
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and Capitalization Issue, and without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, ZHL Asia Limited and ZHY Asia Limited will in aggregate hold approximately 34.12% of the issued share capital of the Company, where ZHL Asia Limited and ZHY Asia Limited are solely owned by Mr. HL Zhao and Mr. HY Zhao (who is the brother of Mr. HL Zhao), respectively. For the purpose of the Listing Rules, ZHL Asia Limited, ZHY Asia Limited, Mr. HL Zhao and Mr. HY Zhao were deemed as the Controlling Shareholders of the Company as of the Latest Practicable Date.

Information on Other Companies Owned by Our Controlling Shareholders

As of the Latest Practicable Date, other than dairy farming and supply of raw milk to dairy products manufacturers carried out by our Group, Mr. HL Zhao and Mr. HY Zhao, being our Controlling Shareholders, also had controlling interest in the companies as mentioned below (collectively, the “Excluded Business”). These companies have investments in companies which are engaged in businesses of different sectors from that of our Group. Brief details of each of the companies under the Excluded Business are as follows:

<u>Name of company</u>	<u>Percentage equity-holding attributable to our Controlling Shareholders</u>	<u>Principal activities</u>
Dinghe Modern	66.7%	Supply of feeds
Dinghe Feeds	60.0%	Supply of feeds
Dinghe Qinggang	66.7%	Supply of feeds
HLJ Beian NKTH	57.5%	Trading, lease of commercial and residential properties

As all the Excluded Business is in sectors different from our Group, our Directors have considered that it is either unnecessary or it is not in the best interest of our Group to include the Excluded Business in our Group for the purpose of Listing in order for us to focus on the principal business of our Group.

In particular, for the supply of feeds by the Dinghe Group (“Feeds Supply Business”) was not included as part of our Group in the Reorganization because (i) our Group is not the sole customer of the Feeds Supply Business; (ii) our principal business is dairy farming and not supply of feeds; and (iii) the Dinghe Modern (which is the holding company of other members of the Dinghe Group which is engaged in the Feeds Supply Business) is owned as to 66.7% by our Controlling Shareholders and the remaining equity interests are owned by Independent Third Parties.

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INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Save as disclosed in this section and “Continuing Connected Transactions” in this Prospectus, our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing.

Our Group is capable of carrying on our business independently of and does not place undue reliance on our Controlling Shareholders, taking into consideration the following factors:

Management Independence

Our Board comprises four executive Directors, two non-executive Directors and three INEDs. Mr. HL Zhao, being one of our executive Directors, is a Controlling Shareholder of the Company.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of the Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum.

We have an independent senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform their roles in the Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Listing.

Financial Independence

During the Track Record Period, we principally financed our operations through a combination of (i) borrowings from banks; and (ii) cash generated from our operations, as well as (iii) borrowings from our Controlling Shareholders and their respective associates. As of the year-end during the Track Record Period:

- (a) our total bank borrowings amounted to about RMB159.9 million, RMB491.5 million and RMB465.0 million, respectively; and
- (b) about RMB16.2 million, RMB267.5 million and RMB341.0 million, respectively were borrowings obtained by us from our Controlling Shareholders or their associates, in respect of which no interest was carried.

As of the date of this Prospectus, all loans, advances and balances due to and from our Controlling Shareholders had been fully settled, and all security and guarantees by them in connection with our Group’s borrowings have been fully released.

Save as mentioned above, our source of funding was independent from our Controlling Shareholders and none of our Controlling Shareholders or their respective associates, financed our operations during the Track Record Period.

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During the Track Record Period and up to the Latest Practicable Date, we had independent financial and accounting system, independent treasury function for receiving cash and making payments. Our Group is capable of making financial decisions according to our own business needs. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders.

Save as aforesaid, our Group does not rely on our Controlling Shareholders and/or their respective associates by virtue of their provision of financial assistance.

Operational and administrative independence

During the Track Record Period, our Group was operationally and administratively independent of our Controlling Shareholders and their associates as we have our own company secretary, operational personnel and administrative personnel who are not in the employment of our Controlling Shareholders or their associates. Our Board believes that we have been operating independently from our Controlling Shareholders and their associates and will continue to do so after the Listing.

COMPETITION AND CONFLICT OF INTERESTS

Undertakings Given by Controlling Shareholders

Each of our Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, the Controlling Shareholders have given a deed of non-compete and other undertakings (the “Non-Compete Undertakings”) in favor of the Company (for itself and for the benefits of its subsidiaries) on 7 November 2013, pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably undertaken to us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates and/or companies controlled by them (other than our Group) shall:

- (i) not, directly or indirectly, be interested or involved or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group (including but not limited to the dairy farming business and production and sale of raw milk or dairy products) in the PRC and any other country or jurisdiction in or to which any member of our Group carries on business mentioned above from time to time (the “Restricted Activity”);
- (ii) not solicit any existing employee or then existing of our Group for employment by it/him or its/his associates (excluding our Group);
- (iii) not, without the consent from the Company, make use of any information pertaining to the business of our Group which may have come to its/his knowledge in its/his capacity as our Controlling Shareholder for any purpose of engaging, investing or participating in any Restricted Activity;

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- (iv) if there is any project or new business opportunity that relates to the Restricted Activity, refer such project or new business opportunity to our Group for consideration;
- (v) not invest or participate in any Restricted Activity; and
- (vi) procure its/his associates (excluding our Group) not to invest or participate in any project or business opportunity of the Restricted Activity.

The above undertakings (i) and (vi) are subject to the exception that any of the associates of our Controlling Shareholders (excluding our Group) are entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity, regardless of value, which has been offered or made available to our Group, provided always that information about the principal terms thereof has been disclosed to the Company and our Directors. The Company shall have, after review and approval by our Directors (including our INEDs without the attendance by any Director with beneficial interest in such project or business opportunities at the meeting, in which resolutions have been duly passed by the majority of the INEDs), confirmed its rejection to be involved or engaged, or to participate, in the relevant Restricted Activity and provided also that the principal terms on which that relevant associate of our Controlling Shareholders invests, participates or engages in the Restricted Activity are substantially the same as or not more favorable than those disclosed to the Company. Subject to the above, if the relevant associate of our Controlling Shareholders decides to be involved, engaged, or participate in the relevant Restricted Activity, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to the Company and our Directors as soon as practicable.

In the event that the Company decides to carry on, participate, engage or be interested in any business (the “New Business,” which may include Feeds Supply Business that is currently engaged by the Dinghe Group) (in addition to its dairy farming business) whether by itself or through any of its subsidiaries and that the New Business competes or may compete directly or indirectly with any business carried on at the relevant time by any of the Controlling Shareholders and/or its associates, whether for its own account or for that of any person and otherwise through the medium of any company which is its associates or as principal, partner, director, employee, consultant or agent (“Relevant Capacity”), each Controlling Shareholder has undertaken jointly and severally to the Company that:

- (a) it shall within a period of six months from the date of it being notified by the Company of such decision make or procure to be made an offer to the Company to acquire or otherwise assume its interests in such business on fair and normal commercial terms, provided that the acceptance of such offer shall be subject to the approval of the INEDs of the Company for the time being and compliance with the applicable requirements of the Listing Rules; and
- (b) if the offer referred to in item (a) is not accepted by the Company within six months after it is made or such later time as may be necessary for satisfaction of any applicable requirements of the Listing Rules, each Controlling Shareholder shall within a period of two months after the lapse of such offer dispose of or procure the disposal of such business to other third parties who are not associates of the Controlling Shareholder or otherwise cease to carry on, participate or be interested in such business in any Relevant Capacity.

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The Non-Compete Undertakings is conditional on (i) the Stock Exchange granting listing of, and permission to deal in, all our Shares in issue and to be issued under the the Global Offering and the Capitalization Issue and our Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreements not being terminated in accordance with their respective terms or otherwise.

For the above purpose, the “Relevant Period” means the period commencing from the Listing Date and shall expire on the earlier of the dates below:

- (a) the date on which our Controlling Shareholders and their associates (individually or taken as a whole) ceases to own 30% of the then issued share capital of the Company directly or indirectly or cease to be the Controlling Shareholders for the purpose of the Listing Rules and do not have power to control our Board; and
- (b) the date on which our Shares cease to be listed on the Stock Exchange.

Each of our Controlling Shareholders has undertaken under the Non-Compete Undertakings that he or it shall provide to us and our Directors (including our INEDs) from time to time all information necessary for the annual review by our INEDs with regard to compliance with the terms of the Non-Compete Undertakings by our Controlling Shareholders. Each of our Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the Non-Compete Undertakings in our annual report.

Confirmation Given by Other Directors

Each Director confirms that he/she does not have any competing business with our Group.

Corporate Governance

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to compliance and enforcement of the Non-Compete Undertakings, we have adopted the following corporate governance measures:

- (a) our INEDs shall review, at least on an annual basis, compliance and enforcement of the terms of the Non-Compete Undertakings by our Controlling Shareholders;
- (b) we will disclose any decisions on matters reviewed by our INEDs relating to compliance and enforcement of the Non-Compete Undertakings either through our annual report or by way of announcement;
- (c) we will disclose in the corporate governance report of our annual report on how the terms of the Non-Compete Undertakings have been complied with and enforced; and

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- (d) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Non-Compete Undertakings, he may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Bye-laws.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.