The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and the accompanying notes of our Group as of and for the years ended 31 December 2010, 2011 and 2012 and as of and for the six months ended 30 June 2012 and 2013 included as Appendix IA, the audited consolidated financial statements and the accompanying notes of Ruixinda Gannan as of and for the year ended 31 December 2010 and as of and for the nine months ended 30 September 2011 included as Appendix IB, and the audited consolidated financial statements and the accompanying notes of YST Heping as of and for the year ended 31 December 2010 and as of and for the nine months ended 30 September 2011 included as Appendix IC to this Prospectus. The consolidated financial statements included as Appendices IA, IB and IC have been prepared in accordance with IFRS.

On 29 September 2011, we completed the acquisition of the entire equity interest in Ruixinda Gannan and YST Heping and took over the existing raw milk production business at Gannan Oumei Farm and Kedong Oumei Farm. Since October 2011, the financial information of such business operations have been included in our consolidated financial statements. Hence, our results and the expansion of our business during the Track Record Period may not be indicative of our future results and growth.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements."

SUMMARY FINANCIAL AND OTHER INFORMATION

The summary financial information from our audited consolidated statements of comprehensive income and statements of cash flows for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, and our audited consolidated statements of financial position as of 31 December 2010, 2011 and 2012 and 30 June 2013 set forth below are derived from the Accountants' Report included as Appendix IA to this Prospectus and should be read in conjunction with the Accountants' Report and with "— Management's Discussion and Analysis of Financial Condition and Results of Operations."

Summary Consolidated Statements of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	**337**	**148,785**	**689,113**	**327,382**	**385,129**
Cost of sales	(224)	(97,404)	(428,630)	(200,129)	(234,667)
Gross profit	**113**	**51,381**	**260,483**	**127,253**	**150,462**
Other income	6,461	2,585	17,513	1,505	10,018
Gains on bargain purchase	—	164,417	—	—	—
Gains from non-interest bearing financial arrangements	—	—	—	—	49,195
Selling and distribution expenses	—	(3,294)	(17,383)	(8,052)	(9,248)
Administrative expenses	(3,548)	(10,969)	(22,843)	(10,363)	(26,191)
Finance costs	(525)	(24,170)	(45,742)	(19,635)	(58,180)
Changes in fair value less costs to sell of biological assets	5,608	9,903	17,713	15,400	(16,462)
Profit before tax	**8,109**	**189,853**	**209,741**	**106,108**	**99,594**
Income tax expense	—	—	—	—	—
Profit for the year/period	**8,109**	**189,853**	**209,741**	**106,108**	**99,594**
Other comprehensive expenses to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	—	—	—	—	(2,440)
Total comprehensive income for the year/period	**8,109**	**189,853**	**209,741**	**106,108**	**97,154**

Selected Consolidated Statements of Financial Position

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	701,114	2,156,516	2,360,248	2,453,251
Current assets	125,264	229,910	233,007	594,118
Current liabilities	507,582	1,402,214	1,704,308	1,312,248
Net current liabilities	(382,318)	(1,172,304)	(1,471,301)	(718,130)
Net assets	190,876	380,729	590,470	1,143,130

Selected Consolidated Statements of Cash Flows

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash and cash equivalents at beginning of year	38,604	73,882	17,419	17,419	7,748
Net cash flows from operating activities	213,146	74,706	128,837	21,267	23,044
Net cash flows used in investing activities	(299,188)	(563,735)	(219,320)	(43,853)	(162,161)
Net cash flows from financing activities	121,320	432,566	80,812	28,205	539,088
Net increase/(decrease) in cash and cash equivalents	35,278	(56,463)	(9,671)	5,619	399,971
Effect of foreign exchange rate changes, net	—	—	—	—	250
Cash and cash equivalents at end of year	73,882	17,419	7,748	23,038	407,969

NON-IFRS FINANCIAL MEASURES

We have included in this Prospectus the adjusted profit for the year/period and adjusted net profit margin, and have provided a reconciliation of profit for the year/period to the adjusted profit for the year/period. The adjusted profit for the year/period represents profit for the year/period excluding (i) changes in fair value less costs to sell of biological assets, (ii) gains on bargain purchase, and (iii) gains from non-interest bearing financial arrangements. Adjusted net profit margin is calculated by finding the adjusted profit for the year/period as a percentage of the revenue for the same year/period.

The adjusted profit for the year/period and adjusted net profit margin are not standard measures under IFRS. We have included the adjusted profit for the year/period and adjusted net profit margin as supplemental financial measures to assess our operating performance. The adjusted profit for the year/period and adjusted net profit margin should not be considered independently, or construed as an alternative to profit for the year/period or as an indicator of our operating performance or profitability.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. 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. 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, primarily due to its premium quality. 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. 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. 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. 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 customers, 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 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.

Basis of Presentation

In September 2011, we completed the acquisition of the entire equity interest in Ruixinda Gannan and YST Heping from Feihe Dairy HLJ and Mr. Ma Jinyan pursuant to the Oumei Transfer Agreement dated 1 August 2011 and completed the acquisition on 29 September 2011. Thereafter, we have taken over the existing raw milk production business at Gannan Oumei Farm and Kedong Oumei Farm. We have included in this Prospectus the accountants' reports of our Group, Ruixinda Gannan and YST Heping as Appendix IA, Appendix IB and Appendix IC, respectively, because our financial information alone for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 does not fully reflect the results and financial condition of our operating business as a result of the transactions described in "History, Development and Reorganization."

Pursuant to the Reorganization as detailed in "History, Development and Reorganization — Reorganization" in this Prospectus, the Company became the holding company of the companies now comprising our Group on 26 October 2012. The companies now comprising our Group were under the common control of the Controlling Shareholders before the Reorganization. Accordingly, for the purpose of the Accountants' Report, the financial information has been prepared by applying the principles of merger accounting, as if the Reorganization had been completed at the beginning of the Track Record Period.

The consolidated statements of comprehensive income, statements of financial position, statements of changes in equity and statements of cash flows of our Group during the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of our Group as of 31 December 2010, 2011 and 2012 and 30 June 2013 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

The financial statements have been prepared in accordance with IFRS, which comprise all standards and interpretation approved by the International Accounting Standards Board, or the IASB. All IFRS effective for accounting period commencing from 1 January 2012, together with the relevant transitional provisions, have been early adopted by the reporting entity in the preparation of the financial information throughout the Track Record Period. They have been prepared under the historical cost convention, except for biological assets, which have been measured at fair values. The financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

The financial statements have been prepared under the going concern concept, notwithstanding that our Group had net current liabilities of RMB382.3 million, RMB1,172.3 million, RMB1,471.3 million and RMB718.1 million as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively, because we have received a capital injection into one of our subsidiaries of approximately RMB459 million from Ms. SX Li and had the reclassification of payables to Feihe Dairy Group pursuant to the supplemental agreement we entered into with Feihe Dairy HLJ in April 2013. We expect that by: (i) receiving the proceeds from the Global Offering; (ii) reclassification of the Pre-IPO Investments from liabilities to equity upon the Listing; and (iii) utilizing cash flows from operating activities as our farms reach a mature stage, our net current liabilities position will improve.

Factors Affecting Our Results of Operations and Financial Condition

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors. Our consolidated financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below:

Size and expansion of our herd

Our results of operations are significantly affected by the expansion of our herd. During the Track Record Period, we operated four dairy farms and the number of our dairy cows increased from 7,893 as of 31 December 2010 and 32,219 as of 31 December 2011 to 37,000 as of 31 December 2012, and further to 38,788 as of 30 June 2013. The increase in the number of milkable cows in our herd has enabled us to sell more raw milk. For more information on milk yield, see "— Milk yield" below. However, demand for our raw milk, due to its premium quality, continued to exceed our supplies throughout the Track Record Period. The table below sets forth our raw milk sales volume as well as the sales of raw milk for the periods indicated:

	For the year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
Raw milk sales volume (tonnes)	95	35,722	168,070	80,209	85,079
Raw milk sales (RMB'000)	337	148,785	689,113	327,382	385,129

The table below sets forth the total number of our dairy cows as of the dates indicated:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
Milkable cows	97	14,950	20,643	20,885
Heifers and calves	7,796	17,269	16,357	17,903
Total dairy cows	7,893	32,219	37,000	38,788

As we were in an early stage of business expansion and have not reached a mature stage in terms of the lactation cycle of our herd, our business scale expanded substantially during the Track Record Period. The rapid growth in our herd size from 7,893 as of 31 December 2010 to 32,219 as of 31

December 2011 was due to the (i) acquisition of dairy farms, (ii) procurement of imported heifers, and (iii) breeding of calves and heifers in our own farms. When we commenced operations at our first farm, Kedong YST Farm, in 2009, we procured imported Holstein heifers from Uruguay, New Zealand and Australia. Thereafter, we continued to procure high-quality imported Holstein heifers to expand our herd size. During the Track Record Period, we added 9,539 heifers to our herd due to procurement of imported heifers. 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.

Our herd size also grew due to the significant increase in our self-bred calves and heifers. The increase in our herd size from 32,219 as of 31 December 2011 and 37,000 as of 31 December 2012 to 38,788 as of 30 June 2013 was attributable to the breeding of calves and heifers in our own farms. A female calf becomes a heifer after six months of her birth and grows to become a milkable cow once she gives birth to her first calf. Generally, each of our milkable cows gives birth to a calf every 400 days, and is able to breed up to six calves until she is culled. As a result, and following the maturity of our self-bred calves and heifers, we expect that our herd size will be growing more rapidly than before. This growth in herd size was attributable to the increase in self-bred calves by using modern breeding technologies, partially offset by the regular culling of milking cows with low milk yields.

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. 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.

Milk yield

The milk yield of our cows is affected by a number of factors, including a cow's lactation stage, breed, genetics and feed.

We have taken the following measures to increase our milk yield per cow:

- improving the genetic mix of our herd and productivity of our future generations by importing the semen of selected Holstein bulls from international suppliers;
- the regular culling or selling of cows with low yields to improve cost efficiency;
- optimizing the type and combination of feeds for our cows; and
- adhering to strict disease control measures to ensure that our cows remain healthy.

A cow's milk yield is typically low during its first lactation cycle relative to when it reaches its peak level during the third and fourth lactation cycles. As of 30 June 2013, 29.3%, 43.7%, 18.6%, 7.0% and 1.4% of our milkable cows were in their first, second, third, fourth and fifth (or subsequent) lactation cycle, respectively. We expect that our average milk yield will be positively affected in the next few years as a larger proportion of our cows reach their third and fourth lactation cycles.

The growth of our raw milk sales during the Track Record Period was mainly due to an increase in number of milkable cows and partly offset by a decrease in the average milk yield per cow. The average milk yield per cow of all our farms during the Track Record Period was substantially influenced by our herd structure. As our dry cows do not produce raw milk, an increase in the percentage of dry cows to our total number of milkable cows in any given period would lower the average milk yield per cow of our farms. Our average annual milk yield per cow decreased from 10.7 tonnes in 2010 to 9.2 tonnes in 2011, and to 8.9 tonnes in 2012. Our average milk yield per cow for the six months ended 30 June 2013 was 8.6 tonnes. The percentage of dry cows to our milkable cows was higher in 2012 compared to 2011 because of the structure of our herd. As we are a growing dairy farming company, we procured a large number of imported heifers in 2011, most of which conceived at approximately the same time and became milkable cows when they began to produce raw milk in 2011. These milkable cows became dry cows 60 days before giving birth to calves also at a similar period of time in 2012. Our average annual milk yield per cow was higher in 2010 than in 2011 because, in 2010, we had only 97 milkable cows, among which very few were in the dry period. Our average milk yield per cow in the first half of 2013 decreased due to severe weather conditions in the winter of early 2013, resulting in low yield production of our cows. As our farms have matured and the age groups of our cows become balanced, we expect that our average milk yield per cow will improve and gradually become more stable.

Raw milk prices

Our sales and profit are influenced by raw milk prices. Our historical average selling prices are generated from dividing the revenue of each year by the sales volume in the same year. The average selling price of our raw milk was RMB3,547.4 per tonne, RMB4,165.1 per tonne and RMB4,100.2 per tonne for the years ended 31 December 2010, 2011 and 2012, respectively. The average selling price of our raw milk increased from RMB4,081.6 per tonne for the six months ended 30 June 2012 to RMB4,526.7 per tonne for the six months ended 30 June 2013. Our raw milk is typically sold at a premium to the average selling prices on the market primarily due to the superior quality of our raw milk. The prices at which we sell our raw milk are influenced by a combination of factors, including the seasonality, quality of milk, the diversity and mix of our customers, market prices and feed costs. During the Track Record Period, we sold raw milk to our customers mainly through one-year contracts. In general, our customers pay us a base price with upward adjustments for meeting certain quality standards. These quality standards are determined by, among other things, the microbe count, the levels of fat and protein content and the freezing point of our raw milk. Because the selling price of our raw milk varies from customer to customer depending on our individual negotiations with each customer, any changes in the proportion of volumes sold among our customers would have an impact on our overall average selling price and, ultimately, our results of operations. We believe that, as we broaden our customer base as a result of our increased production volumes of raw milk and enhanced reputation in the industry, we will have more bargaining power over prices.

The average selling price of raw milk is, to a certain extent, affected by seasonality. In general, the production volume of raw milk is lower in the winter, namely the first and fourth quarters of a calendar year, while demand for raw milk is generally higher, and as a result, raw milk prices are typically higher in the winter. Our acquisition of two dairy farms in September 2011 substantially increased our production volumes in the fourth quarter of that year, when sales prices were higher than the average of the other quarters, and therefore our average selling price increased significantly from 2010 to 2011. Our average selling price of raw milk increased from RMB4,081.6 per tonne for the six months ended 30 June 2012 to RMB4,526.7 per tonne for the six months ended 30 June 2013 because: (i) the domestic supply of quality raw milk decreased as a result of the increased culling of cows by individual and small-scale farms due to low cost efficiencies; and (ii) the PRC Government implemented a series of policies in 2013 to promote the steady supply of quality raw milk in China. Our average selling price of raw milk further increased from RMB4,790.4 per tonne in July and RMB4,807.9 per tonne in August to RMB5,044.3 per tonne in September mainly because the supply of quality raw milk in China continued to decrease in the second half of 2013.

In addition, we have historically adjusted the prices of our raw milk to reflect increases in feed costs by negotiating price increases with customers, and we were able to pass a portion of these increased costs on to our customers. We expect that our results of operations will continue to be affected by the prices of our raw milk. If we are successful in maintaining the premium quality of our raw milk and in continuing to pass on some of increases in feed costs to customers by raising our prices, our sales will continue to grow. However, if we are unable to do so or if general market prices for raw milk decrease, our prices may experience downward pressure, which could negatively impact our results of operations.

Feed costs

Our results of operations are, to a large extent, affected by feed costs, including costs of concentrates (corn, soybean meal and cotton seed meal) and forages (corn silage, grass forage and alfalfa). The costs of feed for our milkable cows are included in our cost of sales, while the costs of feed for heifers and calves are capitalized. Our feed costs for milkable cows were RMB0.2 million, RMB76.8 million, and RMB339.3 million for the years ended 31 December 2010, 2011 and 2012, respectively, representing 75.9%, 78.9% and 79.2% of our cost of sales for the years ended 31 December 2010, 2011 and 2012, respectively. Our feed costs for milkable cows were RMB160.2 million and RMB181.7 million for the six months ended 30 June 2012 and 2013, respectively, representing 80.1% and 77.4% of our cost of sales for the six months ended 30 June 2012 and 2013, respectively. The increase in our feed costs was attributable to the increase in feed consumption during the Track Record Period as our dairy cows matured and our herd size grew. We expect that feed costs will continue to constitute the majority of our cost of sales.

Our feed costs are influenced by factors such as fluctuations in seasonal feed production, commodity market prices and mixture formulas. To provide us with some flexibility to respond to fluctuations in the market prices of concentrates, we meet our concentrates requirements by entering into short-term agreements with domestic suppliers when market prices are more favorable. For our forages supplies, we generally enter into short-term purchase agreements shorter than five months to purchase high-quality alfalfa, but purchase corn silage and grass forage on a yearly basis due to their seasonal growth patterns. We also enter into short-term purchase agreements of between eight to 12 months with local suppliers, under which they grow corn silage according to our specifications.

Prior to October 2012, we calculated our daily feed costs per milkable cow by dividing the monthly feed costs by the monthly average number of milkable cows, which is calculated as the simple average number of milkable cows in the beginning and end of a month multiplied by days in that month. Since October 2012, we were able to calculate our feed costs per milkable cow on a daily basis. Our daily feed costs per milkable cow increased slightly from 2010 to 2011 primarily because the purchase prices of feed increased in 2011 compared to 2010. Our daily feed costs per milkable cow decreased from 2011 to 2012 primarily because: (i) we changed our feed formulas to decrease the feed cost while increase nutritional value; and (ii) our herd structure became mature and we had an increase in dry cows as a percentage of our milkable cows, resulting in reduced feed costs of concentrates. Our daily feed costs per milkable cow increased in the first half of 2013, compared to the same period in 2012, mainly due to the increase in feed prices in the first half of 2013 and the increased quantities of feed given to our milkable cows during their first lactation cycle as part of our improved feed management.

The following sensitivity analysis illustrates the impact of hypothetical changes in the feed costs on our net profit during the Track Record Period:

For the year ended 31 December 2010								
% Change in feed cost	10%	5%	2%	1%	–1%	–2%	–5%	–10%
Corresponding net profit (RMB'000)	8,087	8,098	8,105	8,107	8,111	8,113	8,120	8,131
% Change in net profit	0.28%	0.14%	0.06%	0.03%	–0.03%	–0.06%	–0.14%	–0.28%
For the year ended 31 December 2011								
% Change in feed cost	10%	5%	2%	1%	–1%	–2%	–5%	–10%
Corresponding net profit (RMB'000)	180,113	184,983	187,905	188,879	190,827	191,801	194,723	199,593
% Change in net profit	5.13%	2.57%	1.03%	0.51%	–0.51%	–1.03%	–2.57%	–5.13%
For the year ended 31 December 2012								
% Change in feed cost	10%	5%	2%	1%	–1%	–2%	–5%	–10%
Corresponding net profit (RMB'000)	166,878	188,310	201,168	205,455	214,027	218,314	231,173	252,604
% Change in net profit	20.44%	10.22%	4.09%	2.04%	–2.04%	–4.09%	–10.22%	–20.44%
For the six months ended 30 June 2013								
% Change in feed cost	10%	5%	2%	1%	–1%	–2%	–5%	–10%
Corresponding net profit (RMB'000)	76,127	87,861	94,901	97,247	101,941	104,287	111,327	123,061
% Change in net profit	23.56%	11.78%	4.71%	2.36%	–2.36%	–4.71%	–11.78%	–23.56%

For risk relating to fluctuation of our feed costs, please see "Risk Factors — Risks Relating to Our Business — Our business and results of operations may be adversely affected by feed price fluctuations or interruptions in the supply of feed."

Government policies and tax

Since 2006, the PRC Government has implemented a number of policies to promote and improve the industrialization and specialization levels of the animal husbandry industry, accelerate the breeding and promotion of quality breeds of livestock, and increase the milk yield of dairy cows. These policies have provided support for the growth and development of the dairy farming industry in China. Since the melamine incident in 2008, the PRC Government has placed increased supervision over the dairy farming industry, including issuing new regulations, such as the *Opinions of State Council on Promoting the Sustainable and Healthy Development of Husbandry*, the *Opinions of State Council on Promoting the Sustainable and Healthy Development of Dairy Industry*, the *Opinions of State Council Offices on Overall Promotion of Construction of a New Round Non-staple Food Project* and the *Opinions of the Ministry of Agriculture Concerning the Acceleration of the Work of Promoting Standardized Large-Scale Raising and Breeding of Livestock and Poultry*, which advocate and encourage animal husbandry breeding and standardization at a larger scale. These regulations require relevant governmental authorities and local governments to support the development of large-scale animal husbandry breeding by providing government grants, government assistance, interest rebates for bank loans, insurance premium subsidies and land use rights.

As a result, we received various types of government support throughout the Track Record Period. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, we received government subsidies of RMB5.0 million, RMB0.9 million, RMB14.4 million, RMB0.1 million and RMB7.6 million, respectively. Such subsidies were granted to us based on the government policies which benefit the dairy farming industry for the promotion of, among other things, improved industrialization and specialization levels of the husbandry industry, acceleration of the breeding and promotion of fine breeds of livestock. As of the Latest Practicable Date, we had fulfilled all conditions of such government grants. We also received interest rebates of RMB7.3 million, RMB3.8 million and RMB10.9 million for the years ended 31 December 2010, 2011 and 2012, respectively, which were subtracted from our finance costs. We did not receive any interest rebates for the six months ended 30 June 2013. We expect to continue to receive similar support for the foreseeable future. For further information about these government policies, see "Regulations — The Laws and Regulations Relating to the Industry — Policies Relating to Modern Husbandry and Dairy Industry."

During the Track Record Period, our results of operations were positively affected by tax policies which generally benefit raw milk producers in China. Under the relevant PRC tax laws and regulations, an enterprise's income generated from activities of raising cattle and poultry may be exempted from PRC enterprise income tax. Moreover, sale of self-produced primary agricultural products may be exempted from VAT. As a result of these policies, our raw milk sales have not been subject to PRC enterprise income tax or VAT. As advised by our PRC Legal Advisers, under the current PRC tax laws and regulations, (i) there is no statutory time limit for us to enjoy such exemptions from PRC enterprise income tax and VAT insofar as our relevant PRC subsidiaries complete the requisite filings with or obtain the requisite approvals from the relevant competent tax authorities, and (ii) there is no material legal impediment for us to renew such filings or obtain such approvals. However, if the PRC Government changes the relevant laws and regulations and starts to collect enterprise income tax or VAT on sales of raw milk, our profitability could be negatively impacted.

Dairy cows

Dairy cows, including milkable cows, heifers and calves, are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, with any gain or loss recognized in profit or loss for the period in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly consisting of transportation costs and excluding finance costs and income taxes. The fair value of dairy cows is determined based on the present location and condition and is determined independently by a professional valuer.

The raising costs for our milkable cows, namely milking cows and dry cows, are allocated to cost of sales, while the raising costs including depreciation and feed costs for heifers and calves are capitalized, until such time as they begin to produce milk.

Changes in the fair value of biological assets

Our results have been, and we expect will continue to be, affected by changes in the fair value of our biological assets. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012, our results of operations were positively affected by gains arising from changes in fair value less costs to sell of biological assets of RMB5.6 million, RMB9.9 million, RMB17.7 million and RMB15.4 million, respectively. For the six months ended 30 June 2013, we had losses arising from changes in fair value less costs to sell of dairy cows of RMB16.5 million. Changes in fair value less costs to sell of biological assets represent fair value gains/losses on our biological assets and gains/losses from the sale of unfit dairy cows less the costs of selling, due to changes in physical attributes and market prices of those assets. The fair value of dairy cows is determined based on: (i) the market prices as of the end of each reporting period adjusted with reference to the age and cost to reflect differences in characteristic and/or stages of growth of dairy cows; or (ii) the present value of expected net cash flows from the dairy cows discounted at a current market rate, when market prices are unavailable.

The fair value of the heifers and calves are determined with reference to their market prices with similar age, breed and genetic merit, while the fair value of milkable cows represents the present value of expected net cash flows from such milkable cows discounted at a current market rate. In applying these valuation methods, the independent valuer has relied on a number of assumptions, related to, among other things, raw milk prices, expected milk yield per cow, culling rates, costs and discount rates. The fair value of our dairy cows could be affected by, among other things, the accuracy of these assumptions. Any changes in the estimates may affect the fair value of the dairy cows significantly. Upward adjustments do not generate any cash inflow for our operations. The independent qualified professional valuer and our management review the assumptions and estimates periodically to identify any significant changes in fair value of dairy cows. We expect that our results will continue to be affected by changes in the fair value of our herd. For more information about the valuation methods applied in valuing our herd, see Note 15 of Section II of the Accountants' Report attached as Appendix IA to this Prospectus.

Critical Accounting Policies, Judgments and Estimates

Our principal accounting policies and estimates are set forth in Notes 2.3 and 2.4 of Section II of the Accountants' Report attached as Appendix IA to this Prospectus. IFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate under the circumstances for the purpose of giving a true and fair view of our results and financial position. Critical accounting policies, judgments and estimates are those that require management to exercise judgment and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. We believe the most complex and sensitive judgments, because of their significance to our financial information, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas may differ from our estimates. We have identified below the accounting policies and estimates that we believe are the most critical to our financial information and that involve the most significant estimates and judgments.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which the grant is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at fair value on the acquisition date which is the sum of fair values of assets transferred by us on the acquisition date, liabilities assumed by us to the former owners of the acquiree and the equity interests issued by us in exchange for control of the acquiree. For each business combination, we elect whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its fair value at the acquisition date and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognized in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale." The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

An expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3%
Leasehold improvements	Over the shorter of the lease terms and 18%
Furniture and fixtures	18%
Plant and machinery	6%–7%
Motor vehicles	11%–12%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents buildings and leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, biological assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there have been changes in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Description of Components of Results of Operations

Revenue

Our revenue represents the net invoiced value of raw milk sold. Sales of raw milk produced mainly represented the fair value of milk produced less costs to sell at the point of harvest. During the Track Record Period, we did not experience any returns or delivery refusal of our raw milk. We commenced commercial sales of raw milk in 2010. Our revenue 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. We acquired Gannan Oumei Farm and Kedong Oumei Farm in September 2011. Our revenue from these two farms was RMB102.8 million for the three months ended 31 December 2011, accounting for 79.8% of our total revenue during the same period. For the year ended 31 December 2012 and the six months ended 30 June 2013, our revenue from these two farms was RMB432.7 million and RMB176.6 million, accounting for 62.8% and 45.8%, respectively, of our total revenue during the same periods. The table below sets forth our revenue and gross profit contributed by each of our farms, including Gannan Oumei Farm and Kedong Oumei Farm, for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Kedong Oumei Farm	N/A	N/A	60,322[(1)]	21,668[(1)]	245,082[(2)]	85,028	123,783[(2)]	45,130	73,236	27,475
Gannan Oumei Farm	N/A	N/A	42,509[(1)]	13,893[(1)]	187,619	71,402	93,502	37,452	103,360	39,278
Kedong YST Farm	337	113	28,400	10,517	127,028	52,173	43,559	17,608	139,404	54,561
Zhenlai Farm Phase I	N/A	N/A	17,554	5,303	129,384	51,880	66,538	27,063	69,234	29,148
Total	337	113	148,785	51,381	689,113	260,483	327,382	127,253	385,234	150,462

Notes:

(1) We acquired Kedong Oumei Farm and Gannan Oumei Farm in September 2011. As a result, we recorded the revenue and gross profit from these two farms for the three months ended 31 December 2011.

(2) Our revenue generated from Kedong Oumei Farm for the year ended 31 December 2012 was high primarily due to the large number of milkable cows at Kedong Oumei Farm from January to November 2012. As of 31 December 2012, the number of milkable cows at Kedong Oumei Farm decreased to 3,924, mainly due to the internal title transfer of 7,033 dairy cows, including 3,882 milkable cows, from Kedong Oumei Farm to Kedong YST Farm in December 2012. This was also the primary reason that Kedong Oumei Farm generated higher revenue for the six months ended 30 June 2012, compared to the other three farms.

Our sales volume of raw milk for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 was 95 tonnes, 35,722 tonnes, 168,070 tonnes, 80,209 tonnes and 85,079 tonnes, respectively. During the same periods, the average selling price of our raw milk was RMB3,547.4 per tonne, RMB4,165.1 per tonne, RMB4,100.2 per tonne, RMB4,081.6 per tonne and RMB4,526.7 per tonne, respectively. We were able to sell our raw milk at premium prices due to its superior quality during the Track Record Period. See "— Factors Affecting Our Results of Operations and Financial Condition — Raw milk prices" for more details.

Cost of sales

Our cost of sales mainly represents feed, depreciation, staff costs, utilities and veterinary costs, which are directly related to our production. Our cost of sales for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 was RMB0.2 million, RMB97.4 million, RMB428.6 million, RMB200.1 million and RMB234.7 million, respectively. The table below summarizes the components of our cost of sales by nature during the Track Record Period:

	Year ended 31 December			For the six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Feed	170	76,846	339,341	160,232	181,680
Depreciation	8	6,055	23,386	9,888	16,332
Salary, welfare and social insurance	1	3,672	17,640	7,920	10,310
Utilities	5	4,173	19,360	9,385	10,855
Veterinary cost	—	3,251	13,289	5,792	7,149
Others	40	3,407	15,614	6,912	8,341
Total	**224**	**97,404**	**428,630**	**200,129**	**234,667**

Feed costs represent the feed consumed by our milkable cows. Our feed costs for milkable cows were RMB0.2 million, RMB76.8 million, RMB339.3 million, RMB160.2 million and RMB181.7 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively, representing 75.9%, 78.9%, 79.2%, 80.1% and 77.4% of our cost of sales for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. The increase in our feed costs was attributable to the increase in feed consumption during the Track Record Period as our dairy cows matured and our herd size grew. For more information on factors affecting our feed costs, see "— Factors Affecting Our Results of Operations and Financial

Condition — Feed costs.” Depreciation costs relate to our property, plant and equipment, such as our barns and milking and feeding machines. Veterinary cost includes medicines and vaccines for our milkable cows. Other costs mainly represent maintenance cost of our property, plant and equipment.

Gross profit

Our gross profit is equivalent to our revenue from sales of raw milk for the relevant period less cost of sales for our production for the same period. Our gross profit for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 was RMB0.1 million, RMB51.4 million, RMB260.5 million, RMB127.3 million and RMB150.5 million, respectively. Our gross profit margin for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 was 33.5%, 34.5%, 37.8%, 38.9% and 39.1%, respectively.

Other income

Our other income mainly represents government subsidies, sales of male calves and rental income. Male calves are recorded at their historical costs in the balance sheet and are sold at the day of birth. During the Track Record Period, we received government subsidies, including subsidies for our property, plant and equipment, and rental income from YST Heping for providing housing and maintenance services for its cows prior to our acquisition of Kedong Oumei Farm in September 2011. These government subsidies were subject to the approval of the relevant government authorities on a case-by-case basis, and most of the subsidies were one-off in nature.

We recorded other income of RMB6.5 million, RMB2.6 million, RMB17.5 million, RMB1.5 million and RMB10.0 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively.

Gains on bargain purchase

Gains on bargain purchase occur when the consideration paid, calculated based on historical costs, is lower than the fair value of the net assets acquired. In September 2011, we acquired the entire equity interests of Kedong Oumei Farm and Gannan Oumei Farm from Feihe Dairy HLJ and Mr. Ma Jinyan. The total purchase consideration for the acquisition was RMB849.0 million, RMB114.5 million of which was paid in cash, representing the sum of registered capital of YST Heping and Ruixinda Gannan as of 30 June 2011. The remaining purchase price of RMB734.5 million, representing the amounts payable from YST Heping and Ruixinda Gannan to Feihe Dairy HLJ, was agreed to be satisfied by our delivery to Feihe Dairy Group, in six quarterly installments, of raw milk or in cash. We have not borne any transaction costs for this acquisition.

Gains on bargain purchase in 2011 included imputed gains of RMB43.3 million on payables due to Feihe Dairy Group for the remaining acquisition consideration, which were treated as non-interest bearing financial arrangements.

The gain on bargain purchase, amounting to RMB164.4 million, was recognized in the income statement for the year ended 31 December 2011, mainly representing the difference between the fair value and the sum of the book value of the assets plus payables to Feihe Dairy Group of RMB734.5 million and certain reversal of depreciation and recognition of fair value of biological assets due to different accounting treatments. The fair value and book value of Kedong Oumei Farm and Gannan

Oumei Farm as of 30 September 2011 was RMB970.2 million and RMB73.0 million, respectively; the reversal of depreciation and recognition of fair value of biological assets amounted to RMB162.6 million. The book value is determined by the historical costs of the assets and, as agreed by both parties, is used as a benchmark for the purchase consideration. Such consideration was negotiated and agreed based on ordinary commercial terms and considerations, which both parties believed represented the value of the farms. The purchase consideration was made with reference to the book value of the assets of YST Heping and Ruixinda Gannan, of which biological assets were presented at amortized historical value under historical cost basis under PRC generally accepted accounting principles. However, when preparing our consolidated financial statements, the acquired farms were presented at their fair value as of 30 September 2011 under fair value basis under IFRS, pursuant to which biological assets were presented at fair value as determined by an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"). As such, due to the different accounting treatments between historical cost basis and fair value basis, a significant gain on bargain purchase, representing the difference between the purchase consideration and the fair value of the acquired assets, was recorded in our financial statements as other income. See Note 29 of Section II of the Accountants' Report attached as Appendix IA to this Prospectus for more details.

As advised by our PRC Legal Advisers, it is not mandatory for the parties to obtain independent valuation of such acquisition. Our Directors confirm that this acquisition was legal and valid and conducted on normal commercial terms. The Joint Sponsors, who are not experts in legal matters, are not aware of any reasons to disagree with the Company's PRC Legal Advisers that the acquisition was legal and valid or disagree with the Directors' view that the acquisition was conducted on normal commercial terms, taking into account the overall circumstances surrounding the acquisition and the unique nature of the downstream dairy products market.

Gains from non-interest bearing financial arrangements

For the six months ended 30 June 2013, pursuant to the supplemental agreement we entered into with Feihe Dairy Group in April 2013, the due date of the consideration payable was extended to 2015 without any interest. An imputed interest gain of RMB49.2 million was recognized for such non-interest bearing financial arrangements.

In accordance with IAS39, the financial liabilities were recognized initially at their fair value. The fair value of the remaining payables to Feihe Dairy Group, which are to settle the acquisition consideration, was regarded as long-term non-interest bearing financial arrangements and was measured as the present value of all future cash payments discounted by using prevailing market interest rates for a similar instrument with a similar credit rating.

A gain, which represented the difference between the present value and book value, on such long-term non-interest bearing financial arrangements was recognized initially to profits and losses. The imputed interests for long-term non-interest bearing financial arrangements were amortized through profits and losses until the maturity date of such financial instruments.

Selling and distribution expenses

During the Track Record Period, all our selling and distribution expenses represented transportation expenses for our raw milk. We did not incur any selling and distribution expenses for the year ended 31 December 2010 because we were not responsible for the transportation of raw milk for any customers during that period. Our selling and distribution costs were RMB3.3 million, RMB17.4 million, RMB8.1 million and RMB9.2 million for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively.

Administrative expenses

Our administrative expenses mainly represent salary and welfare for our administrative staff and management, amortization of prepaid land lease payments, travel, meal and entertainment costs and office expenses. Depreciation primarily relates to the depreciation of our property, plant and equipment related to the administrative purposes which is calculated on a straight-line method over the estimated useful life of the asset. We incurred administrative expenses of RMB3.5 million, RMB11.0 million, RMB22.8 million, RMB10.4 million and RMB26.2 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. The table below summarizes the components of our administrative expenses by nature during the Track Record Period:

	Year ended 31 December			For the six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Salary and welfare	863	3,418	5,996	2,178	2,965
Amortization	1,052	1,567	4,049	2,050	2,563
Travel, meal and entertainment	368	1,429	4,917	2,079	2,669
Professional fees	46	250	2,054	544	218
Depreciation	571	129	200	103	239
Insurance	9	1,066	2,642	1,784	1,736
Listing fees	—	—	—	—	14,364
Others	639	3,110	2,985	1,625	1,437
Total	**3,548**	**10,969**	**22,843**	**10,363**	**26,191**

Finance costs

Our finance costs mainly represent interest on bank loans wholly repayable within five years, which include the savings from interest rebates received as a form of government subsidy. We incurred finance costs of RMB0.5 million, RMB24.2 million, RMB45.7 million, RMB19.6 million and RMB58.2 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. For the six months ended 30 June 2013, we had interests on other financial liabilities of RMB31.5 million arising from our Pre-IPO Investments.

In accordance with IAS 32, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to financial liabilities for the present value of the redemption amount.

The Pre-IPO Investors were granted a put option that contains an obligation for the Company to repurchase or purchase its own shares. Therefore, the present value of such instrument was accounted for financial liabilities. The interests calculated by reference to the agreed rate of return, being an internal rate of return of 20% on the subscription price paid by Pre-IPO Investors, were then recognized in profits and losses. Upon the Listing, when the put option lapses, the present value accounted for financial liabilities at that date will be reclassified to the equity of the Company.

Interests on other financial liabilities arising from the Pre-IPO Investments of RMB31.5 million (non-cash in nature) for the six months ended 30 June 2013 were based on an internal rate of return of 20% on the Pre-IPO Subscription Price agreed with and paid by the Pre-IPO Investors, provided that an initial public offering on a qualified exchange does not occur on 1 January 2015. We do not expect to incur such interests when the put option granted to the Pre-IPO Investors lapses upon the Listing.

Imputed interests on non-interest bearing financial arrangements in relation to one of our Shareholders and Feihe Dairy Group were calculated based on costs of debt, including a national interest rate plus risk premium, and the present value of outstanding consideration payable as of the respective balance sheet date. Imputed interests on non-interest bearing financial arrangements of RMB12.2 million, RMB29.0 million, RMB8.3 million and RMB10.4 million were recognized for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively.

Changes in fair value less costs to sell of biological assets

Our biological assets are classified as non-current assets on our consolidated statements of financial position. We sell our dairy cows to optimize our resources taking into account our herd size and the productivity of our herd. Disposal of our biological assets is not one of our principal activities. Accordingly, the sale of unfit dairy cows are not included as revenue. Such sales are instead reflected as a change in the total fair value of our dairy cows at the respective balance sheet dates. We also capitalize feed and other costs associated with raising heifers and calves. See Note 15 of Section II of the Accountants' Report attached as Appendix IA to this Prospectus for the breakdown in changes in the aggregate value of our biological assets during the Track Record Period.

Changes in fair value less costs to sell of biological assets represent fair value gains/losses on our biological assets and gains/losses from the sale of unfit dairy cows less the costs of selling, due to the changes in physical attributes and market prices of those assets. The fair value of dairy cows is determined based on: (i) the market prices as of the end of each reporting period adjusted with reference to the age and cost to reflect differences in characteristic and/or stages of growth of dairy cows; or (ii) the present value of expected net cash flows from the dairy cows discounted at a current market rate, when market prices are unavailable.

In general, heifers at around 14 months of age are regularly traded; therefore, the fair value less costs to sell of the heifers and calves is determined with reference to their market prices with reasonable adjustments to reflect the age difference. As there is no sufficiently active market for trading of milkable cows, and there are no reliable market prices for milkable cows, the independent valuer has applied the net present value approach to calculate the fair value less costs to sell of milkable cows. As of 31 December 2010, we only had 97 milkable cows and there is no sufficient operation data that can be used for discounted cash flow ("DCF") models. Therefore, the fair value less costs to sell of milkable cows as of 31 December 2010 is determined by reference to market prices of heifers with reasonable adjustments. During the Track Record Period, our biological assets were revalued at each balance sheet date.

We have engaged JLL, an independent valuer, to determine the fair value of our dairy cows as of 31 December 2010, 2011 and 2012 and 30 June 2013. For further information about the independent valuer of our biological assets, see "— Information about the Independent Valuer of Our Dairy Cows."

The following table summarizes the average value per calf, heifer and milkable cow of our herd as of the dates indicated:

	As of 31 December									As of 30 June		
	2010			2011			2012			2013		
	Fair value	Quantity	Average value per head	Fair value	Quantity	Average value per head	Fair value	Quantity	Average value per head	Fair value	Quantity	Average value per head
	RMB'000		RMB	RMB'000		RMB	RMB'000		RMB	RMB'000		RMB
Calves	555	67	8,284	43,917	4,422	9,931	29,046	3,312	8,770	44,486	4,582	9,709
Heifers	170,208	7,729	22,022	315,625	12,847	24,568	296,667	13,045	22,742	321,926	13,321	24,167
Milkable Cows	2,597	97	26,773	445,469	14,950	29,797	615,907	20,643	29,836	620,821	20,885	29,726
Total	**173,360**	**7,893**	**21,964**	**805,011**	**32,219**	**24,986**	**941,620**	**37,000**	**25,449**	**987,233**	**38,788**	**25,452**

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012, we had gains arising from changes in fair value less costs to sell of biological assets of RMB5.6 million, RMB9.9 million, RMB17.7 million and RMB15.4 million, respectively. For the six months ended 30 June 2013, we had losses arising from changes in fair value less costs to sell of biological assets of RMB16.5 million.

Prior to our acquisition of Gannan Oumei Farm and Kedong Oumei Farm, Ruixinda Gannan and YST Heping both experienced substantial changes in the fair values of biological assets. For the year ended 31 December 2010, Ruixinda Gannan incurred losses arising from changes in fair value less costs to sell of biological assets of RMB35.9 million, primarily because a significant number of the milkable cows that Ruixinda Gannan imported were culled either due to their unsatisfactory productivity or to their inability to adjust to the local weather conditions upon their transfer to Northeastern China. For the nine months ended 30 September 2011, YST Heping recorded gains arising from changes in fair value less costs to sell of biological assets of RMB50.8 million, mainly due to: (i) a significant increase in the number of calves due to breeding; (ii) an increase in the number of heifers and milkable cows as the calves matured; and (iii) an increase in the market price of heifers, which are approximately 14 months old, from 2010 to 2011. Historically, we did not have high culling rates because we adopted advanced herd management techniques and ceased to procure imported heifers in March 2011. During the Track Record Period, we experienced a significant increase in the number of self-bred calves, which resulted in gains arising from changes in fair value less costs to sell of biological assets during the Track Record Period.

Valuation approach and key assumptions

The Market Approach is adopted to value calves and heifers. The Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect the condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established market may be valued by this approach.

The market price of heifers approximately 14 months of age is a major assumption in this approach, and is determined by referring to the latest average purchase price of heifers of the same age. The fair values of calves and heifers belonging to age groups of less than 14 months are determined by subtracting the breeding costs required to raise the cows from their respective specific ages to 14 months of age with necessary adjustments. The fair values of heifers older than 14 months of age are determined by adding the breeding costs required to raise the dairy cows from 14 months of age to their respective specific ages with necessary adjustments. The prices of 14-month-old heifers used in the valuation were RMB19,000, RMB21,000, RMB22,000 and RMB21,000 per head as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively.

The Income Approach is adopted to value milkable cows for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013. The Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present value of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

The fair value of the milkable cows is developed through the application of the income approach technique known as multi-period excess earnings method, or MEEM. MEEM is a derivative of the discounted cash flow method. Using this technique, JLL estimates the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefits, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are net off. The net income projection is then adjusted by economic capital charges. The capital charges include returns on the assets that are used or used up in generating the income projection of the subject biological assets. Examples of such assets include fixed assets and assembled workforce.

During the Track Record Period, the principal valuation assumptions adopted in applying the DCF approach are as follows:

General key assumptions

- the dairy cows are classified into the following categories: milkable cows, heifers, female calves and male calves;

- the milkable cows are supposed to produce milk and give birth to female and male calves at each lactation cycle, the new born male calves will be sold right after birth, and the female calves will be raised up. The calf birth rates (male to female birth ratio) are estimated based on historical record;

- the calf interval (including dry period and open days) is estimated based on historical data and is assumed to be 400 days (each milkable cow will give birth to a calf every 400 days). This 400-day period is one lactation cycle in this valuation exercise;

- the number of the existing cows at the end of each reporting period will be reduced at a certain culling rate due to both natural and unnatural factors, as applicable; the culling rate adopted for each of the first to six lactation cycles is approximately 10%, 13%, 15%, 23%, 35% and 100%, respectively, for milkable cows. These rates are based on the historical breeding data of our herd and future operating plans;

Key assumptions related to revenue

- the average milk yield during the projected period of six lactation cycles, which is the estimated amount of milk that may be produced by a cow. These yields are assumed according to the historical breeding data of our herd and projection in accordance with industry practice. Milk yield is typically low during the first lactation cycle of a cow, compared to when a cow reaches its peak level during the third and fourth lactation cycles, and then decreases in the following lactation cycles;

- the expected average selling prices of raw milk are estimated based on historical data, and are estimated after taking into account a certain percentage of growth for each projected period after considering future inflation in China;

- the prices of female heifers (given birth by milkable cows) at about 14 months of age is determined by referring to the market prices close to each valuation date;

Key assumptions related to costs

- costs are average costs based on historical cost information, and are estimated after taking into account a certain percentage of growth for each projected period after considering future inflation in China; the costs estimated in the cash flow mainly include feed costs, medicine and vaccination costs, insemination costs, labor and other indirect costs, administrative costs and transportation costs; and

Discount rate assumption

- the discount rates used were 14.0%, 14.7% and 13.8% as of 31 December 2011 and 2012 and 30 June 2013, respectively. JLL used the widely accepted Capital Asset Pricing Model ("CAPM") to determine the discount rate. The parameters adopted in CAPM include risk free rate, market risk premium and data of comparable listed companies with the same or similar businesses and location. The procedures employed and assumptions considered in determining the discount rate are consistent with market practice and in line with other dairy cow valuation exercises. For a sensitivity analysis of the fair value changes of our dairy cows to changes in milk prices, discount rates applied, yield per milkable cow and feed costs, see "— Quantitative and Qualitative Disclosures about Market Risk — Fair value change sensitivity analysis."

Based on the above assumptions, the total revenue and expenses from our milkable cows as forecasted in six lactation cycles as of 30 June 2013 was approximately RMB2.98 billion and RMB2.04 billion, respectively.

The following table sets forth a comparison of our actual results and key assumptions adopted in the valuation of our milkable cows as of 31 December 2011 and 2012 and 30 June 2013, respectively:

	As of 31 December				As of 30 June	
	2011		2012		2013	
	Assumption Used	Actual	Assumption Used	Actual	Assumption Used	Actual
Lactation cycle (days)	400	400	400	400	400	400
Projected lactation cycles	6	N/A	6	N/A	6	N/A
Average culling rate (%)	11.67%	8.59%	12.57%	11.77%	13.71%	5.02%
Average milk yield per head (tonnes)[1]	8.2–10.1 tonnes per lactation cycle	9.2 tonnes per year	8.2–10.1 tonnes per lactation cycle	8.9 tonnes per year	8.2–10.1 tonnes per lactation cycle	8.6 tonnes per year
Average selling price of raw milk (RMB/kg)	4.08	4.17	4.07	4.10	4.30	4.52
Average feed cost (RMB/kg of raw milk produced)	2.17	2.15	2.10	2.02	2.17	2.14
Price of heifer (at approximately 14 months of age) (RMB)[2]	21,000	20,532	22,000	N/A	21,000	N/A
Discount rate (%)	14.02%	N/A	14.70%	N/A	13.82%	N/A

Notes:

(1) The milk yield per head used as an assumption is calculated based on a lactation cycle of 400 days and the actual average milk yield per head is calculated based on a 365-day annual period. The average milk yield per head used as an assumption is represented in a range because: (i) there are six lactation cycles in the assumption; and (ii) milk yield is typically low during the first lactation cycle of a cow, compared to when a cow reaches its peak level during the third and fourth lactation cycles, and then decreases in the following lactation cycles.

(2) The average price of heifers from January to March 2011 was approximately RMB20,532. As we ceased to procure imported heifers in March 2011, we do not have actual prices of heifers after 2012.

In this valuation exercise, most of above assumptions are based on the historical operation data, JLL has fully discussed these assumptions and valuation methodologies with our management. Having considered the qualifications and experience of the JLL team, the procedures and key assumptions adopted by JLL in conducting their valuation and after discussion with JLL and our management, the Joint Sponsors are satisfied that the valuation technique chosen and the inputs used in the valuation are appropriate and reasonable. Our Directors and the Joint Sponsors confirm that the components of material cash flows used in the fair value measurement are consistent with market factors and assumptions used in the measurement.

Income tax expenses

According to the prevailing tax rules and regulations in the PRC, including Article 27 of the *Enterprise Income Tax Law* and Article 86 of the *Regulation on the Implementation of the Enterprise Income Tax Law*, we are engaged in sales of primary agricultural products which entitles us to an exemption from the PRC enterprise income tax for our raw milk sales. As a result, our raw milk sales were not subject to PRC enterprise income tax during the Track Record Period.

Profit for the year/period

We recorded profit of RMB8.1 million, RMB189.9 million, RMB209.7 million, RMB106.1 million and RMB99.6 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. Our profit for the year/period, excluding unrealized fair value gains/losses on biological assets, was RMB2.5 million, RMB180.0 million, RMB192.0 million, RMB90.7 million and RMB116.1 million, respectively, for the same year/period.

Results of Operations

The following table sets forth, for the periods indicated, certain income and expense items from our consolidated statements of comprehensive income and such items as a percentage of our total revenue:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
							(Unaudited)			
Revenue	**337**	**100.0**	**148,785**	**100.0**	**689,113**	**100.0**	**327,382**	**100.0**	**385,129**	**100.0**
Cost of sales	(224)	(66.5)	(97,404)	(65.5)	(428,630)	(62.2)	(200,129)	(61.1)	(234,667)	(60.9)
Gross profit	**113**	**33.5**	**51,381**	**34.5**	**260,483**	**37.8**	**127,253**	**38.9**	**150,462**	**39.1**
Other income	6,461	1,917.2	2,585	1.7	17,513	2.5	1,505	0.5	10,018	2.6
Gains on bargain purchase	—	—	164,417	110.5	—	—	—	—	—	—
Gains from non-interest bearing financial arrangements	—	—	—	—	—	—	—	—	49,195	12.8
Selling and distribution expenses	—	—	(3,294)	(2.2)	(17,383)	(2.5)	(8,052)	(2.5)	(9,248)	(2.4)
Administrative expenses	(3,548)	(1,052.8)	(10,969)	(7.4)	(22,843)	(3.3)	(10,363)	(3.2)	(26,191)	(6.8)
Finance costs	(525)	(155.8)	(24,170)	(16.2)	(45,742)	(6.6)	(19,635)	(6.0)	(58,180)	(15.1)
Changes in fair value less costs to sell of biological assets	5,608	1,664.1	9,903	6.7	17,713	2.6	15,400	4.7	(16,462)	(4.3)
Profit before tax	**8,109**	**2,406.2**	**189,853**	**127.6**	**209,741**	**30.4**	**106,108**	**32.4**	**99,594**	**25.9**
Income tax expense	—	—	—	—	—	—	—	—	—	—
Profit for the year/ period	**8,109**	**2,406.2**	**189,853**	**127.6**	**209,741**	**30.4**	**106,108**	**32.4**	**99,594**	**25.9**
Adjusted profit for the year/period(1)	2,501	742.1	15,533	10.4	192,028	27.9	90,708	27.7	66,861	17.4
Other comprehensive expenses to be reclassified to profit or loss in subsequent periods:										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(2,440)	(0.6)
Total comprehensive income for the year/period	**8,109**	**2,406.2**	**189,853**	**127.6**	**209,741**	**30.4**	**106,108**	**32.4**	**97,154**	**25.2**

Note:

(1) Adjusted profit for the year/period represents profit for the year/period excluding (i) changes in fair value less costs to sell of biological assets, (ii) gains on bargain purchase, and (iii) gains from non-interest bearing financial arrangements. The adjusted profit for the year/period is not a standard measure under IFRS. We have included the adjusted profit for the year/period as a supplemental financial measure to assess our operating performance. The adjusted profit for the year/period should not be considered independently, or construed as an alternative to profit for the year/period or as an indicator of our operating performance or profitability.

Six months ended 30 June 2013 compared with six months ended 30 June 2012

Revenue

Our 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, primarily due to increases in both our sales volume and average selling price of raw milk. The increase in sales volume of 4,870 tonnes from 80,209 tonnes for the six months ended 30 June 2012 to 85,079 tonnes for the six months ended 30 June 2013 was mainly due to an increase in production volume attributable to the continued expansion of our overall herd size. As a result of our organic growth, the total number of our milkable cows across all four of our dairy farms increased from 20,643 for the six months ended 30 June 2012 to 20,885 for the six months ended 30 June 2013. The increase in our average selling price of raw milk from RMB4,081.6 per tonne for the six months ended 30 June 2012 to RMB4,526.7 per tonne for the six months ended 30 June 2013 was mainly attributable to the increased demand for quality raw milk and decreased supply of raw milk as a result of a significant increase in the culling of cows by individual and small-scale farms whose operations were diminished or shut down due to their low cost efficiencies.

Cost of sales

Our cost of sales increased from RMB200.1 million for the six months ended 30 June 2012 to RMB234.7 million for the six months ended 30 June 2013, primarily due to an increase in production volume and sales volume of our raw milk attributable to our organic growth. Our feed costs, accounting for approximately 80% of our costs of sales, increased from RMB160.2 million for the six months ended 30 June 2012 to RMB181.7 million for the six months ended 30 June 2013 mainly because of increases in feed prices, number of milkable cows and quantities of feed given to our milkable cows during their first lactation cycle in 2013.

Gross profit

As a result of the foregoing, 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 gross profit margin increased from 38.9% for the six months ended 30 June 2012 to 39.1% for the six months ended 30 June 2013, primarily due to the increase in the average selling price of our raw milk and our economies of scale, as well as our improved operating efficiency, partly offset by the increase in our daily feed costs per cow for the six months ended 30 June 2013.

Other income

Our other income increased substantially from RMB1.5 million for the six months ended 30 June 2012 to RMB10.0 million for the six months ended 30 June 2013 primarily because our government subsidies increased from RMB0.1 million for the six months ended 30 June 2012 to RMB7.6 million for the six months ended 30 June 2013 because we received government subsidies of approximately RMB7 million for our promotion of standardized farming and breeding of cows at Kedong YST Farm.

Gains from non-interest bearing financial arrangements

We had gains from non-interest bearing financial arrangements of RMB49.2 million for the six months ended 30 June 2013 arising from the supplemental agreement we entered into with Feihe Dairy Group in April 2013.

Selling and distribution expenses

Our selling and distribution expenses increased from RMB8.1 million for the six months ended 30 June 2012 to RMB9.2 million for the six months ended 30 June 2013, primarily due to increased transportation expenses as a result of an increase in sales volume.

Administrative expenses

Our administrative expenses substantially increased from RMB10.4 million for the six months ended 30 June 2012 to RMB26.2 million for the six months ended 30 June 2013, primarily due to the overall expansion of our business and preparation for the Listing, which: (i) resulted in expenses in relation to the Listing of RMB14.4 million; (ii) increased our salary and welfare expenses by RMB2.4 million; (iii) increased our travel, meal and entertainment costs by RMB0.6 million; and (iv) increased our amortization of prepaid land lease payments by RMB0.5 million.

Finance costs

Our finance costs substantially increased from RMB19.6 million for the six months ended 30 June 2012 to RMB58.2 million for the six months ended 30 June 2013 primarily because we had interests on other financial liabilities of RMB31.5 million arising from our Pre-IPO Investments for the six months ended 30 June 2013 and interests capitalized of RMB7.1 million for the six months ended 30 June 2012.

Changes in fair value less costs to sell of biological assets

We had gains arising from changes in fair value less costs to sell of dairy cows of RMB15.4 million for the six months ended 30 June 2012 and losses arising from changes in fair value less costs to sell of dairy cows of RMB16.5 million for the six months ended 30 June 2013 primarily because the prices of 14-month-old heifers used in the valuation decreased from RMB22,000 per head as of 31 December 2012 to RMB21,000 per head as of 30 June 2013.

Profit for the period

As a result of the foregoing factors, our profit for the period decreased from RMB106.1 million for the six months ended 30 June 2012 to RMB99.6 million for the six months ended 30 June 2013. Our net profit margin decreased from 32.4% for the six months ended 30 June 2012 to 25.9% for the six months ended 30 June 2013 mainly because: (i) we incurred a significant amount of finance costs, primarily consisting of the interests on other financial liabilities arising from our Pre-IPO Investments; (ii) we had losses arising from changes in fair value less costs to sell of biological assets; and (iii) we incurred substantial administrative expenses, primarily due to expenses in relation to the Listing. Our adjusted net profit margin decreased from 27.7% for the six months ended 30 June 2012 to 17.4% for the six months ended 30 June 2013.

Year ended 31 December 2012 compared with year ended 31 December 2011

Revenue

Our revenue increased significantly from RMB148.8 million for the year ended 31 December 2011 to RMB689.1 million for the year ended 31 December 2012, primarily due to a substantial increase in our sales volume of raw milk of 132,348 tonnes from 35,722 tonnes for the year ended 31 December 2011 to 168,070 tonnes for the year ended 31 December 2012. The substantial increase in sales volume was mainly due to an increase in production volume attributable to the continued expansion of our overall herd size. As a result of our organic growth, the total number of our milkable cows across all four of our dairy farms increased from 14,950 for the year ended 31 December 2011 to 20,643 for the year ended 31 December 2012. In addition, our sales volume for the year ended 31 December 2012 reflected the full-year production volume of Gannan Oumei Farm and Kedong Oumei Farm, both of which were acquired by us in September 2011, while our total production volume in 2011 only reflected the production volume of these two farms for the fourth quarter of 2011, subsequent to the acquisition. Our average selling price of raw milk remained at a similar level of approximately RMB4,100 per tonne in 2011 and 2012.

Cost of sales

Our cost of sales increased significantly from RMB97.4 million for the year ended 31 December 2011 to RMB428.6 million for the year ended 31 December 2012, primarily due to a significant increase in production volume and sales volume of our raw milk attributable to full-year consolidation of two acquired farms in 2012 and our organic growth. Our feed costs, accounting for approximately 80% of our costs of sales, increased significantly from RMB76.8 million in 2011 to RMB339.3 million in 2012 because of the substantial increase in the feed volume consumed as a result of our enlarged herd size and maturation of our cows.

Gross profit

As a result of the foregoing, our gross profit increased significantly from RMB51.4 million for the year ended 31 December 2011 to RMB260.5 million for the year ended 31 December 2012. Our gross profit margin increased from 34.5% for the year ended 31 December 2011 to 37.8% for the year ended 31 December 2012, primarily because of economies of scale and our improved operating efficiency. Both our daily feed costs per cow and daily feed costs per tonne of raw milk produced decreased in 2012 mainly due to optimized feed formulas and more mature herd structure, reflecting increases in our dry cows as a percentage of milkable cows.

Other income

Our other income increased substantially from RMB2.6 million for the year ended 31 December 2011 to RMB17.5 million for the year ended 31 December 2012 primarily because our government subsidies increased from RMB0.9 million for the year ended 31 December 2011 to RMB14.4 million for the year ended 31 December 2012 because we received government subsidies of RMB10.8 million for breeding of cows at Kedong Oumei Farm and Kedong YST Farm and RMB1.7 million in relation to our milking machines at Zhenlai Farm Phase I in 2012.

Gains on bargain purchase

We recorded a one-time bargain purchase gain of RMB164.4 million for the year ended 31 December 2011 in relation to the acquisition of Gannan Oumei Farm and Kedong Oumei Farm in September 2011. For more details, see "— Description of Components of Results of Operations — Gains on bargain purchase."

Selling and distribution expenses

Our selling and distribution expenses increased significantly from RMB3.3 million for the year ended 31 December 2011 to RMB17.4 million for the year ended 31 December 2012, primarily due to increased transportation expenses as a result of: (i) a substantial increase in sales volume; and (ii) an increase in the average delivery distance in 2012.

Administrative expenses

Our administrative expenses increased from RMB11.0 million for the year ended 31 December 2011 to RMB22.8 million for the year ended 31 December 2012, primarily due to the expansion of business scale as a result of our acquisition of two dairy farms, which: (i) increased our travel, meal and entertainment costs by RMB3.5 million; (ii) increased our salary and welfare expenses by RMB2.6 million; (iii) increased our amortization of prepaid land lease payments by RMB2.5 million; and (iv) increased our insurance expenses by RMB1.6 million.

Finance costs

Our finance costs increased from RMB24.2 million for the year ended 31 December 2011 to RMB45.7 million for the year ended 31 December 2012, primarily due to an increase in non-cash imputed interests on non-interest bearing financial arrangements in relation to Feihe Dairy Group from RMB12.2 million in 2011 to RMB29.0 million in 2012 and a decrease in interests capitalized from RMB10.5 million in 2011 to RMB7.1 million in 2012, while the interest on bank loans remained at a similar level.

Changes in fair value less costs to sell of biological assets

We had gains arising from changes in fair value less costs to sell of dairy cows of RMB9.9 million and RMB17.1 million for the years ended 31 December 2011 and 2012, respectively. The increase in changes in fair value less costs to sell of dairy cows from 2011 to 2012 was mainly due to our increased herd size and the increase in the prices of 14-month-old heifers used in the valuation.

Profit for the year

As a result of the foregoing factors, our profit for the year increased from RMB189.9 million for the year ended 31 December 2011 to RMB209.7 million for the year ended 31 December 2012. Our net profit margin decreased from 127.6%, as a result of our one-time bargain purchase gain, for the year ended 31 December 2011 to 30.4% for the year ended 31 December 2012. Our adjusted net profit margin increased from 10.4% for the year ended 31 December 2011 to 27.9% for the year ended 31 December 2012. As we were in an early stage with relatively small herd size in 2011, the percentage of administrative and finance costs to revenue was higher than that in 2012 when our herd size increased significantly due to the acquisition. Following the maturity of our herd and stabilization of our business, we consider our net profit margin for the year ended 31 December 2012 as a normal indicator of our general profitability.

Year ended 31 December 2011 compared with year ended 31 December 2010

Revenue

Our revenue increased significantly from RMB0.3 million for the year ended 31 December 2010 to RMB148.8 million for the year ended 31 December 2011. The increase in revenue reflects a significant increase in our sales volume of raw milk of 35,627 tonnes from 95 tonnes for the year ended 31 December 2010 to 35,722 tonnes for the year ended 31 December 2011 and an increase in the average selling price of our raw milk from RMB3,547.4 per tonne for the year ended 31 December 2010 to RMB4,165.1 per tonne for the year ended 31 December 2011.

The substantial increase in sales volume was due primarily to an increase in production volume attributable to our acquisition of Gannan Oumei Farm and Kedong Oumei Farm in September 2011, which resulted in the addition of 10,937 milkable cows to our overall herd. As a result of this acquisitive growth, the total number of our milkable cows increased from 97 for the year ended 31 December 2010 to 14,950 for the year ended 31 December 2011. To a lesser extent, the increase in sales volume was also due to an increase in production volume attributable to the expansion of the herd size at our first two dairy farms, Kedong YST Farm and Zhenlai Farm Phase I, which was a result of an increase in number of milkable cows at these two farms of 3,506 from 97 for the year ended 31 December 2010 to 3,603 for the year ended 31 December 2011.

The increase in average selling price of our raw milk was mainly due to: (i) the substantially increased production volume of our raw milk during the period from our acquisition of two dairy farms in September 2011 to the end of 2011, when selling prices of raw milk were seasonally higher than the average of the other times of the year; and (ii) to a lesser extent, an increase in market demand for premium raw milk and the improved quality of our raw milk.

Cost of sales

Our cost of sales increased substantially from RMB0.2 million for the year ended 31 December 2010 to RMB97.4 million for the year ended 31 December 2011, primarily due to a substantial increase in production volume and sales volume of our raw milk resulting from our acquisition of two dairy farms and an increase in the number of milkable cows in Kedong YST Farm and Zhenlai Farm Phase I in 2011.

Gross profit

As a result of the foregoing, our gross profit increased significantly from RMB0.1 million for the year ended 31 December 2010 to RMB51.4 million for the year ended 31 December 2011. Our gross profit margin increased from 33.5% for the year ended 31 December 2010 to 34.5% for the year ended 31 December 2011, primarily because of economies of scale and an increase in average selling price of our raw milk.

Other income

Our other income decreased from RMB6.5 million for the year ended 31 December 2010 to RMB2.6 million for the year ended 31 December 2011, primarily due to a decrease in government subsidies from RMB5.0 million in 2010 to RMB0.9 million in 2011.

Gains on bargain purchase

We recorded a one-time bargain purchase gain of RMB164.4 million for the year ended 31 December 2011 in relation to the acquisition of Gannan Oumei Farm and Kedong Oumei Farm in September 2011. For more details, see "— Description of Components of Results of Operations — Gains on bargain purchase."

Selling and distribution expenses

We did not incur selling and distribution expenses for the year ended 31 December 2010 because we were not responsible for the transportation of raw milk for any customers. We incurred selling and distribution expenses of RMB3.3 million for the year ended 31 December 2011 in relation to costs of arranging transportation of raw milk for certain customers.

Administrative expenses

Our administrative expenses increased from RMB3.5 million for the year ended 31 December 2010 to RMB11.0 million for the year ended 31 December 2011, primarily due to our acquisition of two dairy farms and organic growth, which resulted in increases in: (i) salary and welfare expenses of RMB2.6 million; (ii) other expenses, mainly office expenses, of RMB2.5 million; (iii) insurance of RMB1.1 million; and (iv) travel, meal and entertainment costs of RMB1.1 million.

Finance costs

Our finance costs increased significantly from RMB0.5 million for the year ended 31 December 2010 to RMB24.2 million for the year ended 31 December 2011, primarily due to incurrence of non-cash imputed interests on non-interest bearing financial arrangements in relation to Feihe Dairy Group of RMB12.2 million and a substantial increase in interest on bank loans wholly repayable within five years because we secured new bank loans in 2011 to facilitate the construction of Zhenlai Farm Phase I and assumed existing bank loans of Kedong Oumei Farm upon our acquisition. This increase was partly offset by an increase in interests capitalized from RMB5.0 million in 2010 to RMB10.5 million in 2011.

Changes in fair value less costs to sell of biological assets

We had gains arising from changes in fair value less costs to sell of dairy cows of RMB5.6 million and RMB9.9 million for the years ended 31 December 2010 and 2011, respectively. The increase in changes in fair value less costs to sell of dairy cows from 2010 to 2011 was mainly due to our increased herd size and the increase in the prices of 14-month-old heifers used in the valuation.

Profit for the year

As a result of the foregoing factors, our profit for the year increased significantly from RMB8.1 million for the year ended 31 December 2010 to RMB189.9 million for the year ended 31 December 2011. Our net profit margin was exceptionally high for the year ended 31 December 2010 primarily because we recorded a substantial amount of other income, mainly comprising government subsidies, and gains arising from changes in fair value less costs to sell of biological assets, compared to our limited revenue during the same period. Our net profit margin was 127.6% for the year ended 31

December 2011 primarily due to a one-time gain on bargain purchase recorded in 2011. Our adjusted net profit margin for the year ended 31 December 2011 was 10.4% due to relatively high percentage of administrative and finance costs to revenue as we were still in an early stage of business expansion.

Liquidity and Capital Resources

Our primary liquidity requirements relate to investments in construction of farming facilities and equipment as well as funding our working capital and normal recurring expenses. To date, we have financed our cash requirements through a combination of cash generated from operating activities, the proceeds from the Pre-IPO Investments, bank loans and the proceeds of capital contributions from our Shareholders. In the future, we expect to continue relying on cash flows from operations, the proceeds from the Global Offering and other debt and equity financing to fund our working capital needs and finance part of our business expansion.

Cash flow

Cash flows from operating activities represent the inflows of cash from the sale of our raw milk and the outflows of cash for inventory purchases, feed purchases, selling and distribution expenses and other operating expenses and taxes, if any. Cash flows used in investing activities primarily represent capital expenditure for property, plant and equipment and purchases of biological assets. Cash flows from financing activities primarily represent contributions from the shareholders and bank loans while cash outflows from financing activities represent repayments of bank loans.

The following table sets forth the selected cash flow information for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash and cash equivalents at beginning of year	38,604	73,882	17,419	17,419	7,748
Net cash flows from operating activities	213,146	74,706	128,837	21,267	23,044
Net cash flows used in investing activities	(299,188)	(563,735)	(219,320)	(43,853)	(162,161)
Net cash flows from financing activities	121,320	432,566	80,812	28,205	539,088
Net increase/(decrease) in cash and cash equivalents	35,278	(56,463)	(9,671)	5,619	399,971
Effect of foreign exchange rate changes, net	—	—	—	—	250
Cash and cash equivalents at end of year	73,882	17,419	7,748	23,038	407,969

Cash flows from operating activities

Cash flows from operating activities are principally derived from the receipt of payments for the sale of our raw milk. Cash used in operating activities is mainly used to pay for costs and expenses relating to operating our farms.

Our net cash flows from operating activities was RMB23.0 million for the six months ended 30 June 2013, primarily consisting of cash from operations of RMB23.0 million. Our cash generated from operations consisted of cash flow from operating activities before working capital adjustments of RMB201.6 million and net negative changes in working capital of RMB178.6 million. Net negative working capital adjustments primarily consisted of: (i) a decrease in other payables and accruals of

RMB141.4 million, which was primarily due to the settlement of the purchase price of our two dairy farms by the sales of raw milk to Feihe Dairy Group and payments to our suppliers; and (ii) a decrease in amounts due to related companies of RMB42.5 million due to the settlement of payables due to HLJ Beian NKTH. Such negative changes were partially offset by a decrease in inventories of RMB50.6 million, which was primarily due to the consumption of corn silage, which we typically stock in the fourth quarter of the calendar year as feed reserve for the next 12 months.

Our net cash flows from operating activities was RMB128.8 million for the year ended 31 December 2012, primarily consisting of cash generated from operations of RMB128.7 million. Our cash generated from operations consisted of cash flow from operating activities before working capital adjustments of RMB277.8 million and net negative changes in working capital of RMB149.1 million. Net negative working capital adjustments primarily consisted of: (i) a decrease in other payables and accruals of RMB217.8 million, which was primarily due to the settlement of the purchase price of our two dairy farms by the sales of raw milk to Feihe Dairy Group, payments to our suppliers for the purchase of cows, and payments to certain third parties in relation to our Reorganization; (ii) an increase in trade receivables of RMB24.5 million due to an increase in sales of raw milk and an extended credit term granted to certain customer; and (iii) an increase in inventories of RMB14.1 million, primarily relating to the increased feed reserves as a result of our expanded scale of operation. Such negative changes were partially offset by: (i) an increase in trade payables of RMB65.1 million due to the increase in our purchases of feed in line with the growth in size of our herd; (ii) a decrease in prepayments and other receivables of RMB26.7 million due to delivery of our purchase of feed; and (iii) an increase in amounts due to related companies of RMB15.0 million, primarily consisting of payables due to HLJ Beian NKTH, which was used to fund our operational needs.

Our net cash flows from operating activities was RMB74.7 million for the year ended 31 December 2011, primarily consisting of cash generated from operations of RMB74.6 million. Our cash generated from operations consisted of cash flow from operating activities before working capital adjustments of RMB55.5 million and net positive changes in working capital of RMB19.1 million. Net positive working capital adjustments primarily consisted of: (i) a decrease in prepayments and other receivables of RMB97.2 million due to the delivery of dairy cows and feed that we purchased; and (ii) an increase in trade payables of RMB68.0 million due to the increase in our purchases of feed. Such positive changes were partially offset by: (i) gain on bargain purchase of RMB164.4 million; (ii) a decrease in other payables and accruals of RMB82.6 million, primarily due to the settlement of payables in relation to the construction of farms and purchase of dairy cows; and (iii) an increase in inventories of RMB48.6 million due to increases in our feed reserves.

Our net cash flows from operating activities was RMB213.1 million for the year ended 31 December 2010, primarily consisting of cash generated from operations of RMB213.0 million. Our cash generated from operations consisted of cash flow from operating activities before working capital adjustments of RMB5.0 million and net positive changes in working capital of RMB208.1 million. Net positive working capital adjustments primarily consisted of: (i) an increase in other payables and accruals of RMB148.6 million, which primarily consisted of payables for purchasing dairy cows and property, plant and equipment and advances received from Aibeite; (ii) a decrease in prepayments and other receivables of RMB64.3 million due to the deliveries of dairy cows; and (iii) an increase in trade payables of RMB26.3 million due to increases in feed purchases as a result of our enlarged herd size. Such positive changes were partially offset by an increase in inventories of RMB48.0 million, which related to feed reserves.

Cash flows from investing activities

Cash used in investing activities mainly consists of purchases of items of property, plant and equipment, purchases of biological assets, acquisitions of subsidiaries, and increases in deposits of property, plant and equipment. Cash inflow from investing activities mainly represents proceeds from the disposal of biological assets and the receipt of government grants.

For the six months ended 30 June 2013, our net cash flows used in investing activities was RMB162.2 million. Our net cash outflows for investing activities mainly consisted of: (i) purchases of property, plant and equipment of RMB106.8 million, which primarily related to facilities and equipment at Kedong YST Farm and Zhenlai Farm Phase I; and (ii) additions to biological assets, which represented capitalized costs for raising our heifers and calves of RMB90.1 million, partially offset by proceeds from the disposal of biological assets of RMB28.0 million.

For the year ended 31 December 2012, our net cash flows used in investing activities was RMB219.3 million. Our net cash outflows for investing activities mainly consisted of: (i) purchases of property, plant and equipment of RMB175.7 million, which primarily related to facilities and equipment at Kedong YST Farm and Zhenlai Farm Phase I; and (ii) additions to biological assets, which represented capitalized costs for raising our heifers and calves of RMB142.7 million, partially offset by: (i) a decrease in deposits for property, plant and equipment of RMB77.5 million due to our settlement of payments to construction contractors and equipment suppliers; and (ii) proceeds from the disposal of biological assets of RMB23.8 million.

For the year ended 31 December 2011, our net cash flows used in investing activities was RMB563.7 million. Our net cash outflows for investing activities mainly consisted of: (i) purchases of property, plant and equipment of RMB270.1 million, which primarily related to facilities and equipment at Kedong YST Farm and Zhenlai Farm Phase I; (ii) additions to biological assets, which represented the capitalized costs for raising our heifers and calves of RMB89.0 million and purchases of biological assets of RMB40.5 million; (iii) the settlements of the consideration for the acquisition of Kedong Oumei Farm and Gannan Oumei Farm of RMB110.2 million; and (iv) an increase in deposits for property, plant and equipment of RMB73.1 million, primarily relating to construction of Kedong YST Farm and Zhenlai Farm Phase I, partially offset by proceeds from the disposal of biological assets of RMB11.5 million.

For the year ended 31 December 2010, our net cash flows used in investing activities was RMB299.2 million. Our net cash outflows for investing activities mainly consisted of: (i) purchases of property, plant and equipment of RMB160.2 million, which primarily related to facilities and equipment at Kedong YST Farm; and (ii) additions to biological assets, which represented capitalized costs for raising our heifers and calves of RMB19.2 million and purchases of biological assets of RMB148.9 million, partially offset by: (i) a decrease in deposits of property, plant and equipment of RMB14.5 million, primarily due to our settlement of payments to construction contractors and equipment suppliers; and (ii) receipt of government grants of RMB12.2 million.

Cash flows from financing activities

Cash inflow from financing activities mainly consisted of new bank borrowings. Cash used in financing activities primarily consists of repayments of bank borrowings.

For the six months ended 30 June 2013, our net cash flows from financing activities was RMB539.1 million. Our net cash flows from financing activities consisted of: (i) an increase in other financial liabilities of RMB585.2 million as a result of our Pre-IPO Investments; and (ii) capital contributions from our Shareholders of RMB455.5 million, partly offset by: (i) a decrease in amounts due to related companies of RMB281.6 million due to repayments to HLJ Beian NKTH; and (ii) repayment to our Shareholders of RMB136.4 million in relation to our Reorganization.

For the year ended 31 December 2012, our net cash flows from financing activities was RMB80.8 million. Our net cash flows from financing activities mainly consisted of: (i) an increase in amounts due to related companies of RMB118.0 million, primarily consisting of payables due to HLJ Beian NKTH, which was used to fund our operational needs; and (ii) new bank borrowings of RMB100.0 million used as working capital at Kedong Oumei Farm and Kedong YST Farm, partly offset by repayments of interest-bearing bank borrowings of RMB126.5 million.

For the year ended 31 December 2011, our net cash flows from financing activities was RMB432.6 million. Our net cash flows from financing activities consisted of: (i) new bank borrowings of RMB260.0 million, of which RMB200.0 million was used for construction of Zhenlai Farm Phase I; (ii) an increase in amounts due to related companies of RMB147.7 million, primarily consisting of payables due to HLJ Beian NKTH, which was used to fund our operational needs; and (iii) an increase in amounts due to our Shareholders of RMB103.6 million in relation to our Reorganization, partly offset by repayments of interest-bearing bank borrowings of RMB49.2 million made by YST Heping and YST Heilongjiang.

For the year ended 31 December 2010, our net cash flows from financing activities was RMB121.3 million. Our net cash flows from financing activities mainly consisted of: (i) a capital injection of RMB101.0 million from YST Heilongjiang; and (ii) new bank borrowings of RMB40.0 million, which was used for construction of Kedong YST Farm, partly offset by repayments of interest-bearing bank borrowings of RMB30.1 million made by YST Heping and YST Heilongjiang.

Working capital

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations. Our current assets primarily consist of inventories, cash and cash equivalents, trade receivables, prepayments and other receivables and amounts due from shareholders. Our current liabilities primarily consist of other payables, trade payables, interest-bearing bank borrowings, amounts due to related companies and amounts due to directors. We manage our working capital by closely monitoring the levels of our trade payables and other payables as well as inventories. Our cash position consists primarily of cash and bank balances.

As of 31 December 2012 and 30 June 2013, we had cash and cash equivalents of RMB7.7 million and RMB408.0 million, respectively. During the Track Record Period, we were able to finance approximately 50% of the costs of farm construction using bank loans. Taking into account our cash and cash equivalents on hand, cash generated from our future operations, the proceeds from the Pre-IPO Investments, available banking facilities of approximately RMB586 million as of the Latest Practicable Date and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital to meet our present and future financial requirements for at least 12 months from the date of this Prospectus.

The table below sets forth the information on our financial position as of the dates indicated:

	As of 31 December			As of 30 June	As of 30 September
	2010	2011	2012	2013	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Current assets					
Inventories	48,456	125,051	139,122	88,508	143,721
Trade receivables	—	46,343	70,886	70,444	64,093
Prepayments and other receivables	1,874	36,932	10,195	22,651	287,699
Prepaid land lease payments	1,052	3,165	4,546	4,546	4,546
Amount due from related companies	—	1,000	510	—	—
Cash and cash equivalents	73,882	17,419	7,748	407,969	73,509
Total current assets	125,264	229,910	233,007	594,118	573,568
Current liabilities					
Trade payables	26,320	142,586	207,655	176,830	219,157
Other payables and accruals	354,610	796,140	829,529	290,220	562,003
Amount due to shareholders	300	103,900	134,521	—	—
Amount due to related companies	94,372	233,091	366,106	41,717	62,515
Other financial liabilities	—	—	—	616,726	649,972
Interest-bearing bank borrowings	31,980	126,497	166,497	186,755	164,517
Total current liabilities	507,582	1,402,214	1,704,308	1,312,248	1,658,164
Net current liabilities	**(382,318)**	**(1,172,304)**	**(1,471,301)**	**(718,130)**	**(1,084,596)**

We had net current liabilities of RMB382.3 million, RMB1,172 million, RMB1,471.3 million and RMB718.1 million as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. Because establishing new farms requires significant capital and there is typically a time lag of two years between our investment of capital and the commencement of production and sales of raw milk at these new farms, we usually use bank loans and shareholder loans to finance our operations before we are able to generate sufficient cash flows from our investment in the new farms. We also incurred a significant amount of other payables for construction in progress relating to our own farms. In addition, we assumed additional bank borrowings and other payables as a result of our acquisition of Kedong Oumei Farm and Gannan Oumei Farm in September 2011. As a result, we were in a net current liabilities position throughout the Track Record Period. We expect that by: (i) receiving the proceeds from the Global Offering; (ii) reclassification of the Pre-IPO Investments from liabilities to equity upon the Listing; and (iii) utilizing cash flows from operating activities as our farms reach a mature stage, our net current liabilities position will improve. Our net current liabilities increased by RMB366.5 million, from RMB718.1 million as of 30 June 2013 to RMB1,084.6 million as of 30 September 2013, mainly because we repaid long-term bank loans in cash of approximately RMB349 million during the third quarter of 2013.

As of the Latest Practicable Date, we did not have any material adverse change in our net current liability position.

Discussion of certain items from the statements of financial position

Inventories

Our inventories consisted of feed and other raw materials, such as veterinary drugs and imported bull semen. Due to the perishable nature of our raw milk, we do not hold inventories of raw milk. We typically deliver raw milk to our customers on a daily basis. Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of manufacturing overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

The following table sets forth the details of our inventories as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Feed	46,847	115,431	130,623	82,412
Others	1,609	9,620	8,499	6,096
Total	48,456	125,051	139,122	88,508

Our inventories increased from RMB48.5 million as of 31 December 2010 and RMB125.1 million as of 31 December 2011 to RMB139.1 million as of 31 December 2012, primarily due to increases in our procured advanced supplies as our feed reserves in response to our expanded herd size. Our inventories decreased to RMB88.5 million as of 30 June 2013 mainly because we typically purchase corn silage in the fourth quarter of the calendar year as feed reserve for the next 12 months, resulting in higher inventories at year end than during the year.

Trade receivables

Trade receivables primarily represent our trade receivables from a limited number of credit sales of our raw milk, less impairment provisions, if any. The following table sets forth a breakdown of our trade receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	—	46,343	70,886	70,444
Impairment	—	—	—	—
Total	—	46,343	70,886	70,444

Trade receivables are initially recognized at fair value and subsequently measured at amortized costs less allowance for impairment of doubtful debts. For the determination of allowance for impairment provisions, we consider factors such as the significant financial difficulties of the debtors, the probability that the debtor will file for bankruptcy or be subject to a financial reorganization, and the possibility of default or delinquent payments. During the Track Record Period, no impairment of trade receivables was provided.

Our trading terms with our customers are mainly on credit. The credit period is generally one month. We seek to maintain strict control over our outstanding receivables and have a credit control mechanism to minimize credit risk. Overdue balances are reviewed regularly by senior management. As such, and due to the fact that our trade receivables relate to a few number of customers, there is significant concentration of credit risk. See Note 32 of Section II of the Accountants' Report included as Appendix IA to this Prospectus. We do not hold any collateral or other credit enhancements over our trade receivable balances. Trade receivables are non-interest-bearing.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within one month	—	45,924	41,051	66,756
Over one month and within two months	—	—	15,363	3,688
Over two months	—	419	14,472	—
Total	—	46,343	70,886	70,444

Trade payables

Our trade payables primarily comprise purchases of feed from our suppliers. Our trade payables increased significantly from RMB26.3 million as of 31 December 2010, to RMB142.6 million as of 31 December 2011 and further to RMB207.7 million as of 31 December 2012, primarily due to the increase in our purchases of feed in line with the growth in size of our herd. Our trade payables decreased to RMB176.8 million as of 30 June 2013 mainly due to repayments to our feed suppliers.

The following table sets forth an aging analysis of our trade payables as of the dates indicated:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within two months	19,958	100,303	110,393	76,695
Two to six months	5,460	31,431	60,836	53,021
Six to 12 months	902	10,632	18,376	32,272
Over 12 months	—	220	18,050	14,842
Total	26,320	142,586	207,655	176,830

Trade payables are non-interest-bearing and are normally settled between two to six months.

Our Directors confirm that we did not have material defaults in payment of trade payables as of the Latest Practicable Date.

Prepayments and other receivables

Prepayments primarily represent prepayments in connection with purchases of feed and equipment. Other receivables primarily represent advances to our employees. As of 31 December 2010, 2011 and 2012 and 30 June 2013, our prepayments and other receivables were RMB1.9 million, RMB36.9

million, RMB10.2 million and RMB22.7 million, respectively. The significant increase in our prepayment and other receivables in 2011 was because of our expanded operations and acquisition of farms.

Other payables and accruals

Other payables and accruals comprise deferred income and other payables. Deferred income primarily represents government subsidies that are received but not recognized. Other payables mainly represent construction in progress payables, payables to Feihe Dairy Group in relation to our acquisition of two dairy farms and payments for imported dairy cows. The following table sets forth the details of other payables and accruals as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income	12,179	19,954	21,439	20,376
Other payables	342,431	1,014,696	808,090	546,360
	354,610	1,034,650	829,529	566,736
Non-current portion	—	(238,510)	—	(276,516)
Current portion	354,610	796,140	829,529	290,220

The balance of our deferred income as of 31 December 2010, 2011 and 2012 and 30 June 2013 was RMB12.2 million, RMB20.0 million, RMB21.4 million and RMB20.4 million, respectively. Our other payables increased significantly from RMB342.4 million as of 31 December 2010 to RMB1,014.7 million as of 31 December 2011, then decreased to RMB808.1 million as of 31 December 2012 and further to RMB546.4 million as of 30 June 2013. As of 31 December 2010, 2011 and 2012 and 30 June 2013, our other payables and accruals were RMB354.6 million, RMB796.1 million, RMB829.5 million and RMB290.2 million, respectively.

The following table sets forth a breakdown of our other payables and accruals as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Payables to Feihe Dairy Group	—	678,465	598,287	445,255
Other payables — construction	141,569	80,923	78,251	56,206
Other payables — equipment and materials	57,987	119,301	48,833	15,207
Others[(1)]	142,875	136,007	82,719	29,692
Total	**342,431**	**1,014,696**	**808,090**	**546,360**

Note:

(1) Others under other payables mainly represent payables to third parties for our working capital needs, payables for purchasing cows and payables for land.

The significant increase in our other payables in 2011 was due to our acquisition of two dairy farms, which incurred substantial payables to Feihe Dairy Group, and construction of new farms. Our payables to Feihe Dairy Group, consisting of the advances for overseas procurements of heifers and the remaining consideration stated as amortized cost for the acquisition of two farms, were RMB678.5 million, RMB598.3 million and RMB445.3 million, respectively, as of 31 December 2011 and 2012 and 30 June 2013. The amount for overseas procurements has been fully settled in June 2013, and the amount for the remaining consideration will be settled in 11 quarterly installments by delivery of raw milk or in cash pursuant to the supplemental agreement we entered into with Feihe Dairy Group in April 2013. Our other payables in relation to construction decreased from RMB141.6 million as of 31 December 2010 to RMB80.9 million as of 31 December 2011 and RMB78.3 million as of 31 December 2012, and further to RMB56.2 million as of 30 June 2013 mainly because we completed construction of our facilities and settled payments with contractors. Our payables in relation to equipment and materials increased significantly from 2010 to 2011 primarily due to our procurement of equipment for the construction of Kedong YST Farm and Zhenlai Farm Phase I. Our payables in relation to equipment and materials decreased from RMB48.8 million as of 31 December 2012 to RMB15.2 million as of 30 June 2013 mainly as a result of the settlement of payables for purchases of equipment and materials in relation to the construction of our farms. Others under other payables and accruals decreased from RMB82.7 million as of 31 December 2012 to RMB29.7 million as of 30 June 2013 due to our repayments of borrowings from non-related parties.

Our Directors confirm that we did not have material defaults in payment of other payables as of the Latest Practicable Date.

Analysis of Inventories, Trade Receivables and Trade Payables Turnover

The following table sets forth the turnover days of our inventories, trade receivables and trade payables for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
	(days)	**(days)**	**(days)**	**(days)**
Inventories[(1)]	460.3	169.9	84.4	63.1
Trade receivables[(2)]	—	56.8	31.0	33.0
Trade payables[(3)]	247.6	165.4	111.9	106.6

Notes:

(1) Average turnover days of inventories for a year equals average inventory divided by cost of sales and capitalized costs in relation to raising heifers and calves and multiplied by 365 days. Average turnover days of inventories for a six-month period equals average inventory divided by cost of sales and capitalized costs in relation to raising heifers and calves and multiplied by 180 days. Average inventory equals inventory net of inventory provision at the beginning of the period plus inventory net of inventory provision at the end of the period divided by two.

(2) Average turnover days of trade receivables for a year equals average trade receivables divided by sales of raw milk and multiplied by 365 days. Average turnover days of trade receivables for a six-month period equals average trade receivables divided by sales of raw milk and multiplied by 180 days. Average trade receivables equal trade receivables at the beginning of the period plus trade receivables at the end of the period divided by two.

(3) Average turnover days of trade payables for a year equals average trade payables divided by cost of sales and capitalized costs in relation to raising heifers and calves and multiplied by 365 days. Average turnover days of trade payables for a six-month period equals average trade payables divided by cost of sales and capitalized costs in relation to raising heifers and calves and multiplied by 180 days. Average trade payables equal trade payables at the beginning of the period plus trade payables at the end of the period divided by two.

Our average inventory turnover days were 460.3 days, 169.9 days, 84.4 days and 63.1 days for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. Our average inventory turnover days during the Track Record Period were high because we generally purchased feed at year end to ensure sufficient feed reserves for the expected enlarged herd during the following year. Our average inventory turnover days for the year ended 31 December 2010 were particularly high because our herd size was small in 2010 and therefore the cost of sales and capitalized costs in relation to raising heifers and calves were minimal. Our average inventory turnover days decreased in the first half of 2013 mainly because we typically purchase corn silage in the fourth quarter of the calendar year as feed reserve for the next 12 months, resulting in higher inventories at year end than during the year. The decrease in our average inventory turnover days was in line with the increased feed consumption of our milkable cows and heifers and calves as our herd size grew.

Our average trade receivable turnover days decreased from 56.8 days for the year ended 31 December 2011 to 31.0 days for the year ended 31 December 2012 and remained at a similar level for the six months ended 30 June 2013. We did not have trade receivables in 2010 as the limited amount of our raw milk produced in 2010 was used to settle our payment to Feihe Dairy Group for the purchase of dairy cows from Kedong Oumei Farm, which was then owned by Feihe Dairy Group. Our average trade receivable turnover days were higher in 2011 than in 2012 primarily because of the mathematical distortion caused by our acquisition of the two dairy farms in September 2011. Our calculation of trade receivables turnover days for the year ended 31 December 2011 takes into consideration the fact that: (i) while average trade receivables is calculated by dividing the sum of the beginning and ending balances of our trade receivables of the year, only trade receivables at the end of 2011 were used to derive the average trade receivables for the full year because we did not have trade receivables at the beginning of the year; and (ii) we consolidated the financial results of the two dairy farms in the fourth quarter of 2011 after the closing of the acquisition. Our trade receivables at the end of 2011 primarily reflected the trade receivables of the two newly acquired dairy farms. In addition, this trade receivables reflected our arrangement with Feihe Dairy HLJ to settle the outstanding balance of the purchase price for the two acquired farms through quarterly raw milk payments and our delivery of raw milk to another designated subsidiary of Feihe Dairy Group. The delivery of raw milk to such designated subsidiary of Feihe Dairy Group were recorded as trade receivables and did not offset such payable balance relating to the acquisition consideration in our accounting records. Because we were only able to consolidate the financial results of these two dairy farms after the closing of the acquisition, our sales of raw milk in 2011 did not respond to our trade receivables at the end of the year for purposes of the average turnover days analysis. As a result, we had higher trade receivables turnover days in 2011 than in 2012.

Our average trade payable turnover days were 247.6 days, 165.4 days, 111.9 days and 106.6 days for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. Our cost of sales was low in 2010 because our herd size was very small and therefore we had only limited raw milk production volumes in that year. However, because we anticipated that we would have a substantially enlarged herd size in 2011, we procured a large amount of feed at the end of 2010, which resulted in high trade payables as of the end of 2010. Because we substantially enlarged our herd size following the acquisition of two dairy farms in 2011, our average trade payables in 2011 were also relatively high as we increased our purchases of feed to ensure sufficient feed reserves for the following year. Our average trade payables turnover days for the full year remained high because our cost of sales for 2011 increased after we acquired these two dairy farms in September of the same year. In 2012 and the first half of 2013, as our herd structure and business operations matured, our trade payables turnover days became normal.

Biological assets

Our biological assets are our dairy cows. During the Track Record Period, the value of our dairy cows fluctuated primarily due to purchases of heifers, acquisitions of two dairy farms, costs of raising dairy cows (feeding costs and other costs), transfers from heifers and calves to milkable cows, sales, and gains/losses arising from changes in fair value less costs to sell. The table below sets forth a breakdown of the value of our dairy cows as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Milkable cows	2,597	445,469	615,907	620,821
Heifers and calves	170,763	359,541	325,713	366,412
Total dairy cows	173,360	805,010	941,620	987,233

The increase in the value of our dairy cows from RMB173.4 million in 2010 to RMB805.0 million in 2011 was mainly a result of: (i) our acquisition of two dairy farms in September 2011 and the resulting increase in the value of dairy cows of RMB503.7 million; (ii) an increase due to raising of RMB89.0 million, comprising the increase in self-bred heifers and calves to our herd and the feeding costs and other costs related to raising those heifers and calves; and (iii) an increase due to purchases of heifers primarily for our farms, amounting to RMB40.5 million. The increase in the value of our dairy cows from RMB805.0 million in 2011 to RMB941.6 million in 2012 was mainly a result of an increase due to raising of RMB142.7 million, comprising the increase in self-bred heifers and calves to our herd and the feeding costs and other costs related to raising those heifers and calves. The increase in the value of our dairy cows from RMB941.6 million in 2012 to RMB987.2 million for the first half of 2013 was primarily because of an increase due to raising of RMB90.1 million, comprising the increased number of self-bred heifers and calves to our herd and the feeding costs and other costs related to raising those heifers and calves.

Key financial ratios

The table below sets forth our key financial ratios as of and for the periods indicated:

	As of and for the year ended 31 December			As of and for the six months ended 30 June
	2010	2011	2012	2013
Current ratio	0.25	0.16	0.14	0.45
Quick ratio	0.15	0.07	0.06	0.39
Gearing ratio	31.1%	55.5%	43.6%	3.5%
Return on equity ratio	4.2%	49.9%	35.5%	8.7%

Our current assets divided by current liabilities, or current ratio, was 0.25, 0.16, 0.14 and 0.45 as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. Our current assets after subtraction of inventories divided by current liabilities, or quick ratio, was 0.15, 0.07, 0.06 and 0.39 as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. The decreases in our current ratios and quick ratios from 2010 to 2011 were primarily due to increases in our current liabilities in relation to the construction of Kedong YST Farm and Zhenlai Farm Phase I during the Track Record Period and our acquisition of two dairy farms in September 2011. The decreases in our current ratios and quick ratios from 2011 to 2012 were mainly due to increases in our current liabilities in relation to our Reorganization. Our current ratio and quick ratio increased significantly as of 30 June 2013 primarily because of our increased profit and the capital injection into one of our subsidiaries of approximately RMB459 million from Ms. SX Li in the first half of 2013.

A liability to asset ratio is calculated by dividing total liabilities by total assets as of each balance sheet date. Our liability to asset ratio as of 31 December 2010, 2011 and 2012 and 30 June 2013 was 76.9%, 84.0%, 77.2% and 62.5%, respectively.

Consistent with others in the industry, we monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank borrowings as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt. Our gearing ratios for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 were 31.1%, 55.5%, 43.6% and 3.5%, respectively. The increase in our gearing ratios from 2010 to 2011 was primarily due to increases in bank borrowings to finance our extensive investments in construction of Kedong YST Farm and Zhenlai Farm Phase I during the Track Record Period. The decrease in our gearing ratios from 2011 to 2012 was because our capital increased and net debt decreased in 2012. The significant decrease in our gearing ratio in the first half of 2013 was mainly due to our increased equity resulting from the capital injection into one of our subsidiaries of approximately RMB459 million from Ms. SX Li in the first half of 2013.

Return on equity, or ROE, is calculated by dividing net profit for the period by total equity amounts as of the end of such period. Our return on equity for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 was 4.2%, 49.9%, 35.5% and 8.7%, respectively. ROE significantly increased from 2010 to 2011 primarily due to our bargain purchase gain of RMB164.4 million and significantly increased sales resulting from our acquisition and organic growth; ROE decreased from 2011 to 2012 mainly because no bargain purchase gain was recognized although our net profit significantly increased in 2012. The significant decrease in our ROE in the first half of 2013 was mainly because we had interests on other financial liabilities arising from our Pre-IPO Investments, losses arising from changes in fair value less costs to sell of dairy cows and increased equity during this period.

Capital expenditures

Our principal capital expenditures are related to the expansion of our new dairy farms, major maintenance and addition of equipment at our existing dairy farms. Our capital expenditures with respect to purchases of property, plant and equipment were RMB316.9 million, RMB198.4 million, RMB175.3 million and RMB23.9 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively.

As part of our future growth strategy, we estimate that our capital expenditures will be approximately RMB150 million for the year ending 31 December 2013. Our planned capital expenditures for our business operations will primarily be in relation to the construction and commencement of operations at our new dairy farms. We anticipate that our capital expenditures will be financed by cash generated from our operations, debt financing or bank loans, the proceeds from the

Pre-IPO Investments and the net proceeds from the Global Offering. The estimated amount of expenditures may vary from the actual amount for a variety of reasons, including changes in market conditions, competition and other factors.

Our current plan with respect to future capital expenditures is subject to change and based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, prevailing market conditions and our future outlook. There is no guarantee that our planned capital expenditures will proceed as planned. As we continue to expand, we may incur additional capital expenditures.

Related party transactions

We received loans from our related company, HLJ Beian NKTH, of RMB15.9 million, RMB147.7 million and RMB132.8 million for the years ended 31 December 2010, 2011 and 2012, respectively. The loans from the related company were non-interest bearing. We did not receive any loan from our related companies for the six months ended 30 June 2013. We also sold raw milk to and received rental income from YST Heping in 2010 and 2011 before we acquired Kedong Oumei Farm in September 2011. In addition, we purchased feed from three related companies controlled by Mr. HL Zhao, our Controlling Shareholder, in 2011 and 2012. These transactions were conducted in accordance with the terms and conditions mutually agreed by both parties. We fully repaid these loans in cash in the first half of 2013.

As disclosed in Note 28 of Section II of the Accountants' Report attached as Appendix IA to this Prospectus, Heilongjiang Beian Reclamation Area Sanhe Construction Co., Ltd. Zhaoguang Branch, or Sanhe, was considered as a related party because Mr. HL Zhao was named as the responsible person of Sanhe. We are of the view that Sanhe is not a connected person to the Company within the meaning of Chapter 14A of the Listing Rules because: (i) the Company was informed by Sanhe that Mr. HL Zhao was named as Sanhe's responsible person to facilitate the undertaking of the construction projects locally through leveraging Mr. HL Zhao's local reputation; (ii) Mr. HL Zhao was legally independent from Sanhe and was not involved in its operations or decision-making process; and (iii) Mr. HL Zhao ceased to be named as the responsible person of Sanhe from May 2013. The Directors confirm that the related party transactions with Sanhe were conducted on normal commercial terms. Based on their due diligence, the Joint Sponsors concur with the above confirmation.

The table below sets forth the compensation of our key management personnel for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term employee benefits	214	564	1,391	299
Post-employment benefits	—	9	—	—
Total compensation paid to key management personnel	214	573	1,391	299

The related party transactions during the Track Record Period are also set out in Note 28 of Section II of the Accountants' Report attached as Appendix IA to this Prospectus.

Transactions with Feihe Dairy Group

During the Track Record Period, we had sales of raw milk to Feihe Dairy Group and acquired the entire equity interests of Kedong Oumei Farm and Gannan Oumei Farm from Feihe Dairy HLJ and Mr. Ma Jinyan with the relevant transaction amounts stated below:

	For the year ended 31 December			For the six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Sales of raw milk	337	52,820	91,673	57,989	94,806
Acquisition of farms	—	845,226	—	—	—

In addition, in 2011, Feihe Dairy HLJ paid RMB68.6 million on our behalf to a local heifer importer as a portion of the total purchase price for the procurement of 8,300 Holstein heifers from Uruguay and we fully settled such amount with Feihe Dairy HLJ in June 2013.

Furthermore, as of 31 December 2010, 2011 and 2012 and 30 June 2013, our borrowings that were guaranteed by Feihe Dairy Group amounted to RMB159.9 million, RMB402.5 million, RMB365.0 million and RMB349.0 million, respectively.

Indebtedness

Borrowings

We have financed our operations primarily through cash flows from operations, bank loans and cash contributions from shareholders. The table below sets forth the details of our bank borrowings as of the dates indicated:

	As of 31 December									As of 30 June			As of 30 September
	2010			2011			2012			2013			2013
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000	RMB'000 (Unaudited)
Current													
Secured bank loans . . .	—	—	—	5.8–6.6	2012	60,000	6.3–6.6	2013	100,000	6.0–7.21	2013	100,000	65,000
Current portion of long term secured bank loans	5.3–5.8	2011	31,980	5.8–6.6	2012	66,497	6.3–6.6	2013	66,497	6.0–7.21	2013	86,755	99,517
			31,980			126,497			166,497			186,755	164,517
Non-current													
Secured bank loans . . .	5.9–6.4	2015	127,920	6.4–7.8	2013–2019	364,973	6.8–7.8	2013–2019	298,477	6.0–7.21	2015–2019	262,228	17,258
			159,900			491,470			464,974			448,983	181,775

Our total bank borrowings increased from RMB159.9 million as of 31 December 2010 to RMB491.5 million as of 31 December 2011. The increase in short-term borrowings was primarily due to increased feed purchases to supply our new farms. The increase in long-term borrowings was related to the construction of our own farms. Our total bank borrowings decreased to RMB465.0 million as of 31

December 2012, primarily due to our repayments of loans by YST Heping and YST Heilongjiang. Our total bank borrowings further decreased to RMB449.0 million as of 30 June 2013 because we repaid a long-term bank loan in relation to Kedong Oumei Farm in the first half of 2013.

Certain of our bank borrowings were secured by: (i) property, plant and equipment situated in China, which had an aggregate carrying value of RMB16.6 million, RMB15.3 million, RMB14.0 million and RMB13.3 million as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively; and (ii) biological assets situated in China. Our bank borrowings were guaranteed by two of our Directors, Wang Shaogang and Fu Wenguo, and one of our customers, Feihe Dairy Group. We released such guarantees by our Directors in August 2013. As of 31 December 2010, 2011 and 2012 and 30 June 2013, our borrowings that were guaranteed by Feihe Dairy Group amounted to RMB159.9 million, RMB402.5 million, RMB365.0 million and RMB349.0 million, respectively. All guarantees by Feihe Dairy Group had been released as of the Latest Practicable Date.

The other financial liabilities arising from the Pre-IPO Investments as of 30 June 2013 were RMB616.7 million. For further details on the Pre-IPO Investments, please refer to "History, Development and Reorganization — Pre-IPO Investments."

The amounts due to Feihe Dairy Group as of 31 December 2011 and 2012 and 30 June 2013 were RMB678.5 million, RMB598.3 million and RMB445.3 million. The amounts due to one of our Shareholders, Meng Fanqing, as of 30 June 2013 were RMB53.2 million.

As of 30 September 2013, being the latest practicable date for indebtedness purposes, we had total bank borrowings of RMB181.8 million, all of which were secured. The other financial liabilities arising from the Pre-IPO Investments were RMB650.0 million as of 30 September 2013. The amounts due to Feihe Dairy Group were RMB403.6 million and the amounts due to one of our Shareholders, Meng Fanqing, were RMB54.1 million as of 30 September 2013. Our Directors confirm that we did not have material defaults in payment of bank borrowings as of the Latest Practicable Date. As of the Latest Practicable Date, except as otherwise disclosed, we did not have any material change in our indebtedness.

Contingent liabilities

During the Track Record Period and as of the Latest Practicable Date, except as otherwise disclosed in this Prospectus, we did not maintain any outstanding loan capital or bank overdraft, or carry any liabilities under acceptance or other similar indebtedness, debenture, mortgages, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

Capital commitments

The following table sets forth our capital commitments as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for:				
— construction in progress	129,438	122,067	73,392	59,205
— property and equipment	11,619	5,156	1,688	8,096
	141,057	127,223	75,080	67,301

Off-balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving a unconsolidated entity under which a company has: (i) made guarantees; or (ii) any obligation arising out of a material variable interest in a unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging, or research and development arrangements with the Company.

As of the Latest Practicable Date, we did not have any off-balance sheet arrangements with unconsolidated entities.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates and credit risk. We manage our exposure to these and other market risks through regular operating and financial activities.

Fair value changes of dairy cows

During the Track Record Period, our results were affected by fair value changes of our dairy cows less costs to sell. For further information about the methods used in valuing our dairy cows, see "— Description of Components of Results of Operations — Changes in fair value less costs to sell of biological assets."

Fair value change sensitivity analysis

The following table sets forth the sensitivity analysis of the estimated fair value of milkable cows that would arise if the key inputs had changed as of 30 June 2013, assuming all other variables remained constant:

Milk Price Sensitivity

Average selling price of raw milk as of 30 June 2013: RMB 4.30/kg

% Change in Milk Price	10%	5%	2%	1%	–1%	–2%	–5%	–10%
Corresponding Valuation Result (RMB'000)	804,318	712,569	657,521	639,171	602,471	584,121	529,073	437,324
Change in Valuation Result (RMB'000)	183,496	91,747	36,699	18,349	–18,351	–36,701	–91,749	–183,498
% Change in Valuation Result	29.56%	14.78%	5.91%	2.96%	–2.96%	–5.91%	–14.78%	–29.56%

The estimated fair value of milkable cows increases when the milk price increases, and decreases when the milk price decreases.

Milk Yield Sensitivity

Average milk yield as of 30 June 2013: 9.6 tonnes per lactation cycle — 400 days

% Change in average Milk Yield	10%	5%	2%	1%	–1%	–2%	–5%	–10%
Corresponding Valuation Result (RMB'000)	700,838	660,830	636,825	628,823	612,819	604,817	580,812	540,804
Change in Valuation Result (RMB'000)	80,016	40,008	16,003	8,001	–8,003	–16,005	–40,010	–80,018
% Change in Valuation Result	12.89%	6.44%	2.58%	1.29%	–1.29%	–2.58%	–6.44%	–12.89%

The estimated fair value of milkable cows increases when the milk yield increases, and decreases when the milk yield decreases.

Feed Cost Sensitivity

Average feed cost as of 30 June 2013: RMB2.17/kg of raw milk produced

% Change in Feed Cost	10%	5%	2%	1%	–1%	–2%	–5%	–10%
Corresponding Valuation Result (RMB'000)	522,210	571,515	601,098	610,959	630,683	640,543	670,127	719,433
Change in Valuation Result (RMB'000)	–98,612	–49,307	–19,724	–9,863	9,861	19,721	49,305	98,611
% Change in Valuation Result	–15.88%	–7.94%	–3.18%	–1.59%	1.59%	3.18%	7.94%	15.88%

The estimated fair value of milkable cows increases when the feed cost decreases, and decreases when the feed cost increases.

Heifer Price Sensitivity

Price of heifer (at approximately 14 months of age) as of 30 June 2013: RMB21,000 per head

% Change in Price of Heifer (at about 14 months of age)	10%	5%	2%	1%	–1%	–2%	–5%	–10%
Corresponding Valuation Result (RMB'000)	653,257	637,040	627,308	624,065	617,578	614,334	604,603	588,385
Change in Valuation Result (RMB'000)	32,435	16,218	6,486	3,243	–3,244	–6,488	–16,219	–32,437
% Change in Valuation Result	5.22%	2.61%	1.04%	0.52%	–0.52%	–1.05%	–2.61%	–5.22%

The estimated fair value of milkable cows increases when the price of heifers increases, and decreases when the price of heifers decreases.

Discount Rate Sensitivity

Discount rate as of 30 June 2013: 13.82%

% Change in Discount Rate	1.50%	1.00%	0.50%	–0.50%	–1.00%	–1.50%
Corresponding Valuation Result (RMB'000)	605,280	610,373	615,553	626,179	631,630	637,174
Change in Valuation Result (RMB'000)	–15,542	–10,449	–5,269	5,357	10,808	16,352
% Change in Valuation Result	–2.50%	–1.68%	–0.85%	0.86%	1.74%	2.63%

The estimated fair value of milkable cows increases when the discount rate decreases, and decreases when the discount rate increases.

Credit risk

The credit risk of our other financial assets, which comprise cash and bank balances, other receivables and amounts due from related companies, arise from default of counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Since we trade only with recognized and creditworthy third parties, there is no requirement for collateral.

At the end of the Track Record Period, we had certain concentration of credit risk of 34%, 57% and 33% for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, and 100%, 100% and 100% for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013 of the trade receivables due from our largest customer and four largest customers, respectively. Concentration of credit risk is managed by establishing credit verification procedures. Our management determines there is minimal concentration of credit risk within our Group as such trade receivables are recognized and credit worthy.

Further quantitative data in respect of our exposure to credit risk arising from trade receivables are disclosed in Note 17 of Section II of the Accountants' Report attached as Appendix IA to this Prospectus.

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our cash and bank balances and bank loans with floating interest rates. We have not used any interest rate swaps to hedge our interest rate risk, and will consider hedging significant interest rate risks should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of our profit before tax (through the impact on floating rate borrowings):

	Increase/(Decrease) in basis points	Increase/(Decrease) in profit before tax
		RMB'000
31 December 2010		
RMB	100	(860)
RMB	(100)	860
31 December 2011		
RMB	100	(4,741)
RMB	(100)	4,741
31 December 2012		
RMB	100	(4,572)
RMB	(100)	4,572
30 June 2013		
RMB	100	(585)
US$	100	175
RMB	(100)	585
US$	(100)	(175)

Liquidity risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of long-term bank loans and projected cash flows from operations.

The maturity profile of our financial liabilities as of the end of each reporting period during the Track Record Period, based on the contractual undiscounted payments, is as follows:

	On demand or less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2013				
Other financial liabilities	720,000	—	—	720,000
Interest-bearing bank borrowings	180,759	324,343	20,071	525,173
Trade payables	176,830	—	—	176,830
Other payables and accruals	339,194	290,320	—	629,514
Amount due to shareholders	—	60,000	—	60,000
Amount due to related companies	19,811	—	—	19,811
	1,436,594	674,663	20,071	2,131,328
31 December 2012				
Interest-bearing bank borrowings	198,784	326,803	20,071	545,658
Trade payables	207,655	—	—	207,655
Other payables and accruals	939,525	—	—	939,525
Amount due to shareholders	134,521	—	—	134,521
Amount due to related companies	311,940	—	—	311,940
	1,792,425	326,803	20,071	2,139,299
31 December 2011				
Interest-bearing bank borrowings	160,991	400,330	42,294	603,615
Trade payables	142,586	—	—	142,586
Other payables and accruals	1,128,107	122,418	—	1,250,525
Amount due to shareholders	103,900	—	—	103,900
Amount due to related companies	165,620	—	—	165,620
	1,701,204	522,748	42,294	2,266,246
31 December 2010				
Interest-bearing bank borrowings	41,983	148,399	—	190,382
Trade payables	26,320	—	—	26,320
Other payables and accruals	433,082	—	—	433,082
Amount due to shareholders	300	—	—	300
Amount due to related companies	15,900	—	—	15,900
	517,585	148,399	—	665,984

Capital management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize shareholders' value.

We manage our capital structure and make adjustments in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the Track Record Period.

We monitor capital using gearing ratio.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

PROPERTY VALUE RECONCILIATION

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

LISTING EXPENSES

The total estimated listing expenses (excluding underwriting commission) in connection with the Global Offering amount to RMB41.5 million. We did not incur any listing expenses for the year ended 31 December 2012. For the six months ended 30 June 2013, we incurred listing expenses amounting to RMB18.8 million, among which RMB14.4 million has been charged to the profit and loss and RMB4.4 million was capitalized as deferred expenses, which is expected to be charged against equity upon successful listing under the relevant accounting standards. We estimate that the listing expenses to be incurred and charged to the profit and loss in the financial period after 30 June 2013 will be RMB17.0 million.

INFORMATION ABOUT THE INDEPENDENT VALUER OF OUR DAIRY COWS

We have engaged JLL, an independent valuer, to determine the fair value of our dairy cows less estimated point-of-sale costs as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. For the purposes of valuing our biological assets as of each valuation date, the key valuers of the JLL team comprised Mr. Simon M.K. Chan, Prof. T.Y. Gao, Mr. Jack Li, Ms. Ada Shao, Mr. Tim Chi and Mr. Ken Yang.

Mr. Simon M.K. Chan, a regional director at JLL, is the fellow member of Hong Kong Institute of Certified Public Accountants, fellow member of CPA Australia, Certified Valuation Analyst and a member of the International Association of Consultants, Valuers, and Analysts. Over the past 15 years, Mr. Chan has built up extensive experience in the valuation and corporate advisory business, having overseen valuations of equity, financial instruments, intangible assets, natural resources, and biological assets, including livestock, orchards and other plantations. As a regional director, Mr. Chan is in charge of JLL's valuation services in the Asia-Pacific region and has led different types of valuation projects, related to initial public offerings, merger and acquisitions for both private and state-owned companies in China, Hong Kong, Singapore, and the United States.

Prof. T.Y. Gao, a professor of Henan Agricultural University (Animal Science), and an independent biological asset valuation expert, is a council member of the China Animal Husbandry and Veterinary Association Cattle Branch, an executive director of the China Animal Husbandry and Veterinary Association Animal Ecology Branch, an executive director of the Animal Husbandry Engineering Branch of the Agricultural Engineering Society, an executive director of the China Scalper Breeding Committee, a deputy secretary of the Straw Utilization Branch of China Agricultural Society and an executive director of the Grass Fodder Branch of the Animal Husbandry and Veterinary Institute. He has extensive experience in the area of cow breeding and is mainly engaged in the study of the utilization of local feed resources for feeding cattle, environment management of dairy cows and livestock ecology. Professor Gao has published 23 books, has won 15 prizes for scientific achievements and has published more than 200 academic papers in different journals, most of which are on topics directly relevant to the research and study of dairy cows and dairy production.

Mr. Jack Li, a Local Director at JLL, is responsible for developing and overseeing valuation and other corporate advisory services. Mr. Li also has extensive experience in valuing various classes of assets, such as biological assets, equity, natural resources, intangible assets and financial derivatives, of a wide variety of private and state-owned companies in the Asia-Pacific region.

Ms. Ada Shao, a Senior Analyst at JLL, has worked on a number of valuation and consulting projects for both private and state-owned companies seeking to list on the Hong Kong Stock Exchange. Her experience covers valuation of equity, intangible assets, natural resources, biological assets, and a wide range of financial instruments and derivatives.

Mr. Tim Chi, an Analyst at JLL, has worked on a wide range of valuation projects in relation to public offerings on the Hong Kong Stock Exchange. Such experience includes valuation and inspection of other dairy farms, as well as other natural resource assets and intangible assets.

Mr. Ken Yang, an Assistant Analyst at JLL, in the course of his position has worked on various valuation projects, including intangible assets, financial derivatives, and biological valuations of dendrobium-/tea-plantations and dairy farms.

JLL has provided cattle valuation services for China Modern Dairy Holdings Limited (1117.HK), a company listed on the Hong Kong Stock Exchange. JLL has also provided other biological asset valuation services for assets such as trees, rabbits and chickens to Hong Kong listed companies including Lee&Man Paper (2314.HK), Chenming Paper (1812.HK) and Kandda Food (0834.HK).

Having considered the qualifications and experience of the JLL team and after discussions with the JLL team and our management, our Directors and the Joint Sponsors are satisfied that JLL is independent and competent to determine the fair value of biological assets.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net tangible assets of our Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2013. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of our Group.

	Audited consolidated net tangible assets attributable to the owners of the Company as of 30 June 2013(1)	Estimated net proceeds from the Listing(2)	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share(3)	Unaudited pro forma adjusted net tangible assets per Share(4)
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$2.49 per Share	1,143,130	1,844,491	2,987,621	0.76	0.96
Based on an Offer Price of HK$3.18 per Share	1,143,130	2,362,731	3,505,861	0.90	1.13

Notes:

(1) The audited consolidated net tangible assets attributable to the owners of the Company as of 30 June 2013 are based on audited consolidated net assets of our Group attributable to the owners of the Company as of 30 June 2013 of approximately RMB1,143 million as set forth in Appendix IA to this Prospectus.

(2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK$2.49 and HK$3.18, after deduction of the underwriting fees and related expenses payable by the Company and takes no account of any Share which may be issued upon exercise of the options granted pursuant to the Share Option Scheme. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at the PBOC rate of HK$1.00 to RMB0.7966 prevailing on 28 June 2013.

(3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 3,908,747,000 shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Share Option Scheme.

(4) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.7966 prevailing on 28 June 2013.

DIVIDEND POLICY

Our Group did not declare any dividends during the Track Record Period. After completion of the Global Offering, our Shareholders will be entitled to receive any dividends that we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Bermuda Companies Act, including the approval of Shareholders.

DISTRIBUTABLE RESERVES

The Company was only incorporated on 1 May 2012. The Company did not have any distributable reserves as of 30 September 2013 and as of the Latest Practicable Date.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, since 30 June 2013 and up to the date of this Prospectus, there had been no material adverse change in our financial or trading position or prospects and no event had occurred that would materially and adversely affect the financial information in the Accountants' Report included as Appendix IA to this Prospectus.