to the production of super premium raw milk. Each of our dairy farms has an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and is among the largest dairy farms in China.

During the Track Record Period, our only product was the raw milk produced on our farms. Competition is based on various factors, such as safety, price and quality, among which the most important one is product quality. Following the melamine incident, downstream dairy products manufacturers have focused on sourcing premium quality raw milk, especially for the production of their high-end dairy products. As such, the supply of premium raw milk has fallen short of demand. According to *Euromonitor International*, our raw milk is of super premium quality. The average microbe count and SCC of our raw milk are as low as 4K/ml and 162K/ml, respectively, while the average percentages of protein and fat of our raw milk are as high as 3.4% and 4.2%, respectively. As measured by such parameters, our raw milk is considered the safest and most nutritious in China and therefore is in high demand among leading domestic dairy products manufacturers.

The large-scale dairy farming industry has a relatively high entry barrier, requiring substantial capital investment, management's experience and government support. Our Directors believe that we face limited competition in China's large-scale dairy farming industry, and are of the view that our competitive strengths, including the super premium quality of our raw milk, operating scale and strategic locations of our farms will further increase our competitiveness in China as a producer of premium raw milk and allow us to effectively target customers who are seeking to purchase quality raw milk and produce high-end dairy products.

### EXPANSION PLAN

We intend to expand our business to encompass upstream operations, including the production and sale of feed and organic fertilizers by developing our own feed farms and through strategic cooperative arrangements with local farmers in neighboring regions. We believe that our management team, which participates in the field management process in cooperation with our silage suppliers, possesses the requisite experience to manage our future upstream business, and that agricultural human resources are readily available in Heilongjiang. We believe that extending our business operations to include feed farming will help to ensure stable supplies of quality feed for our operations, as well as to diversify our revenue streams. In particular, the plantation of corn, which is the primary feed for our dairy cows, will provide us with access to silage and corn feeds of higher quality which we expect will enable us to

increase our annual milk yield per cow while maintaining, or further improving, our high milk quality. Furthermore, by expanding our business to include corn plantation, we will be able to reduce our cost of sales per tonne and increase our gross profit margin by reducing the cost of silage and corn feeds, which is a major component of our total cost of sales. To promote our own self-sufficiency and the environmental sustainability of our operations, we also plan to recycle a portion of the processed waste from our operations through our recycling systems to produce fertilizers.

In addition, rather than engaging in downstream operations directly, we plan to develop strategic relationships with renowned international and domestic brands and leaders in the dairy sector to expand downstream into China's high-end dairy products market. We intend to broaden our customer base and gain market recognition in the dairy products industry.

As of the Latest Practicable Date, we did not have a definitive timetable set for commencing our upstream operations or any concrete plans for the downstream expansion of our business.

### SAFETY AND ENVIRONMENTAL MATTERS

#### *Occupational Health and Safety*

With respect to matters relating to occupational health and safety, we are subject to, among other PRC laws and regulations, the *PRC Production Safety Law* (中華人民共和國安全生產法), the *PRC Labor Law* (中華人民共和國勞動法), the *PRC Labor Contract Law* (中華人民共和國勞動合同法) and the *Regulations on the Prevention and Treatment of Occupational Illness of the PRC* (中華人民共和國職業病防治法).

Under the *PRC Production Safety Law*, we are required to maintain safe working conditions as provided in the *PRC Production Safety Law* and other relevant laws, administrative regulations, national standards and industrial standards. We are also required to provide production safety training to our employees. The design, manufacturing, installation, use, inspection, maintenance, reconstruction and disposal of our equipment are required to conform to the applicable national or industrial standards.

Under the *PRC Labor Law* and the *PRC Labor Contract Law*, we are required to establish a system for labor safety and sanitation, abide by applicable rules and standards and provide training to our employees on relevant rules and standards. We are also required to provide our employees with a work environment that complies with labor safety and sanitation standards set forth in relevant regulations and provide regular health examinations for our employees engaged in hazardous activities.

Pursuant to the *Regulations on the Prevention and Treatment of Occupational Illness of the PRC* (中華人民共和國職業病防治法), we are required to: (i) establish and perfect the responsibility system of occupational illness prevention and treatment, strengthen administration and improve the level of occupational illness prevention and treatment, and bear responsibility for the harm of occupational illness; (ii) purchase social insurance for industrial injury; (iii) adopt effective protective facilities against occupational illness, and provide protective articles to the laborers for personal use against occupational illness; and (iv) inform the employees, according to the facts, of the potential harm of occupational illness as well as the consequences thereof and the protective measures and treatment against occupational illness when signing a labor contract with employees. We have developed and implemented measures to monitor and record employee occupation health and safety statistics.





During the Track Record Period, there were no material accidents involving any serious personal injury or significant property damage. As advised by our PRC Legal Advisers, we were in compliance with the laws and regulations on the prevention and treatment of occupational illness in China as of the Latest Practicable Date, and we were not subject to any penalties or disputes relating to any occupational illness.

### *Environmental Matters*

Our business operations do not generate hazardous waste or pollutants that have a significant adverse effect on the environment. The primary waste generated from our operations includes waste water and cow manure, which are treated in compliance with applicable environmental standards in our production facilities. We have implemented a set of waste treatment procedures at our production facilities. For details on our waste management, see “— Our Business Operation — Waste Management.” We are subject to environmental protection laws and regulations promulgated by the PRC Government. We are required by the relevant governmental authorities to carry out an environmental impact assessment before constructing new farms. Upon completion of the construction of our farms, we are required to go through and pass an environmental completion acceptance inspection for each of our farms from environmental supervision agencies prior to starting formal production (the “Inspection”). Depending on the requirements of environmental supervision agencies, we may commence trial production and must apply for Inspection by environmental supervision agencies within three months of the trial production period. All of our dairy farms had passed the Inspection as of the Latest Practicable Date. Our PRC Legal Advisers have confirmed that our operations are currently conducted in accordance with the PRC environmental protection laws and regulations in all material respects, except for those disclosed in the non-compliance table in “— Licenses, Regulatory Approvals and Compliance Record.” We incurred RMB10.1 million, RMB47.0 million, RMB47.0 million and RMB0.1 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively, in capital expenditure relating to our compliance with applicable PRC environmental laws, regulations and policies. We estimate that our capital expenditure relating to environmental matters will be approximately RMB15 million in 2013.

As of the Latest Practicable Date, we had not received any notifications or warnings and had not been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially adversely affected our production.

### INTELLECTUAL PROPERTY

We have applied to the Trade Mark Office (商標局) of SAIC for the PRC trademarks “” and “.” As of the Latest Practicable Date, we had registered with the Hong Kong Trade Marks Registry for the marks “” and “” as trademarks in Hong Kong in series of color and black and white using simplified Chinese characters. As of the Latest Practicable Date, we were also the registered owner of two domain names, *ystdfarm.com* and *ystdairyfarm.com*.

As of the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, and we were not aware of any such claims, either pending or threatened.

## BUSINESS

### PROPERTIES

We are involved in non-property activities, and we do not have a carrying amount of a property interest that is or is above 15% of our total assets. As a result, we are not required to conduct a property valuation.

#### *Land*

##### **Held properties**

We did not own any state-owned land use right during the Track Record Period.

##### **Leased properties**

As of the Latest Practicable Date, we leased 14 parcels of land, with a total area of approximately 20,331,667 sq.m., which are mainly used for dairy farming and plantation purposes in China. These leases are generally for a term of ten to 50 years. There was no dispute or challenge against us regarding the lease and use of the collectively-owned land. As advised by our PRC Legal Advisers, all the leases are in compliance with the applicable PRC laws and regulations.

The following table sets out a summary of the land leased by us as of 30 June 2013:

<u>Lessor</u>	<u>Use of property</u>	<u>Area (mu)</u>	<u>Area (equivalent to sq.m.)</u>	<u>Duration of lease or land use rights</u>	<u>Expiration Date</u>
The People's Governments of Heiyupao Town and Dongping Town, Zhenlai County, Baicheng City, Jilin (吉林白城市鎮賚縣黑魚泡鎮人民政府、鎮賚縣東屏鎮人民政府)	Dairy farming	3,099.0	2,066,000	30 years	July 2039
Furao Village, Runjin Town, Kedong County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市克東縣潤津鄉富饒村民委員會)	Dairy farming	1,176.0	784,000	30 years	February 2038
Biantun Middle School (邊屯中學)	Dairy farming	300.0	200,000	30 years	May 2041
Furao Village, Runjin Town, Kedong County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市克東縣潤津鄉富饒村民委員會)	Plantation	127.3	84,867	approximately 15 years and 8 months	December 2027
Wanfa Village, Kedong Town, Kedong County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市克東縣克東鎮萬發村村民委員會)	Dairy farming	165.5	110,340	30 years	June 2037
Wanfa Village, Kedong Town, Kedong County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市克東縣克東鎮萬發村村民委員會)	Plantation	815.2	543,467	30 years	June 2037

## BUSINESS

<b>Lessor</b>	<b>Use of property</b>	<b>Area (mu)</b>	<b>Area (equivalent to sq.m.)</b>	<b>Duration of lease or land use rights</b>	<b>Expiration Date</b>
Yongsheng Village, Runjin Town, Kedong County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市克東縣潤津鄉永勝村村民委員會)	Plantation	1,865.7	1,243,807	20 years	July 2032
Jianhua Village, Jincheng Town, Kedong County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市克東縣金城鄉建華村村民委員會)	Dairy farming	412.0	274,660	30 years	June 2037
Yongsheng Village, Runjin Town, Kedong County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市克東縣潤津鄉永勝村村民委員會)	Plantation	83.8	55,867	10 years	April 2019
Wanfa Village, Kedong Town, Kedong County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市克東縣克東鎮萬發村村民委員會)	Plantation	191.0	127,333	10 years	December 2020
Fuyu Village, Gannan County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市甘南縣富餘村村民委員會)	Dairy farming	1,479.5	986,333	50 years	December 2057
The People's Government of Baoshan Town, Gannan County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市甘南縣寶山鄉人民政府)	Plantation	10,725.2	7,150,153	20 years	January 2028
The People's Government of Baoshan Town, Gannan County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市甘南縣寶山鄉人民政府)	Plantation	9,384.6	6,256,387	30 years	October 2042
Fuyu Village, Gannan County, Qiqihar, Heilongjiang (黑龍江齊齊哈爾市甘南縣富餘村村民委員會)	Plantation	672.7	448,430	approximately 15 years and 9 months	January 2028

### ***Buildings***

#### **Owned buildings on state-owned construction land**

We did not own any building on state-owned construction land during the Track Record Period.

#### **Buildings on agricultural facilities land**

As confirmed by our PRC Legal Advisers, according to relevant laws and regulations, we do not need to obtain the ownership certificates for the buildings we constructed on agricultural facilities land. As advised by our PRC Legal Advisers, we legally own such buildings on agricultural facilities land and can legally use such buildings without building ownership certificates.

#### **Leased buildings**

As of 30 June 2013, we leased space in two buildings of a total gross floor area of approximately 104 sq.m. Both buildings are located in China. In relation to these buildings where we have leases, all of our landlords are entitled to lease the buildings. Our PRC Legal Advisers have confirmed that we are using these leased properties in accordance with the permitted usages under the relevant lease agreements.

The following table sets out a summary of the space in the buildings leased by us as of 30 June 2013:

<b>Lessor</b>	<b>Use of property</b>	<b>Area (sq.m.)</b>	<b>Duration of lease or land use rights</b>	<b>Expiration Date</b>
AIC of Kenqu, Heilongjiang, and Price Control Administration of Kenqu, Heilongjiang (黑龍江省墾區工商行政管理局和 黑龍江省墾區物價局)	Office use	36.0	1 year	November 2013
Jia Bei (賈蓓)	Office use	68.2	2 years and 1 month	March 2014

#### ***Buildings and Structures Currently under Construction***

As of the Latest Practicable Date, we did not have any structures under construction.

### EMPLOYEES

As of 30 June 2013, we had 952 employees. Based on our proven past experience and the fact that a majority of our staff are milkers, we believe that we will not experience any problems in sourcing skilled workers.

The salaries of our employees largely depend on their type and level of work, and length of service with us. Our employees receive social welfare benefits and other benefits including social insurance. The local bureaus of social insurance have confirmed that we were in compliance with the laws and regulations on social insurance in China. In addition, we opened our housing funds accounts and started to make contributions to housing funds from April 2013. Although we did not make the required contribution to housing funds before April 2013, we have obtained confirmation letters issued by the relevant housing funds management centers confirming that we are not required to make any additional contribution and no penalty will be imposed against us with respect to the housing funds. Except for the above annual contributions, we are not responsible for other employee benefits.

A number of our technical management personnel have worked at the dairy farms for more than three years. During the Track Record Period, we did not experience any material labor disputes with our employees, received any complaints, notices or orders from relevant government authorities or third parties, nor have any claims relating to social insurance or housing funds been made against us. For additional information about certain of our employees, see “Directors, Senior Management and Employees” in this Prospectus.

Our wages, salaries and contributions to staff welfare for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 were RMB1.4 million, RMB15.5 million, RMB18.4 million and RMB21.8 million, respectively.

### INSURANCE

We have in place insurance policies for all of our dairy cows that are older than 18 months against deaths caused by diseases, accidents and natural disasters. For all of our imported heifers, our suppliers provide insurance during transit until they reach the relevant ports in China. We then purchase insurance policies for them once they fulfill the above condition. We receive subsidies for such insurance premiums from the government. Generally, our insurance policies cover diseases such as FMD, tuberculosis and brucellosis. The maximum compensation under our insurance policies covers a majority of our cost to procure imported replacement heifers. We generally renew our insurance policies on an annual basis. As of the Latest Practicable Date, we had not made any significant claims under these insurance policies. In addition, we have not experienced any material difficulties in renewing our insurance policies since we commenced operations.

Since it is not required by PRC law, and doing so would not be consistent with the usual industry practice in China, we do not carry any product liability insurance or maintain insurance coverage for our main production facilities, equipment and buildings. See “Risk Factors — Risks Relating to Our Business — Our insurance coverage and government compensation may not be sufficient to cover all of our potential losses.” for more details.



---

## BUSINESS

---

We also maintain mandatory social security insurance policies for our employees in China pursuant to PRC laws and we make contributions to mandatory social security funds for our employees. See “Directors, Senior Management and Employees” in this Prospectus for further details.

### LEGAL PROCEEDINGS

As of the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our financial condition or results of operations.

### LICENSES, REGULATORY APPROVALS AND COMPLIANCE RECORD

Except for the non-compliance incidents disclosed below, we are advised by our PRC Legal Advisers that, during the Track Record Period and up to the Latest Practicable Date, we had complied with relevant PRC laws and regulations in all material respects and had obtained all requisite licenses, approvals and permits from relevant regulatory authorities for our operations in China, including the following three certificates or filings which are necessary for us to carry out our dairy farming business: (i) the Certificate for Animal Epidemic Disease Prevention Condition (動物防疫條件合格證); (ii) the Certificate for Breeding Livestock and Poultry Production and Operation (種畜禽生產經營許可證); and (iii) the Filings for Livestock and Poultry Farms (Zone) (畜禽養殖場(小區)備案申請表).

Non-compliance incidents	Details of non-compliance incidents	Reasons for the non-compliance	Consequences of non-compliance incidents	Current status	Remedies and internal control measures
1	Failure to make contributions to housing funds before April 2013	The historical non-compliance incidents with respect to the housing funds occurred primarily because: (i) the local governments did not strictly enforce the housing funds policy in Kedong County, Gannan County and Zhenlai County, where our farms are located; and (ii) our employees had no intention to make contributions of the housing funds that they were responsible for.	The relevant housing funds management center will require a company failing to register with such center or open housing funds account to rectify within a specified period of time, otherwise a penalty ranging from RMB10,000 to RMB50,000 will be imposed. In addition, the relevant housing funds management center will require a company failing to make the contribution to housing funds in full or in a timely manner to rectify within a specified period of time, or the company may be ordered to make the required contribution by the courts.	We started to make contributions to housing funds from April 2013, and have obtained confirmations from the relevant housing funds management centers <sup>(1)</sup> , which are the competent governmental authorities, that we are not required to make any additional contribution and no penalty will be imposed on us for failing to make contributions before April 2013. In addition, our Controlling Shareholders have jointly and severally agreed to indemnify us against any penalties or liabilities in connection with such non-compliance. For more information, see "Appendix IV — Statutory and General Information — E. Estate Duty, Tax and Other Indemnities."	Taking into consideration recommendations by an internal control consultant, we have established a set of policies and procedures relating to the contribution to housing funds in accordance with applicable regulations. At each farm, the administration department is responsible for the staff salary calculation and making monthly housing fund contributions. The accounting department is in charge of monitoring the monthly housing fund contributions. For more details on our general internal control measures, please see " — Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents."
2	Failure to register the lease agreements	The historical non-compliance incidents with respect to the registration of the lease agreements occurred primarily because: (i) such registration is not of a material nature and our PRC Legal Advisers are of the opinion that non-registration of the lease agreements would not affect the validity of the relevant lease agreements or our rights to continue to use the leased properties pursuant to these agreements; and (ii) our staff lack the relevant legal knowledge and experience to handle the registration of the lease agreements.	Penalties ranging from RMB1,000 to RMB10,000 may be imposed by relevant authorities.	Our Controlling Shareholders have jointly and severally agreed to indemnify us against any penalties or liabilities in connection with such non-compliance. For more details, see "Appendix IV — Statutory and General Information — E. Estate Duty, Tax and Other Indemnities."	We have contacted the landlords and sought their assistance in the lease agreement registrations. We use the leased space in the two buildings for offices, one of which was registered as the place of registration of Ruixinda. If we are unable to register the lease agreements by 31 December 2013 due to their unwillingness to cooperate or other reasons beyond our control, we may need to relocate, which we do not foresee any difficulty because we believe such properties at similar costs are readily available in the market and change of the place of registration is only a matter of administrative process and will not materially adversely affect our business and operation.
					Taking into consideration recommendations by an internal control consultant, we have established a set of policies and procedures relating to the registration of lease agreements in accordance with applicable regulations. Our administration department is responsible for monitoring the registration of all lease agreements. Furthermore, we have engaged a compliance officer to monitor our internal procedures, including the management of lease agreements, and advise us on relevant matters to prevent similar non-compliance incidents in the future. For more details on our general internal control measures, please see " — Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents."

Non-compliance incidents	Details of non-compliance incidents	Reasons for the non-compliance	Consequences of non-compliance incidents	Current status	Remedies and internal control measures
3 Production without passing the Inspection	We are required to pass the Inspection and obtain approvals from environmental supervision agencies where our farms are located before we can conduct commercial production. As of 30 June 2013, all of our farms had been producing raw milk without first passing the Inspection and obtaining such approvals.	The historical non-compliance incidents with respect to the Inspection occurred primarily because: (i) it generally takes a considerable length of time for the relevant environmental supervision agencies, which handle a large number of cases and have limited experience and resources, to carry out the Inspection of large-scale and, in particular, mega-scale dairy farms; (ii) we were allowed to produce milk without first passing the Inspection because the local governments intended to promote the local economy and operation of large-scale dairy farms in response to the PRC Government's policy to promote standardized large-scale dairy farming; and (iii) Gannan Oumei Farm and Kedong Oumei Farm did not apply for the Inspection before we acquired them in September 2011.	The competent authorities may order us to suspend our production and/or impose penalties of up to RMB100,000 due to non-compliance.	We obtained express waivers for the non-compliance events from the competent authorities <sup>(2)</sup> on 30 May 2013. All of our dairy farms had passed the Inspection as of the Latest Practicable Date.	Taking into consideration recommendations by an internal control consultant, we have established a set of policies and procedures relating to obtaining approvals on the Inspection from relevant environmental supervision agencies for future farms. The project team of the construction of each future farm will be in charge of monitoring the progress of construction and commencement of operation of the new farm, including the application and completion of the Inspection. For more details on our general internal control measures, please see " — Internal Control Measures to Prevent Recurrence of Non-Compliance Incidents."

Notes:

- (1) As advised by our PRC Legal Advisers, such housing funds management centers, which are at local level, are the authorities in charge of our registrations and payments of housing funds, and therefore, the confirmations from higher level are not necessary.
- (2) We obtained express waivers from the competent authorities at local level instead of provincial level because: (i) issuing such express waivers is at discretion, rather than a legal duty, of the relevant local and provincial authorities; (ii) the local authorities, which are responsible for the supervision and administration of environmental protection matters within their territories of jurisdiction, agreed to and are competent to issue the express waivers for the environmental related matters; and (iii) we have applied to the relevant provincial authorities for the Inspection. As advised by our PRC Legal Advisers, the possibility that provincial level authorities would override express waivers issued by local level authorities, or that provincial level authorities would impose any penalties on us for the foregoing historical non-compliance incidents after we have been issued such express waivers, is remote.

**INTERNAL CONTROL MEASURES TO PREVENT RECURRENCE OF NON-COMPLIANCE INCIDENTS**

We did not make any provision for the non-compliance incidents disclosed above because none of these matters is of a material nature and, based on the confirmation of our PRC Legal Advisers, we have received waivers from the relevant competent authorities regarding the applicable fines and possible administrative orders with respect to the historical non-compliance incidents involving housing funds and the Inspection. In response to the non-compliance incidents disclosed above and in order to prevent the recurrence of non-compliance incidents in the future, we have adopted the following measures:

- in June 2013, our Directors and management attended an internal control training session conducted by PRC Legal Advisers in respect of the compliance with applicable PRC laws and regulations;
- we have engaged an internal control consultant, a reputable firm, to conduct an assessment on our remedial internal control system and procedures relating to the non-compliance incidents. During the assessment, the internal control consultant assessed the design of the remedial internal control system and procedures through walkthrough procedures, such as interviewing responsible personnel for relevant processes, and reviewing relevant documentations. The internal control consultant was also engaged to assess our internal control system and procedures in areas other than the matters relating to the non-compliance incidents, and to advise on relevant matters. Taking into consideration recommendations by the internal control consultant, we have established a set of policies and adopted the internal control measures as disclosed in the table in “— Licenses, Regulatory Approvals and Compliance Record” on pages 191 and 192 of this Prospectus;
- we have engaged Jingtian & Gongcheng, a qualified PRC law firm, as our compliance officer to assist our Board to identify and manage the legal risks associated with our daily operations and advise us on relevant regulatory matters to ensure due compliance with PRC laws, rules and regulations applicable to our Group;
- we have established an audit committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code and Corporate Governance Report as set forth in Appendix 14 to the Listing Rules, led by Mr. Wu Chi Keung. The audit committee and Mr. Wang Shaogang, an executive Director, will supervise the implementation of our internal control measures in order to better monitor our daily operations from the perspective of compliance with applicable rules and regulations;
- we have established a set of policies and procedures for operational processes, including production, investment and financial management;
- we have established a sales contract registration system to better manage our sales contracts and to prevent future breaches of sales contracts;
- we have established a corporate policy on compliance matters, which has been reviewed and approved by our management;

---

## BUSINESS

---

- we have appointed a compliance adviser to advise us on compliance matters pursuant to Rule 3A.19 of the Listing Rules; and
- we have established a training program for those of our Directors, senior management and employees who have responsibilities related to the compliance process under the Listing Rules.

The Directors are of the view that our enhanced internal control measures are adequate and effective. Taking into account the Joint Sponsors' review of our internal control procedures and their discussion with our senior management, the assessments and findings of the internal control consultant, as well as the remedial measures taken and proposed by us in connection with historical non-compliance incidents, the Joint Sponsors, who are not experts in internal control, are not aware of any reasons to disagree with the Directors' view that the enhanced internal control measures are adequate and effective.

Having taken into account the nature and reasons for the historical non-compliance incidents, the confirmations of the relevant competent governmental authorities, and the remedial actions taken by us, our Board is of the view that these non-compliance incidents shall not affect the suitability of the Directors under the Listing Rules and the Company's suitability for listing under the Listing Rules. In addition, in light of: (i) the remedial measures taken by us in respect of the non-compliance incidents as disclosed in "— Licenses, Regulatory Approvals and Compliance Record;" (ii) the circumstances surrounding such non-compliance incidents; and (iii) the view of the Directors that the historical non-compliance incidents did not have any material adverse effect on our operation and business as a whole, the Directors are of the view, and the Joint Sponsors agree, that such non-compliance incidents shall not affect the suitability of the Directors under the Listing Rules and the Company's suitability for listing under the Listing Rules.