Lanzhou Zhuangyuan Pasture Co., Ltd.*

蘭州莊園牧場股份有限公司

(a joint stock limited liability company incorporated in the People's Republic of China)

Stock Code: 1533

GLOBAL OFFERING

Sole Sponsor

廣發融資(香港)有限公司
GF CAPITAL (HONG KONG) LIMITED

Sole Global Coordinator

廣發證券(香港)經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED

Joint Bookrunners

廣發證券(香港)經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED

中信建投國際
China Securities International

海通國際
HAITONG

AMTD
Asset Management
尚乘資產管理

* *For identification purposes only*

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

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GLOBAL OFFERING

Number of Offer Shares under Global Offering:	**35,130,000 H Shares (subject to the Over-allotment Option)**
Number of Hong Kong Public Offer Shares:	**3,513,000 H Shares (subject to adjustment)**
Number of International Offer Shares:	**31,617,000 H Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price:	**HK$7.83 per H Share (plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full in Hong Kong dollars on application, subject to refund))**
Nominal value:	**RMB1.00 per H Share**
Stock code:	**1533**

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AMTD Asset Management 尚乘資產管理

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

We expect to determine the Offer Price by agreement with the Sole Global Coordinator (for itself and on behalf of the Underwriters), on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 8 October 2015 and, in any event, not later than Monday, 12 October 2015. The Offer Price will be not more than HK$7.83 and is currently expected to be not less than HK$4.98 unless otherwise announced. Applicants for the Hong Kong Public Offer Shares are required to pay, on application, the maximum Offer Price of HK$7.83 for each Hong Kong Public Offer Share together with 1% brokerage, 0.0027% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee, subject to refund if the Offer Price as finally determined should be lower than HK$7.83.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) with the consent of our Company, may reduce the number of Hong Kong Public Offer Shares being offered under the Global Offering and/or the indicative Offer Price range that is stated in this prospectus (which is HK$4.98 to HK$7.83 per Offer Share) at any time on or prior to the morning of the last day for the lodging of applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the indicative Offer Price range and/or the number of Offer Shares will be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at http://www.lzzhuangyuan.com not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares". If, for whatever reason, we and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are not able to agree on the Offer Price, the Global Offering will not proceed and will lapse immediately.

Our Company is incorporated, and our operations are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors", "Appendix III – Taxation and Foreign Exchange", "Appendix V – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix IV – Summary of Articles of Association" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, Hong Kong Public Offer Shares are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the day that trading in the H Shares commences on the Hong Kong Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares are being offered and sold outside the United Sates in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

* *For identification purposes only*

30 September 2015

Latest time to complete electronic applications under the **White Form eIPO** service through the designated website **www.eipo.com.hk**[4]	11:30 a.m. on Thursday, 8 October 2015
Application lists open[2]	11:45 a.m. on Thursday, 8 October 2015
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC[3]	12:00 noon on Thursday, 8 October 2015
Latest time to complete payment of **White Form eIPO** applications effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, 8 October 2015
Application lists close[2]	12:00 noon on Thursday, 8 October 2015
Expected Price Determination Date[5]	12:00 noon on Thursday, 8 October 2015
(i) Announcement of the Offer Price, the indication of the levels of interest in the International Offering, the results of applications in respect of the Hong Kong Public Offering and the results and basis of allotment under the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) on or before	Wednesday, 14 October 2015
(ii) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for the Hong Kong Public Offer Shares – Publication of Results" in this prospectus from	Wednesday, 14 October 2015
(iii) A full announcement of the Hong Kong Public Offering containing (i) and (ii) above to be published on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Company's website at **http://www.lzzhuangyuan.com**	Wednesday, 14 October 2015
Results of applications for the Hong Kong Public Offering will be available at **www.iporesults.com.hk,** with a "Search by ID" function from	Wednesday, 14 October 2015
Despatch of H Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[6]	Wednesday, 14 October 2015

Despatch of White Form e-Refund payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before[7]	Wednesday, 14 October 2015
Dealings in H Shares on the Hong Kong Stock Exchange to commence on	Thursday, 15 October 2015

(1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 8 October 2015, the application lists will not open or close on that day. Further information is set out in the section headed "How to apply for Hong Kong Public Offer Shares – Effect of Bad Weather Conditions on the Opening of the Application Lists" in this prospectus. If the application lists do not open and close on Thursday, 8 October 2015, the dates mentioned in this section may be affected. A press announcement will be made by our Company in such event.

(3) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Public Offer Shares – Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

(4) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website, **www.eipo.com.hk**, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(5) The Price Determination Date is expected to be on or around Thursday, 8 October 2015 and, in any event, not later than Monday, 12 October 2015. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company by Monday, 12 October 2015, the Hong Kong Public Offering and the International Offering will not proceed and will lapse.

(6) H share certificates for the Hong Kong Public Offer Shares are expected to be issued on Wednesday, 14 October 2015 but will only become valid certificates of title at 8:00 a.m. on Thursday, 15 October 2015, provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed "Underwriting – Grounds for Termination" in this prospectus has not been exercised and has lapsed. Investors who trade the Hong Kong Public Offer Shares on the basis of publicly available allocation details before the receipt of their H share certificates or before the H share certificates becoming valid certificates of title do so entirely at their own risk.

(7) E-Refund payment instruction/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

For further details in relation to the Hong Kong Public Offering, see the sections headed "How to Apply for Hong Kong Public Offer Shares" and "Structure and Conditions of the Global Offering" in this prospectus.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in the prospectus. Any information or representation not made in the prospectus must not be relied on by you as having been authorised by our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters, any of their respective directors, or any other person involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read this section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading dairy company in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. We ranked the first with a market share of 19.0% in the liquid milk product market in terms of retail sales value in the Gansu and Qinghai regional market in 2014, according to the Frost & Sullivan Report. Our sales in Gansu and Qinghai accounted for approximately 75.5% and 22.2% of our total sales, respectively, for the year ended 31 December 2014 and approximately 73.3% and 25.2% of our total sales, respectively, for the three months ended 31 March 2015.

Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We own and operate five dairy farms (including a dairy farm that commenced trial operation in July 2015) and collectively operate three dairy farms through cooperation with local dairy farmers. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, raw milk sourced from third-party suppliers represented approximately 72.3%, 69.7%, 59.9% and 54.6% of the total raw milk used for our production. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so that approximately 60% of our raw milk requirements could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products. Founded in 2000, we have gradually transitioned to a well-recognised integrated dairy company through our dedicated efforts. We have been named as one of the National Leading Enterprises for Agricultural Industrialisation (農業產業化國家重點龍頭企業) by MOA, NDRC, MOF, MOFCOM and other government authorities since 2008.

We introduced to the market our Cold Chain Liquid Milk Products (i.e., pasteurised milk and yogurt) since the commencement of our production of dairy products in 2000, and we made a strategic decision in 2012 to enhance our efforts in the development and sales of such products, which we believe will represent the new consumption trend in the near future. Since then, we have been making continuous effort to expand our production capacity and distribution network of our Cold Chain Liquid Milk Products. As a result, we have become a market leader in the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market. According to the Frost & Sullivan Report, we ranked the first in the Cold Chain Liquid Milk Product market in terms of retail sales value in the Gansu and Qinghai regional market in 2014. Turnover from our Cold Chain Liquid Milk Products was RMB75.2 million, RMB98.7 million, RMB179.1 million and RMB63.8 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively, accounting for 17.9%, 21.3%, 32.8% and 43.9% of our total turnover for the same periods respectively. We enjoy higher gross profit margin for our Cold Chain Liquid Milk Products compared to our other dairy products. The gross profit margin for our Cold Chain Liquid Milk Products was 38.6% and 38.2% for the year ended 31 December 2014 and for the three months ended 31 March 2015, respectively. According to the Frost & Sullivan Report, in Gansu, the Cold Chain Liquid Milk Product market in terms of retail sales value increased at a CAGR of 12.5% from RMB0.6 billion in 2009 to RMB1.0 billion in 2014 and is expected to grow at a CAGR of 12.8% to RMB1.9 billion by 2019. In Qinghai, the Cold Chain Liquid Milk Product market in terms of retail sales value increased at a CAGR of 11.6% from RMB0.2 billion in 2009 to RMB0.3 billion in 2014 and is expected to grow at a CAGR of 11.6% to RMB0.6 billion by 2019. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market in Gansu and Qinghai due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and then further expand into other provinces in the northwestern China.

While focusing on the Cold Chain Liquid Milk Product market, we also leveraged on our strong brand recognition in the regional market to continue to strengthen the sales of our popular UHT milk and modified milk products during the Track Record Period, thereby maintaining our diversified product offerings. For example, condensed modified milk using Tetra Prisma and other aseptic carton packaging has become one of our popular products since its launch in 2013 due to the general acceptance of its taste which is catered to the preference of local customers, allowing us to command higher selling price and gross profit margin. Going forward, we intend to continue our efforts in the sales of our UHT milk and modified milk products that are popular among local consumers to maintain our diversified product offerings.

OUR BUSINESS MODEL

Our business consists of dairy farming, manufacturing and sales of dairy products. We began our production of dairy products in Lanzhou in 2000 and further expanded our business into dairy farming operations in Lanzhou in 2009. In 2010, our Company acquired Qinghaihu Dairy, which has been offering Shenghu (聖湖) branded products in Qinghai since 2005. As a result, we expanded our dairy business and dairy farming operation in Qinghai. We currently own two milk production plants, one in Gansu and one in Qinghai, with a total annual production capacity of 125,200 tonnes and 129,017 tonnes of liquid milk and milk beverages as at 31 December 2014 and as at 31 March 2015, respectively.

As at 31 March 2015, we operated a total of eight dairy farms with an aggregate area of approximately 1,300 mu, which can collectively house up to approximately 15,800 dairy cows. Our dairy farms are strategically located in Gansu, Qinghai and Ningxia, a region that has favourable climate and geographical conditions for dairy cattle raising. Among the eight dairy farms, we own and operate five dairy farms (including Lanzhou Ruixing dairy farm that commenced trial operation in July 2015) and collectively operate the remaining three dairy farms through cooperation with local dairy farmers. We completed the construction of main structure and facilities of Lanzhou Ruixing dairy farm in July 2015, following which we commenced a trial operation with raw milk producing. The construction of ancillary structures of Lanzhou Ruixing dairy farm is expected to be completed by the end of 2015. In the self-operated dairy farms, we breed our own cows and are fully responsible for the management of the farms in every aspect. With respect to the collectively-operated dairy farms, we own the dairy farms and facilities and are responsible for the general management of the farms, while local dairy farmers own the cows, attend to the day-to-day caring of the dairy cows following our farm practices and provide raw milk produced in such collectively-operated dairy farms to us exclusively at a contracted price. Under the collectively-operated dairy farm operation model, we are able to utilise the dairy cows owned by local dairy farmers to expand our operation scale of dairy farms without the initial purchase cost of heifers or calves and the respective breeding costs, while maintaining the source of raw milk and its quality through our quality control procedures. Due to this reason, we adopt the collectively-operated dairy farm operation model which is complementary to our self-operated dairy farms. According to the Frost & Sullivan Report, it is a common practice for dairy companies to adopt the collectively-operated dairy farm operation model in the PRC.

OUR PRODUCTS AND BRANDS

We offer a broad range of dairy products tailored to the needs and taste preferences of different consumer groups. Our principal products sold to retail consumers include (i) liquid milk products, which comprise pasteurised milk (i.e. fresh milk), UHT milk, modified milk and yogurt, and (ii) milk beverages. As at 31 March 2015, we had over 50 offerings of principal liquid milk and milk beverage products. We place strong emphasis on our product development to continuously develop new products that meet the evolving tastes and preference of our consumers, which differentiates us from our competitors in the region.

We market our products under three different brands, namely Zhuangyuan Ranch (莊園牧場), Shenghu (聖湖) and Yongdaobu (永道布). Our Zhuangyuan Ranch (莊園牧場) and Shenghu (聖湖) brands are widely recognised in Gansu and Qinghai, respectively. In 2014, we started to market and sell under the Yongdaobu (永道布) brand our specialty dairy products featuring yak milk ingredient, which is richer in protein, fat and other minerals such as calcium and phosphorus compared to normal cow milk, and other specially products featuring Qinghai-Tibet Plateau characteristics, such as highland barley and black gojiberry which are unique to the Qinghai-Tibet Plateau. We plan to position this brand for the nation wide market.

The following table sets forth our turnover by product types, their respective percentages of the total turnover for the periods indicated and the percentage of change over the periods.

	For the year ended 31 December								Three months ended 31 March				
	2012		2013			2014			2014		2015		
	Turnover	% of total	Turnover	% of total	Year-on-year change	Turnover	% of total	Year-on-year change	Turnover	% of total	Turnover	% of total	Quarter-on-quarter change
	RMB'000	%	RMB'000	%	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%
									(unaudited)				
	(in thousands except sales volume and average selling price)												
Liquid Milk Products													
Pasteurised Milk	24,570	5.8	25,895	5.6	5.4	25,877	4.7	(0.1)	5,393	4.6	4,738	3.3	(12.1)
UHT Milk	215,597	51.3	174,335	37.6	(19.1)	127,904	23.5	(26.6)	36,832	31.2	24,706	17.0	(32.9)
Modified Milk	97,547	23.2	141,951	30.6	45.5	203,504	37.3	43.4	44,483	37.7	53,274	36.6	19.8
Yogurt	50,679	12.1	72,773	15.7	43.6	153,240	28.1	110.6	19,123	16.2	59,038	40.6	208.7
Subtotal	388,393	92.4	414,954	89.5	6.8	510,525	93.6	23.0	105,831	89.7	141,756	97.5	33.9
Milk Beverages	25,004	5.9	19,600	4.2	(21.6)	23,686	4.3	20.8	6,320	5.4	2,824	1.9	(55.3)
Other Dairy Products	7,020	1.7	28,970	6.3	312.7	11,028	2.1	61.9	5,807	4.9	831	0.6	(85.7)
Total	420,417	100.0	463,524	100.0	10.3	545,239	100.0	17.6	117,958	100.0	145,411	100.0	23.3

Note: Turnover from our other dairy products consists of sales of milk tea powder, raw milk and milk powder. Raw milk and milk powder are not our regular products.

The following table sets forth the breakdown of our gross profit by product types for the periods indicated, their percentage of change over the periods as well as their respective gross profit margin for the periods indicated.

	Year ended 31 December								Three months ended 31 March				
	2012		2013			2014			2014		2015		
	Gross Profit	Gross profit margin	Gross Profit	Year-on-year change	Gross profit margin	Gross Profit	Year-on-year change	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Quarter-on-quarter change	Gross profit margin
	RMB'000	%	RMB'000	%	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%
Liquid Milk Products													
Pasteurised Milk	7,811	31.8	9,601	22.9	37.1	10,551	9.9	40.8	2,149	39.8	1,965	(8.6)	41.5
UHT Milk	61,426	28.5	40,738	(33.7)	23.4	32,817	(19.4)	25.7	9,310	25.3	6,213	(33.3)	25.1
Modified Milk	26,504	27.2	35,493	33.9	25.0	66,744	88.0	32.8	12,703	28.6	15,927	25.4	29.9
Yogurt	12,273	24.2	25,161	105.0	34.6	58,567	132.8	38.2	6,769	35.4	22,380	230.6	37.9
Subtotal	108,014	27.8	110,993	2.8	26.7	168,679	52.0	33.0	30,931	29.2	46,485	50.3	32.8
Milk Beverage	5,857	23.4	5,286	(9.7)	27.0	4,080	(22.8)	17.2	1,323	20.9	504	(61.9)	17.8
Other Dairy Products	1,589	22.6	1,320	(16.9)	4.6	3,278	148.3	29.7	854	14.7	111	(87.0)	13.4
Total	115,460	27.5	117,599	1.9	25.4	176,037	49.7	32.3	33,108	28.1	47,100	42.3	32.4

Among our four sub-categories of liquid milk products, pasteurized milk (i.e., fresh milk) products commanded the highest gross profit margin ranging from 31.8% to 41.5% and its gross profit margin had been on an increasing trend during the Track Record Period. Such high gross profit margin and its consistent increase were primarily due to the increased average selling price of our pasteurized milk products as a result of their high quality. Our yogurt products commanded the second highest gross profit margin ranging from 24.2% to 38.2% and its gross profit margin had also been on a general increasing trend during the Track Record Period. The high gross profit margin and the general increase in gross profit margin of our yogurt products were primarily due to the launch of several different flavours of yogurt products using the Ecolean packaging in 2013 and the increased sales of these products because of their popularity and general acceptance. With respect to our modified milk products, their gross profit margin ranged from 25.0% to 32.8% during the Track Record Period and the fluctuation primarily reflected the changes in market price of raw milk and our ability to increase the average selling price of modified milk products as a result of our efforts in adjusting product mix to focus on popular products within this sub-category. Finally, our UHT milk products had gross profit margin in the range of 23.4% to 28.5% during the Track Record Period and the fluctuation was primarily due to a combination of the changes in average selling price and cost of raw milk during the relevant periods. The gross profit margins of our four sub-categories of liquid milk products during the Track Record Period were consistent with our strategic shift to focus on the sales of Cold Chain Liquid Milk Products, being pasteurized milk and yogurt products.

OUR DISTRIBUTION NETWORK AND CUSTOMERS

To maximise our reach to consumers, we utilise three main sales channels for our dairy products, namely distributors, sales agents and direct sales. In Lanzhou and Xining, we primarily sell our dairy products to end-consumers through sales agents and direct sales; whereas outside of Lanzhou and Xining, we primarily sell our dairy products through third-party distributors. As at 31 March 2015, we had 154 distributors and 126 sales agents. For the year ended 31 December 2014, our sales to distributors and sales agents generated approximately RMB298.4 million and RMB176.8 million, which accounted for approximately 54.7% and 32.4% of our total turnover, respectively. For the three months ended 31 March 2015, our sales to distributors and sales agents generated approximately RMB75.4 million and RMB56.3 million, which accounted for approximately 51.9% and 38.7% of our total turnover, respectively. Under the direct sales channels in Lanzhou and Xining, we sell our dairy products directly to major supermarkets and a large number of local schools. For the year ended 31 December 2014, our direct sales generated approximately RMB70.0 million, which accounted for approximately 12.9% of our total turnover. For the three months ended 31 March 2015, our direct sales generated approximately RMB13.6 million, which accounted for approximately 9.4% of our total turnover. Our sales network covers most of the local markets in Gansu and Qinghai.

SUPPLIERS AND PROCUREMENT

Raw materials used in our production primarily include (i) raw milk, (ii) packaging and ancillary materials, and (iii) feeds for our dairy cows, such as silage, alfalfa, corn beans and oats. We source raw milk from our self-operated dairy farms, collectively-operated dairy farms and other third-party dairy farms in Gansu, Qinghai and Ningxia. Our other raw materials are primarily procured from third party-suppliers in the PRC.

We commenced our dairy farming operation in Lanzhou in 2009. Although we have gradually increased our herd size and therefore the raw milk production in our self-operated and collectively-operated dairy farms over the years, the raw milk supply from our self-operated and collectively-operated dairy farms alone is insufficient to support our production requirement of our dairy products. Therefore, raw milk sourced from third-party suppliers still represents a significant portion of the total raw milk used for our production. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, raw milk sourced from third-party suppliers represented 72.3%, 69.7%, 59.9% and 54.6% of the total raw milk used for our production. The table below sets forth raw milk procured from these three different sources for the periods indicated.

	For the year ended 31 December						For the three months ended 31 March			
	2012		2013		2014		2014		2015	
	Tonnes	% of total raw milk used	Tonnes	% of total raw milk used	Tonnes	% of total raw milk used	Tonnes	% of total raw milk used	Tonnes	% of total raw milk used
Raw milk supply from self-operated dairy farms	7,767	12.1	10,419	16.2	12,687	21.1	2,849	19.6	2,915	24.2
Raw milk supply from collectively-operated dairy farms	10,051	15.6	9,131	14.1	11,409	19.0	2,521	17.4	2,563	21.2
Subtotal	17,818	27.7	19,550	30.3	24,096	40.1	5,370	37.0	5,478	45.4
Raw milk purchased externally	46,598	72.3	44,892	69.7	36,041	59.9	9,129	63.0	6,586	54.6
TOTAL	64,416	100.0	64,442	100.0	60,137	100.0	14,499	100.0	12,064	100.0

The market price of raw milk has fluctuated during the Track Record Period in the PRC. According to the Frost & Sullivan Report, the average market price of raw milk in the PRC increased from RMB2,433 per tonne in 2009 to RMB4,042 per tonne in 2014, representing a CAGR of approximately 10.7%. Despite of the general increase in average market price of raw milk in 2014 compared to 2013, the monthly raw milk price in 2014 experienced a slight increase from RMB4,232 per tonne in January 2014 to RMB4,255 per tonne in February 2014, and a downturn from RMB4,228 per tonne in March 2014 to RMB3,790 per tonne in December 2014. It was partly due to a significant increase in the imports of milk powder (being a substitute for raw milk in certain dairy products and milk beverage) during the same period. The import volume of milk powder in the PRC increased significantly from 573,100 tonnes in 2012 to 854,400 tonnes in 2013 and further to 923,700 tonnes in 2014. In 2014, the total import volume of milk powder accounted for 19.8% of raw milk production volume in the PRC. The price of imported milk powder (raw milk equivalent) increased from RMB2,655 per tonne in 2012 to RMB3,224 per tonne in 2013 and further to RMB3,700 per tonne in 2014, which was generally in line with the increase of domestically-produced raw milk price in the PRC during the same period. Although there was a slight increase in price of raw milk from January 2014 to February 2014, the monthly average raw milk price in December 2014 decreased by 10.4% compared to that in January 2014. In the first quarter of 2015, the monthly average raw milk price in the PRC decreased by 4.0% from RMB3,563 per tonne in January 2015 to RMB3,420 per tonne in March 2015, and then was stabilised at RMB3,404 per tonne in April 2015 and RMB3,400 per tonne in May 2015. However, it began to recover to RMB3,413 per tonne in June 2015 and slightly decreased to RMB3,410 per tonne in July 2015.

It is expected that the average raw milk price in the PRC will rebound in the long run. According to the Frost & Sullivan Report, the total raw milk demand in the PRC is projected to further increase at a

CAGR of 7.2% from approximately 52.3 million tonnes in 2014 to approximately 74.0 million tonnes in 2019. Particularly, the pasteurised milk products market in the PRC in terms of retail sales value grew at a CAGR of 15.5% from RMB14.5 billion in 2009 to RMB29.9 billion in 2014, and is expected to further grow at a CAGR of 12.0% to RMB52.7 billion by 2019. Unlike production of UHT milk, production of pasteurised milk usually requires higher quality of raw milk in terms of nutrition and safety indicators. As a result, pasteurised milk is usually manufactured and processed through locally-produced fresh raw milk, which is not substituted by domestic and imported milk powder. As a result, the rapid growth of pasteurised milk is likely to drive the demand for domestically-produced fresh raw milk. Although China's raw milk production remained relatively stable from 2009 to 2014, there had been an excessive demand over raw milk supply in China. The raw milk supply is expected to continue to grow from approximately 37.3 million tonnes in 2014 and reach approximately 42.0 million tonnes in 2019, with a CAGR of 2.4% which is lower than the growth pace of the domestic raw milk demand. As such, the faster growth in the demand for domestic raw milk than that for the supply is likely to lead to an expanding gap between demand and supply, which is expected to increase at a CAGR of 16.2% from 2014 to 2019 and reach approximately 32.0 million tonnes in 2019, according to the Frost & Sullivan Report. Therefore, the average raw milk price in China is likely to increase steadily in the next three to five years.

Currently, foreign operators in China are still at the early stage of dairy farm operation and are usually in small-scale in herd size. Most of the foreign operators produce raw milk for their own use in the dairy processing rather than providing raw milk for sale in the market. The raw milk supplied by foreign operators is generally priced at the same level as that supplied by domestic large-scale dairy farms. If the foreign operators increase their investments and expand substantially in the future, they may be able to compete with domestic dairy brands.

The table below sets forth a sensitivity analysis relating to our average costs of raw milk produced from third-party dairy farms and collectively-operated dairy farms, illustrating what the impact on our profit from operation would have been if our average cost of raw milk had been adjusted based on the following percentages for the periods indicated:

	Change in average cost of sales of raw milk procured from third-party dairy farms and collectively-operated dairy farms (per kg)					
	Increase/decrease 5%		Increase/decrease 15%		Increase/decrease 25%	
	RMB '000	%	RMB '000	%	RMB '000	%
Profit from Operations						
For the year ended 31 December 2012	–/+ 8,984	–/+ 12.6%	–/+ 26,952	–/+ 37.7%	–/+ 44,920	–/+ 62.8%
For the year ended 31 December 2013	–/+ 9,873	–/+ 15.5%	–/+ 29,618	–/+ 46.5%	–/+ 49,364	–/+ 77.6%
For the year ended 31 December 2014	–/+ 8,312	–/+ 8.3%	–/+ 24,937	–/+ 24.9%	–/+ 41,561	–/+ 41.5%
For the three months ended 31 March 2014	–/+ 2,175	–/+ 14.3%	–/+ 6,524	–/+ 42.9%	–/+ 10,873	–/+ 71.5%
For the three months ended 31 March 2015	–/+ 2,079	–/+ 8.1%	–/+ 6,238	–/+ 24.4%	–/+ 10,397	–/+ 40.2%

The market price of raw milk not only has an effect on the production costs incurred for our liquid milk products relating to raw milk purchased externally, but also affects the valuation of the dairy cows as the raw milk price is an assumption in the valuation process. Due to the fluctuation in the monthly average raw milk price in 2014 and the decrease in raw milk price from January 2015 to March 2015, which were offset by other factors, such as market demand, our product mix and average selling prices of our products and cost structure, profit from operation before biological asset fair value adjustments was RMB114.7 million and RMB30.2 million for the year ended 31 December 2014 and the three months ended 31 March 2015, respectively. For the same periods, profit from operation after biological asset fair value adjustments was RMB100.0 million and RMB25.9 million, respectively.

We believe our mix of raw milk sources is able to mitigate the risk relating to the fluctuation in raw milk market price that we are exposed to as the raw milk production in our self-operated and collectively-operated dairy farms has increased steadily during the Track Record Period. As at 31 December 2014, we had over 4,822 dairy cows in our self-operated dairy farms, which accounted for approximately 1.0% and 0.032% of the total dairy cows in Gansu and Qinghai and the total dairy cows in the PRC, respectively. As at 31 March 2015, we had 4,736 self-owned dairy cows being bred at our self-operated dairy farms and 2,479 farmer-owned dairy cows being bred at our collectively-operated dairy farms. We believe the best way to ensure stable supply of premium and safe raw milk for our production is to have our self-operated dairy farms, because we are able to implement a full range of direct quality control procedures over quality of feeds, dairy cows, milking and processing of raw milk. With respect to our collectively-operated dairy farms, the local dairy farmers own the cows for which we have less control over the quality of their breeds and they also attend to the day-to-day caring of the cows, but they use our facilities and are required to comply with our farm practices and management procedures, through which we are able to control the quality over the raw milk produced at these farms and as such our collectively-operated dairy farms serve as an alternative source to secure stable supply of premium and safe raw milk for our production. For raw milk procured from our collectively-operated dairy farms, we enter into purchase agreements with contracted farmers under which we purchase raw milk at a set price, adjustable according to market conditions but subject to a minimum purchase price during the contract period with a view to maintaining sustainable business relationships with those contracted farmers. Such protective pricing not only enables us to enhance the loyalty of our contracted farmers and reduce the volatility of our purchase price of raw milk, but also allows us to be in a better position to negotiate with our contracted farmers. During the Track Record Period, our costs of raw milk procured from the collectively-operated dairy farms were relatively stable despite of the fluctuation in raw milk market price during the same periods. As a result, we believe that we will be able to manage our costs of raw milk procured from collectively-operated dairy farms within a reasonable and relatively stable range in light of the expected increase in raw milk price in the next three to five years.

We intend to increase our herd size of premium dairy cows breed at our self-operated dairy farms. We also plan to expand the herd size at our existing collectively-operated dairy farms to supplement the supply of our raw milk so that approximately 60% of our raw milk could be sourced internally. We plan to use part of the net proceeds from the Global Offering to import approximately 5,000 dairy cows from Australia or New Zealand by 2017. Furthermore, we plan to improve our raw milk production capacity and quality to satisfy the needs of our fast growing business.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths differentiate us from our competitors and have contributed to our success:

- Trusted regional brands in Gansu and Qinghai associated with high quality and safety

- Extensive sales and distribution regional network in Gansu and Qinghai, which provides advantages to us in marketing and delivering fresh products to local customers
- Broad product portfolio and strong market-oriented product development capabilities to increase our product variety
- Ability to produce and procure a stable supply of high quality raw milk from different channels that are complementary to each other
- Strategic location in northwestern China enabling us to benefit from the significant growth of the dairy markets, as well as the supportive government policies in this region
- Experienced and committed management team with proven track record

OUR STRATEGIES

Our goal is to further strengthen our regional market leading position and brand recognition in Gansu and Qinghai. To achieve this goal, we plan to implement the following strategies:

- Pursue our branding strategies to strengthen our branding positions under our different brands, increase our market shares and enhance consumer loyalty
- Upgrade our cold chain distribution facilities to strengthen our regional market leader position in Gansu and Qinghai and expand our sales and distribution network
- Improve our raw milk production capacity and quality to satisfy the needs of our fast growing business
- Enrich our product portfolio to address changing consumer preferences and offer new tasting experience to inspire demands for our products through our continuous product development efforts

OUR HISTORY AND MAJOR SHAREHOLDERS

Our Group was founded by Mr. Ma Hongfu and Mr. Chen Gang (who is no longer our shareholder) on 25 April 2000 through the establishment of Zhuangyuan Dairy, the predecessor of our Company. When Zhuangyuan Dairy was established, it was primarily engaged in the product development, manufacture and sales of liquid milk products. Subsequently, the scope of our business was expanded to include dairy farming operation. In 2010, our Company acquired Qinghaihu Dairy, which has been offering Shenghu (聖湖) branded products in Qinghai since 2005. As a result, we expanded our dairy business and dairy farming operation in Qinghai. On 19 April 2011, Zhuangyuan Dairy was converted into a joint stock limited liability company and adopted its current name under the PRC Company Law. In 2013, to further develop our business, we acquired 18% of the equity interests in Xi'an Dongfang, which became an affiliate of our Company. For further details of this acquisition, please refer to the section headed "History and Development — Acquisition of Minority Interest." As at the Latest Practicable Date, our Company had nine subsidiaries.

Immediately prior to the completion of the Global Offering, Mr. Ma Hongfu directly holds 30.56% equity interests in our Company and he is interested in and controls indirectly through Zhuangyuan Investment and Lucky Cow 29.32% and 14.24% equity interests in our Company, respectively.

SUMMARY OF OUR FINANCIAL INFORMATION

Principal consolidated statements of profit or loss

The following table sets forth a summary of our consolidated results of operations before and after biological asset fair value adjustments are made for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended 31 December									Three months ended 31 March					
	2012			2013			2014			2014			2015		
	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	420,417	–	420,417	463,524	–	463,524	545,239	–	545,239	117,958	–	117,958	145,411	–	145,411
Cost of sales	(301,743)	(3,214)	(304,957)	(340,233)	(5,692)	(345,925)	(364,284)	(4,918)	(369,202)	(83,593)	(1,257)	(84,850)	(97,016)	(1,295)	(98,311)
Gross Profit	118,674	(3,214)	115,460	123,291	(5,692)	117,599	180,955	(4,918)	176,037	34,365	(1,257)	33,108	48,395	(1,295)	47,100
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	–	3,214	3,214	–	5,692	5,692	–	4,918	4,918	–	1,257	1,257	–	1,295	1,295
Loss arising from changes in fair value less costs to sell of biological assets	–	(2,663)	(2,663)	–	(10,471)	(10,471)	–	(14,674)	(14,674)	–	(4,864)	(4,864)	–	(4,313)	(4,313)
Other net income	14,204	–	14,204	13,841	–	13,841	15,718	–	15,718	2,573	–	2,573	3,340	–	3,340
Distribution costs	(25,154)	–	(25,154)	(24,058)	–	(24,058)	(33,846)	–	(33,846)	(7,221)	–	(7,221)	(7,499)	–	(7,499)
Administrative costs	(33,586)	–	(33,586)	(38,960)	–	(38,960)	(48,110)	–	(48,110)	(9,648)	–	(9,648)	(14,058)	–	(14,058)
Profit from operations	74,138	(2,663)	71,475	74,114	(10,471)	63,643	114,717	(14,674)	100,043	20,069	(4,864)	15,205	30,178	(4,313)	25,865
Net finance costs	(15,946)	–	(15,946)	(25,396)	–	(25,396)	(26,351)	–	(26,351)	(6,474)	–	(6,474)	(6,840)	–	(6,840)
Profit before taxation	58,192	(2,663)	55,529	48,718	(10,471)	38,247	88,366	(14,674)	73,692	13,595	(4,864)	8,731	23,338	(4,313)	19,025
Income tax	(1,219)	–	(1,219)	(3,608)	–	(3,608)	(8,283)	–	(8,283)	(698)	–	(698)	(2,310)	–	(2,310)
Profit for the year/period	56,973	(2,663)	54,310	45,110	(10,471)	34,639	80,083	(14,674)	65,409	12,897	(4,864)	8,033	21,028	(4,313)	16,715
Attributable to:															
Equity shareholders of the Company	56,973	(2,663)	54,310	45,110	(10,471)	34,639	80,083	(14,674)	65,409	12,897	(4,864)	8,033	21,028	(4,313)	16,715
Profit for the year/period	56,973	(2,663)	54,310	45,110	(10,471)	34,639	80,083	(14,674)	65,409	12,897	(4,864)	8,033	21,028	(4,313)	16,715

Our results of operations are affected by changes in fair value less cost to sell of biological assets in respect of our dairy cows. Net gains or losses arising from changes in fair value less costs to sell of biological assets represents fair value changes in our dairy cows due to the changes in physical attributes and market prices of and discounted future cash flow to be generated by these dairy cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milking is higher than the selling price of heifer. Further, when a milkable cow is culled and sold, its value decreases. During the Track Record Period, our dairy cows were revalued at each reporting date. Our net loss arising from changes in fair value less costs to sell of biological assets increased from RMB2.7 million for the year ended 31 December 2012, to RMB10.5 million for the year ended 31 December 2013, and further to RMB14.7 million for the year ended 31 December 2014. For the three months ended 31 March 2015, our net loss arising from changes in fair value less costs to sell of biological assets was RMB4.3 million. We expect that our results of operations will continue to be affected by changes in fair value less cost to sell of biological assets in respect of our dairy cows. The fair value of the biological assets could be affected by the assumptions adopted in the valuation process, as well as the quality of our herd and changes in the dairy industry. The assumptions may be more favourable than the actual historical rates and may deviate significantly in the future. When evaluating our results of operations and profitability, you should consider our profit and margins without taking into account the effects of these biological asset fair value adjustments. For details on the biological asset fair value adjustments, see "Financial Information – Factors Affecting Our Results of Operations and Financial Condition – Change in Fair Value of Dairy Cows," "– Critical Accounting Policies," and "– Changes in Fair Value Less Costs to Sell of Biological Assets."

Our income tax increased from RMB1.2 million for the year ended 31 December 2012, to RMB3.6 million for the year ended 31 December 2013, and further to RMB8.3 million for the year ended 31 December 2014. For the three months ended 31 March 2015, our income tax was RMB2.3 million. Please refer to "Financial Information — Results of Our Operations" for an analysis on the fluctuation of the principal consolidated statements of profit or loss items.

Principal consolidated statements of financial position

The table below sets forth our current assets, current liabilities and net current liabilities as at the dates indicated:

	As at 31 December			As at 31 March
	2012	**2013**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Non-current assets	596,839	734,860	804,993	813,798
Current assets	275,863	326,138	396,496	344,673
Current liabilities	(371,480)	(496,720)	(586,888)	(526,243)
Net current liabilities	(95,617)	(170,582)	(190,392)	(181,570)
Total assets less current liabilities	501,222	564,278	614,601	632,228
Non-current liabilities	(105,855)	(134,272)	(119,186)	(120,098)
Net assets	395,367	430,006	495,415	512,130

We had net current liabilities as at 31 December 2012, 2013 and 2014 and 31 March 2015. Please refer to "Financial Information — Working Capital" for further information.

Extract of consolidated statements of cash flows

The following table presents selected cash flow data from our consolidated cash flow statements for the periods indicated:

	Year ended 31 December			Three months ended 31 March 2015
	2012	2013	2014	
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at the beginning of the year/period	62,695	89,316	132,323	215,454
Net cash generated from/(used in) operating activities	30,903	103,772	242,096	(4,926)
Net cash (used in)/generated from investing activities	(126,430)	(144,082)	(121,285)	7,235
Net cash generated from/(used in) financing activities	122,148	83,317	(37,680)	(11,937)
Cash and cash equivalents at the end of the year/period	89,316	132,323	215,454	205,826

Key financial ratios

The table below sets out our key financial ratios as at the dates indicated:

	As at 31 December			As at 31 March 2015
	2012	2013	2014	
Current ratio(1)	0.74	0.66	0.68	0.65
Net gearing ratio(2)	65.8%	77.9%	49.4%	49.4%
Quick ratio(3)	0.43	0.41	0.49	0.49
Return on equity(4)	14.7%	8.4%	14.1%	13.3%
Return on assets(5)	7.1%	3.6%	5.8%	5.7%

Notes:

(1) Current assets/current liabilities.

(2) (Debts including bank loans and obligations under finance leases – cash and cash equivalents as at the ending of the year/period)/total equity x 100%.

(3) (Current assets – inventory)/current liabilities.

(4) Net profit for the period after biological asset fair value adjustments/(total equity as at the beginning of the period + total equity as at the ending of the period)/2 x 100%. Net profit for the period after biological asset fair value adjustments is calculated on an annualised basis of 365/90 for the three months ended 31 March 2015.

(5) Net profit for the period after biological asset fair value adjustments/(total assets as at the beginning of the period + total assets as at the ending of the period)/2 x 100%. Net profit for the period after biological asset fair value adjustments is calculated on an annualised basis of 365/90 for the three months ended 31 March 2015.

Biological Assets

During the Track Record Period, our biological assets comprised of dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our biological assets at the end of each of the reporting periods:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Dairy cows				
Milkable cows	34,297	55,089	54,359	54,158
Heifers	23,219	20,904	44,524	44,961
Calves	3,469	3,585	4,381	5,348
Total	**60,985**	**79,578**	**103,264**	**104,467**

The numbers of dairy cows in our self-owned dairy farms are summarised as follows:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	(Heads)	(Heads)	(Heads)	(Heads)
Dairy cows				
Milkable cows	1,541	2,398	2,180	2,080
Heifers	1,551	1,191	2,137	2,040
Calves	449	423	505	616
Total	**3,541**	**4,012**	**4,822**	**4,736**

See "Financial Information – Valuation of Biological Assets" for more information about key assumptions and inputs used for valuation of our biological assets.

NET CURRENT LIABILITIES

Our net current liabilities increased from RMB95.6 million as at 31 December 2012 to RMB170.6 million as at 31 December 2013, and further to RMB190.4 million as at 31 December 2014. The increase in our net current liabilities from 2012 to 2014 primarily reflected our funding needs to purchase and breed dairy cows and to support our continuing investment in property, plant and equipment related to dairy farms and production facilities to expand our business, which was primarily financed through short-term bank loans, the amount of which increased significantly, totaling RMB266.0 million, RMB366.5 million and RMB376.5 million as at 31 December 2012, 2013 and 2014, respectively. Our net current liabilities decreased from RMB190.4 million as at 31 December 2014 to RMB181.6 million as at 31 March 2015, primarily due to the settlement of bills payable which were issued in the second half of 2014 and were due within six months upon issuance, offset by the decrease in inventory and pledged deposit. As at 31 July 2015, we had net current liabilities of RMB189.4 million. Please refer to "Financial Information — Working Capital" for further information.

DIVIDEND POLICY

During the Track Record Period, we did not declare or pay any dividend to our Shareholders as we had reinvested our distributable profit for the further expansion of our business and operations. A decision to declare and pay any dividend would require Shareholders' approval at general meetings and will be in their sole discretion, but no dividend shall be declared in excess of the amount recommended by our Board. In addition, any final dividend for a financial year will depend on a number of factors, including, among other things, our result of operations, cash flow, financial conditions, Shareholders' interests, general business conditions and strategies, capital requirements, the payment by our subsidiaries of cash dividends to us, and other factors the Board may deem relevant.

The declaration, payment and amount of any future dividend will also be subject to the PRC laws and the Articles of Association. See "Financial Information — Dividend Policy" for more information about our dividend policy.

SUMMARY OF MATERIAL RISK FACTORS

The major risks we face in our business are:

- Actual or perceived contamination in our dairy products could adversely and materially affect our business and reputation
- Our results of operations are subject to biological asset fair value adjustments, which can be highly volatile and are subject to a number of assumptions
- Failure to manage our distribution network may materially and adversely affect our business
- Raw milk supply, quality and price fluctuation may materially and adversely affect our business
- Quality control system failures may materially and adversely affect our business
- Any material disputes between us and local dairy farmers with whom we collectively operate our dairy farms may adversely affect the operations of the relevant dairy farms and, if unresolved, could potentially lead to termination of cooperation with such farmers and as a result adversely affect the operation of our collectively-operated dairy farms
- Our operations could be adversely affected if we no longer benefit from favourable government policies in the dairy industry and policies to promote the economic development in northwestern China
- Disruption of operations at our dairy farms and production plants could materially and adversely affect our business
- Our business and future expansion depend on the quality and health conditions of our dairy cows, as well as the quality of raw milk and yield of the cows
- The outbreak of any major disease among our cows or at neighbouring farms could materially and adversely affect our business

A detailed discussion of the aforesaid and other risk factors is set out in the section headed "Risk Factors" in this prospectus. You should carefully consider the information contained therein before making any investment decision in relation to our Offer Shares.

RECENT DEVELOPMENT

Subsequent to the Track Record Period, there had been no significant change in our principal business, pricing policy and costs structure, while the market price of raw milk experienced slight fluctuation. Based on our unaudited consolidated management accounts for the six months ended 30 June 2015, we continued to experience a moderate growth in revenue and gross profit, as well as a slight increase in gross profit margin compared with the same period in 2014. For further information of the raw milk market price, please refer to the section headed "Industry Overview — Dairy Farming and Raw Milk Supply in China and in Gansu and Qinghai — Raw Milk Production" in this prospectus.

As at the Latest Practicable Date, we have obtained pre-approval letters from our lending banks pursuant to which the banks agreed to conditionally renew our credit facilities under the same terms if we can repay the outstanding loans drawn down under these facilities in full when they become due and payable. The amount of the credit facilities stated in these letters aggregated approximately RMB432.0 million. For more details, please see the section headed "Financial Information — Working Capital".

Since 31 March 2015 and up to the Latest Practicable Date, save as disclosed in the paragraph headed "Listing Expenses" in this section, we did not have any significant non-recurrent items in our consolidated statement of profit or loss and other comprehensive income.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the subsection headed "Listing Expenses" in this section, we confirm that there has been no material adverse change in our financial or trading position since 31 March 2015 (being the date on which our latest audited consolidated financial results were prepared, as set out in the Accountants' Report in Appendix I to this prospectus).

LISTING EXPENSES

As at 31 March 2015, we incurred approximately RMB9.5 million of listing expenses for the Global Offering, of which approximately RMB7.2 million and RMB1.7 million were charged to the consolidated statements of profit or loss for the year ended 31 December 2014 and the three months ended 31 March 2015, respectively, as our administrative expenses. The remaining RMB0.6 million was recognised as deferred expenses, which is expected to be charged against equity upon successful Listing under the relevant accounting standards. We expect to further incur listing expenses of RMB23.1 million in connection with the Global Offering, of which an estimated amount of RMB11.4 million is expected to be recognised as our administrative expenses and the remaining amount of RMB11.7 million is expected to be recognised directly as a deduction from our equity upon the Listing.

OFFERING STATISTICS

Offering size:	35,130,000 H Shares, representing 25% of the enlarged share capital of the Company (subject to the Over-allotment Option)
Offering structure:	3,513,000 H Shares, representing 10% Hong Kong Public Offering (subject to adjustment) and 31,617,000 H Shares, representing approximately 90% International Offering (subject to adjustment and the Over-allotment Option)
Over-allotment Option:	Up to 15% of the number of Offer Shares initially available under the Global Offering
Offer Price per H Share:	HK$4.98 to HK$7.83 per H Share
Market capitalisation upon completion of the Global Offering (assuming the Over-allotment Option is not exercised):	HK$699.7 million based on the Offer Price of HK$4.98 per H Share, or HK$1,100.1 million based on the Offer Price of HK$7.83 per H Share

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the Global Offering (after deducting underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering) will be approximately HK$185.5 million (equivalent to approximately RMB152.4 million), assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK$6.41 per H Share, being the mid-point of the indicative Offer Price range stated in this prospectus.

We currently intend to apply these net proceeds for the following purposes:

- Approximately 32%, or HK$59.4 million (equivalent to approximately RMB48.8 million), of the net proceeds from the Global Offering will be used to finance a portion of the funds required to build 3,000 community milk booths in Gansu as part of our effort to expand Cold Chain Liquid Milk Products distribution network. We plan to use the funds for the construction of milk booths and the purchase and installation of equipment. In terms of timing of the investment, we plan to invest HK$28.5 million in 2016 and HK$30.9 million in 2017;

- Approximately 30%, or HK$55.7 million (equivalent to approximately RMB45.8 million), of the net proceeds from the Global Offering will be used to finance a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand, of which approximately 3,000 are expected to be imported in 2016 and approximately 2,000 are expected to be imported in 2017;

- Approximately 20%, or HK$37.1 million (equivalent to approximately RMB30.5 million), of the net proceeds from the Global Offering will be used to promote our brands. We plan to invest HK$26.0 million, HK$7.4 million and HK$3.7 million to promote Yongdaobu (永道布) brand, Zhuangyuan Ranch (莊園牧場) brand and Shenghu (聖湖) brand, respectively;

- Approximately 8%, or HK$14.8 million (equivalent to approximately RMB12.2 million), of the net proceeds from the Global Offering will be used for the construction of our new technology centre to conduct product development activities. We plan to invest HK$8.9 million in construction and renovations, and HK$5.9 million in the purchase and installation of equipment. In terms of timing of the investment, we plan to invest HK$10.4 million in 2016 and HK$4.4 million in 2017; and

- Approximately 10%, or HK$18.6 million (equivalent to approximately RMB15.3 million), of the net proceeds from the Global Offering will be used for general working capital of our Group.

The above allocation of the net proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range stated in this prospectus. In the event that the Over-allotment Option is exercised in full, we intend to apply the additional net proceeds to the above uses in the proportions stated above.

HISTORICAL NON-COMPLIANCE

During the Track Record Period, we had certain non-compliance incidents: (i) we leased collectively-owned properties for non-agricultural use; (ii) we have not obtained land use right certificates and certain construction related permits for Lanzhou Ruixing dairy farm; (iii) we failed to complete certain completion inspection procedures for our dairy farms and production plants before commencement of operation or use; (iv) we failed to obtain sewage discharge permits for some of our dairy farms before commencement of operation; and (v) we were not in strict compliance with the applicable PRC social insurance contribution and housing provident fund regulations. For further details, please refer to the section headed “Business – Historical Non-Compliance Incidents”.

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed "Glossary" in this prospectus.

"2010 PE Investors "	the investors who invested in our Company in 2010, consisting of the four private equity investors, namely, Caiding Investment, Caicheng Investment, Shanghai Rongyin and Chongqing Fukun and one individual investor, Mr. Zheng Jiaming (鄭嘉銘), details of them are set out in the section headed "History and Development – Background of Our Shareholders" in this prospectus;
"2011 PE Investors"	the investors who invested in our Company in 2011, consisting of the four private equity institutional investors, namely, Tianjin Chuang Dongfang, Shenzhen Chuang Dongfang, Tianjin Jiufeng, Huaren Chuangxin, one individual investor, Mr. Huang Changrong (黃長榮), and one existing shareholder, Shanghai Rongyin, details of them are set out in the section headed "History and Development – Background of Our Shareholders" in this prospectus;
"Application Form(s)"	WHITE application form(s) and YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering;
"Articles of Association" or "Articles"	the articles of association of our Company, conditionally adopted on 18 March 2015 and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus;
"associate(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules;
"Board" or "Board of Directors"	the board of Directors of our Company;
"business day"	any day (other than a Saturday, a Sunday or a public holiday) on which banks in Hong Kong are generally open for business;
"CAGR"	compound annual growth rate, a measurement to assess the growth rate of value over time;
"Caicheng Investment"	Gansu Caicheng Investment Co., Ltd. (甘肅財成投資有限公司), a limited liability company established in the PRC on 8 July 2010, which is an institutional shareholder of our Company. Further details of Caicheng Investment are set out in the section headed "History and Development – Background of Our Shareholders – Caicheng Investment";

"Caiding Investment"	Gansu Caiding Investment Co., Ltd. (甘肅財鼎投資有限公司), a limited liability company established in the PRC on 9 July 2010, which is an institutional shareholder of our Company. Further details of Caiding Investment are set out in the section headed "History and Development – Background of Our Shareholders – Caiding Investment";
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC;
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant;
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant;
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation;
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant;
"China" or the "PRC"	the People's Republic of China, excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of China and Taiwan;
"Chongqing Fukun"	Chongqing Fukun Venture Investment Centre LLP (重慶富坤創業投資中心(有限合夥)), a limited liability partnership enterprise established in the PRC on 22 September 2009, which is an institutional shareholder of our Company. Further details of Chongqing Fukun are set out in the section headed "History and Development – Background of Our Shareholders – Chongqing Fukun";
"close associate(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules;
"Co-Lead Managers"	Convoy Investment Services Limited, SBI China Capital Financial Services Limited and CNI Securities Group Limited;
"Cold Chain Liquid Milk Product(s)"	liquid milk product(s) that has a short shelf life between three to 21 days and need to be stored at low temperature of 2°C – 6°C, for the purpose of this prospectus and in line with the products of our Company, including pasteurised milk and yogurt products;
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;

"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
"Company" or "our Company"	Lanzhou Zhuangyuan Pasture Co., Ltd. (蘭州莊園牧場股份有限公司), a joint stock limited company established in the PRC on 19 April 2011 and if the context requires, refers to our predecessor, Zhuangyuan Dairy;
"connected person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules;
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules, and in the context of this prospectus, refers to the controlling shareholders of our Company, being Mr. Ma Hongfu, Zhuangyuan Investment and Lucky Cow;
"core connected person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules;
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets;
"Deed of Indemnity"	the deed of indemnity issued by the Controlling Shareholders to our Company on 23 September 2015. Further details are set out in the section headed "Business – Historical Non-compliance Incidents";
"Director(s)"	the director(s) of our Company, including all executive, non-executive and independent non-executive directors;
"Domestic Shares"	ordinary shares in the registered capital of our Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by domestic investors in the PRC and which are not yet approved for overseas listing;
"EIT"	the PRC Enterprise Income Tax;
"EIT Law"	the PRC Enterprise Income Tax Law《中華人民共和國企業所得稅法》issued on 16 March 2007, effective on 1 January 2008 and the Implementation Regulations on the EIT Law of the PRC (《中華人民共和國企業所得稅法實施條例》) issued on 6 December 2007 and effective on 1 January 2008;
"Frost & Sullivan"	Frost & Sullivan (Beijing) INC., Shanghai Branch Co., an independent market research and consulting company which prepared the Industry Report;

"Frost & Sullivan Report"	the report, written by Frost & Sullivan and commissioned by our Company, as referred to in the section headed "Industry Overview";
"Gansu"	Gansu Province in China;
"GDP"	gross domestic product;
"Global Offering"	the Hong Kong Public Offering and the International Offering;
"GREEN application form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited;
"Group", "we" or "us"	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
"H Share(s)"	overseas listed foreign share(s) in our ordinary share capital, with a nominal value of RMB1.00 each, which are to be listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars;
"H Share Registrar"	Computershare Hong Kong Investor Services Limited;
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong;
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited;
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC;
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time);
"Hong Kong Public Offer Shares"	the 3,513,000 H Shares being initially offered by the Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in "Structure and Conditions of the Global Offering" in this prospectus);

"Hong Kong Public Offering"	the issue and offer for subscription of the Hong Kong Public Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms as further described in the section headed "Structure and Conditions of the Global Offering – The Hong Kong Public Offering" in this prospectus;
"Hong Kong Stock Exchange"	the Stock Exchange of Hong Kong Limited;
"Hong Kong Underwriters"	the Underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting – Hong Kong Underwriters" in this prospectus;
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 29 September 2015 relating to the Hong Kong Public Offering entered into by, among others, our Company and the Hong Kong Underwriters, as further described in the section headed "Underwriting" in this prospectus;
"Huaren Chuangxin"	Huaren Chuangxin Group Co., Ltd. (華人創新集團有限公司), a limited liability company established in PRC on 6 March 2003, which is an institutional shareholder of our Company. Further details of Huaren Chuangxin are set out in the section headed "History and Development – Background of Our Shareholders – Huaren Chuangxin";
"IFRS"	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board;
"Independent Third Party(ies)"	person(s) or company(ies) which is(are) not a connected person(s) (as defined in the Hong Kong Listing Rules) of our Company;
"International Offer Shares"	the 31,617,000 H Shares initially being offered by us for subscription under the International Offering together, where relevant, with any H Shares that may be issued by us pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus;

"International Offering"	the conditional placing of the International Offer Shares by the International Underwriters with professional, institutional, corporate and/or other investors at the Offer Price, as further described in the section headed "Structure and Conditions of the Global Offering" in this prospectus;
"International Underwriters"	the group of Underwriters led by the Sole Global Coordinator that is expected to enter into the International Underwriting Agreement to underwrite the International Offering;
"International Underwriting Agreement"	the underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, our Company, our Controlling Shareholders, the Sole Global Coordinator and the International Underwriters on or around the Price Determination Date, as further described in the section headed "Underwriting – The International Offering" in this prospectus;
"Joint Bookrunners"	GF Securities (Hong Kong) Brokerage Limited, China Securities (International) Corporate Finance Company Limited, Haitong International Securities Company Limited and AMTD Asset Management Limited;
"Joint Lead Managers"	RHB OSK Securities Hong Kong Limited and Changjiang Securities Brokerage (HK) Limited;
"Lanzhou Ruixing"	Lanzhou Ruixing Farming Co., Ltd. (蘭州瑞興牧業有限公司), a limited liability company established in the PRC on 25 July 2013, and a wholly-owned subsidiary of our Company;
"Latest Practicable Date"	21 September 2015, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus;
"Linxia Ruian"	Linxia County Ruian Pasture Co., Ltd. (臨夏縣瑞安牧場有限公司), a limited liability company established in the PRC on 25 March 2010, and a wholly-owned subsidiary of our Company;
"Linxia Ruiyuan"	Linxia County Ruiyuan Pasture Co., Ltd. (臨夏縣瑞園牧場有限公司), a limited liability company established in the PRC on 25 March 2010, and a wholly-owned subsidiary of our Company;
"Listing"	listing of the H Shares on the Main Board;
"Listing Committee"	the listing sub-committee of the board of directors of the Hong Kong Stock Exchange;

"Listing Date"	the date on which dealings in the H Shares first commence on the Hong Kong Stock Exchange;
"Lucky Cow"	Gansu Lucky Cow Investment Co., Ltd. (甘肅福牛投資有限公司), a limited liability company established in the PRC on 13 January 2010, which is owned as to 39.44% by Mr. Ma Hongfu. and being one of our Controlling Shareholders. Further details of Lucky Cow are set out in the section headed "History and Development – Background of Our Shareholders – Our Individual Investors";
"Main Board"	the stock exchange operated by the Hong Kong Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Hong Kong Stock Exchange;
"MOA"	Ministry of Agriculture of the PRC (中華人民共和國農業部);
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部);
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部);
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會);
"Ningxia"	Ningxia Hui Autonomous Region;
"Ningxia Zhuangyuan"	Ningxia Zhuangyuan Pasture Co., Ltd. (寧夏莊園牧場有限公司), a limited liability company established in the PRC on 23 July 2010, and a wholly-owned subsidiary of our Company;
"Non-Competition Undertaking Letter"	the non-competition undertaking letter issued by each of the Controlling Shareholders to our Company on 23 September 2015. Further details are set out in the section headed "Relationship with the Controlling Shareholders – Non-Competition Undertaking";
"Offer Price"	the final Hong Kong dollar price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005%) of not less than HK$4.98 and expected to be not more than HK$7.83, such price to be agreed upon by the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date;
"Offer Shares"	the H Shares offered in the Global Offering, and where relevant, with any additional H Shares issued and sold pursuant to the exercise of the Over-allotment Option;

"Over-allotment Option"	the option to be granted by us to the International Underwriters (exercisable by the Sole Global Coordinator on behalf of the International Underwriters), pursuant to which we may be required to allot and issue up to 5,269,500 additional H Shares (representing up to 15% of the H Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, details of which are described in the section headed "Structure and Conditions of the Global Offering" of this prospectus;
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC;
"PRC Company Law"	the Company Law of the PRC (《中華人民共和國公司法》), as amended and adopted by the Standing Committee of the Twelfth National People's Congress on 28 December 2013 and effective on 1 March 2014, as amended, supplemented and otherwise modified from time to time;
"PRC GAAP"	China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China;
"PRC government" or "state"	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them;
"Price Determination Date"	the date, expected to be on or around Thursday, 8 October 2015 but no later than Monday, 12 October 2015, on which the Offer Price is fixed for the purposes of the Global Offering;
"promoters"	the promoters of our Company, namely Mr. Ma Hongfu, Mr. Hu Kaisheng, Mr. Zheng Jiaming, Zhuangyuan Investment, Lucky Cow, Caiding Investment, Caicheng Investment, Chongqing Fukun and Shanghai Rongyin;
"Province" or "province"	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC;
"Qinghai"	Qinghai Province in China;
"Qinghai Shengya"	Qinghai Shengya Plateau Pasture Co., Ltd. (青海聖亞高原牧場有限公司), a limited liability company established in the PRC on 17 December 2009, and a wholly-owned subsidiary of our Company;
"Qinghai Shengyuan"	Qinghai Shengyuan Pasture Co., Ltd. (青海聖源牧場有限公司), a limited liability company established in the PRC on 15 July 2010, and a wholly-owned subsidiary of our Company;

"Qinghaihu Dairy"	Qinghai Qinghaihu Dairy Co., Ltd. (青海青海湖乳業有限責任公司), a limited liability company established in the PRC on 6 December 2004, and a wholly-owned subsidiary of our Company;
"Regulation S"	Regulation S under the U.S. Securities Act;
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of the PRC;
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局);
"Shanghai Rongyin"	Shanghai Rongyin Investment Co., Ltd. (上海容銀投資有限公司), a limited liability company established in the PRC on 25 November 2009, which is an institutional shareholder of our Company. Further details of Shanghai Rongyin are set out in the section headed "History and Development – Background of Our Shareholders – Shanghai Rongyin";
"SFC"	the Securities and Futures Commission of Hong Kong;
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Shareholders"	holder(s) of the Share(s);
"Shares"	shares in the share capital of our Company with a nominal value of RMB1.00 comprising both Domestic Shares and H Shares;
"Shenzhen Chuang Dongfang"	Shenzhen City Chuang Dongfang Fukai Investment Enterprise LLP (深圳市創東方富凱投資企業(有限合夥)), a limited liability partnership enterprise established in the PRC on 7 May 2010, which is an institutional shareholder of our Company. Further details of Shenzhen Chuang Dongfang are set out in the section headed "History and Development – Background of Our Shareholders – Shenzhen Chuang Dongfang";
"Sole Sponsor" or "GF Capital"	GF Capital (Hong Kong) Limited, a licensed corporation under the SFO permitted to carry out type 6 (advising on corporate finance) regulated activities, acting as the sole sponsor to the Listing;
"Sole Global Coordinator" or "GF Securities"	GF Securities (Hong Kong) Brokerage Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities, acting as the sole global coordinator and a joint bookrunner of the Global Offering;

"Special Regulations"	Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time;
"Stabilising Manager"	GF Securities;
"State Administration of Taxation" or "SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局);
"subsidiary(ies)"	has the meaning ascribed to it under the Hong Kong Listing Rules, unless the context otherwise requires;
"substantial shareholder(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules;
"Supervisors"	the members of the Supervisory Committee;
"Supervisory Committee"	the supervisory committee of our Company established pursuant to the PRC Company Law, as described in the section headed "Directors, Supervisors and Senior Management – Supervisory Committee";
"Tianjin Chuang Dongfang"	Tianjin Chuang Dongfang Fuhong Equity Investment Fund Partnership Enterprise LLP (天津創東方富弘股權投資基金合夥企業(有限合夥)), a limited liability partnership enterprise established in the PRC on 20 April 2011, which is an institutional shareholder of our Company. Further details of Tianjin Chuang Dongfang are set out in the section headed "History and Development – Background of Our Shareholders – Tianjin Chuang Dongfang";
"Tianjin Jiufeng"	Tianjin Jiufeng Equity Investment Fund Partnership Enterprise LLP (天津久豐股權投資基金合夥企業(有限合夥)), a limited liability partnership enterprise established in the PRC on 2 April 2011, which is an institutional shareholder of our Company. Further details of Tianjin Jiufeng are set out in the section headed "History and Development – Background of Our Shareholders – Tianjin Jiufeng";
"Track Record Period"	the three financial years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015;
"U.S.$" or "US dollars"	United States dollars, the lawful currency of the United States;
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from the time to time;

"Underwriters"	the Hong Kong Underwriters and the International Underwriters;
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement;
"United States" or "U.S."	the United States of America;
"White Form eIPO"	the application for Hong Kong Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website for the White Form eIPO at **www.eipo.com.hk**;
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited;
"Wuwei Ruida"	Wuwei Ruida Pasture Co., Ltd. (武威瑞達牧場有限公司), a limited liability company established in the PRC on 27 April 2010, and a wholly-owned subsidiary of our Company;
"Xi'an Dongfang"	Xi'an Dongfang Dairy Co., Ltd. (西安東方乳業有限公司), a limited liability company established in the PRC on 6 September 2000, and an affiliate of our Company;
"Yuzhong Ruifeng"	Yuzhong Ruifeng Pasture Co., Ltd. (榆中瑞豐牧場有限公司), a limited liability company established in the PRC on 25 May 2010, and a wholly-owned subsidiary of our Company;
"Zhuangyuan Dairy"	Lanzhou Zhuangyuan Dairy Co., Ltd. (蘭州莊園乳業有限責任公司), a limited liability company established in the PRC on 25 April 2000, and the predecessor of our Company; and
"Zhuangyuan Investment"	Lanzhou Zhuangyuan Investment Co., Ltd. (蘭州莊園投資有限公司), a limited liability company established in the PRC on 13 November 2006, which is owned as to 97.38% by Mr. Ma Hongfu, and being one of our Controlling Shareholders. Further details of Zhuangyuan Investment are set out in the section headed "History and Development – Background of Our Shareholders – Our Individual Investors".

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English names of companies incorporated in the PRC are translations of their Chinese names and are included for identification purposes only.

This glossary of technical terms contains explanation of certain terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

"alfalfa"	a plant grown which is widely used as food for farm animals;
"average annual milk yield"	the annual milk production volume divided by annual total milking days of our milkable cows multiplied by the average milking days per lactation period per milkable cow;
"bovine paratuberculosis"	also known as Johne's disease, a chronic enteritis of ruminants caused by Mycobacterium avium subspecies paratuberculosis, found most often among domestic and wild ruminants such as cattle, sheep, goats, camelids and buffaloes;
"bovine TB"	bovine tuberculosis is a chronic, highly infectious disease that primarily affects cattle but can be transmitted to humans, and is caused by Mycobacterium bovis, a group of bacteria that usually affects the respiratory system;
"brucellosis"	brucellosis in cattle is a highly contagious disease that is spread by infected material at time of calving or abortion and that can result in infertility, morbidity and reduced milk yield;
"bull"	a male bovine animal;
"calf" or "calves"	a young female cow up to six months of age from birth;
"cattle"	a group of bovine animals including bulls, calves, heifers and milkable cows;
"concentrated feeds"	feeds for dairy cows that are made by blending various crops, including corn, soybean meals and cottonseed meals;
"dairy cows"	calves, heifers and milkable cows;
"dry cow(s)"	milkable cow(s) that are in the dry period of a lactation cycle, during which they do not produce any raw milk;
"FMD"	foot and mouth disease, a highly infectious and contagious livestock disease affecting cattle, pigs, sheep, goats, deer, elk and other cloven hoofed animals which can cause significant loss of productivity, such as reduced milk yields or lameness, and even fatality in young animals;

"forage"	plant material eaten by grazing livestock;
"g"	gramme;
"GMP"	Good Manufacturing Practices regulations enforced by the U.S. Food and Drug Administration;
"HACCP"	Hazard Analysis & Critical Control Points, a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product;
"heifer(s)"	a female cow older than six months that has not given birth to a calf or bull;
"Holsteins"	a breed of dairy cows having high milk yield;
"husbandry"	the management and practice of farming, breeding and raising livestock with the application of scientific principles, especially to animal breeding;
"kg"	kilogramme;
"kJ"	kilojoules;
"liquid milk"	drinking milk, including white milk, flavoured milk drinks and yogurt;
"mastitis"	inflammation of the mammary gland that, when infected, can significantly reduce milk production and, in some circumstances, fertility, as well as delay the onset of heat cycles in cattle;
"microbe count"	the count of microbes in raw milk, an important safety indicator of raw milk;
"milkable cow(s)"	female bovine animal(s) that have given birth to a calf and are either dry cows or milking cows;
"ml"	millilitre;
"mu"	an area unit used in China, equals to approximately 667 sq.m.;

"silage"	succulent, moist feed made by storing a green crop in a silo; the crop most used for silage is corn; others are sorghum, sunflowers, legumes, and grass; corn silage is old corn that has been fermented; it is used to feed livestock or to make biofuel;
"sq.m."	square metres;
"SSOP"	sanitation standard operating procedures in cleaning dairy processing equipment;
"tonne"	metric ton, represents 1,000 kg;
"whey"	a liquid by-product of cheese, which contains high level of protein;
"yak"	a long-haired bovid found mostly in the Tibetan Plateau; and
"%"	percent.

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and plans for the development and expansion of our businesses, our ability to implement such strategies and plans, and the expected timetable of such implementation;
- our financial condition and performance;
- our dividend policy and distribution plans;
- the prospects of our business and operations, including development plans for our businesses;
- the regulatory environment, as well as the general industry outlook, for the dairy industry in China;
- further developments in, and competitive environment for, the dairy industry in China; and
- the general economic trend of China.

The words "aim", "anticipate", "believe", "contemplate", "continue", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", "predict", "project", "schedule", "seek", "should", "target", "will", "would" or similar expressions or the negative thereof, as they relate to us, are intended to identify a number of these forward-looking statements. These statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the intentions of our Company or those of any of our directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that currently all of our business is located in the PRC, and we are governed by a legal and regulatory environment which may differ from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Actual or perceived contamination in our dairy products could adversely and materially affect our business and reputation

Product safety and quality is critical to our business. We regularly inspect the safety and quality of our dairy products before they are delivered to the market. As at the Latest Practicable Date, our dairy products have not been found to contain any contaminant or reported to be associated with any contamination incidents, nor have we been subject to any product liability claim or regulatory action. The process of producing dairy products is complex and any negligence or mistake during the process can result in product contamination, which can cause the demand for our products to decrease, and materially and adversely impact our sales and financial condition. Contamination can also occur during the transportation of our milk. If any of our dairy products are discovered to be contaminated or associated with any contamination incidents, we can be subject to sales rejections, returns or product liabilities claims, which will harm our sales and damage our reputations.

Moreover, discovery of contamination in our dairy products may subject us to regulatory actions. To protect dairy product consumers, the Chinese authorities have issued stringent laws and regulations to regulate the dairy industry, such as the Regulation on the Supervision and Administration of the Quality Safety of Dairy Products (乳品質量安全監督管理條例) in 2008, the Food Safety Law of the PRC (中華人民共和國食品安全法) in 2009 and the Notice Relating to Further Strengthen the Safety of Dairy Product Quality (國務院辦公廳關於進一步加強乳品質量安全工作的通知) issued by the General Office of the State Council in 2010. Any violation of the relevant laws and regulations could result in penalties such as monetary fines, equipment confiscation, and/or revocation of licences that are mandatory for our business operation. Thus, any such violation can materially and adversely affect our business, financial condition and operations.

Our results of operations are subject to biological asset fair value adjustments, which can be highly volatile and are subject to a number of assumptions

Our historical results of operations, particularly our profit from operations and profit of the year, have been affected by biological asset fair value adjustments on our dairy cows. We expect that our results of operations will continue to be affected by these biological asset fair value adjustments. For details on the biological asset fair value adjustments, see "Financial Information – Factors Affecting Our Results of Operations and Financial Condition – Change in Fair Value of Dairy Cows," "– Critical Accounting Policies," "– Principal Consolidated Statements of Profit or Loss Items – Cost of Sales and Gross Profit Margin," "– Initial Recognition of Agricultural Produce at Fair Value Less Costs to Sell at the Point of Harvest" and "– Changes in Fair Value Less Costs to Sell of Biological Assets."

The fair value of our biological assets at the end of each reporting period indicated above was determined by independent professional valuers. In applying these valuation methods, the independent professional valuers have relied on a number of assumptions.

The assumptions used for determining the fair value of our milkable cows as at each valuation date include:

- an average raw milk price of RMB3.8 per kg, RMB4.1 per kg, RMB4.1 per kg and RMB4.1 per kg as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively;
- feed costs for dairy farming of RMB2.3 per kg, RMB2.3 per kg, RMB2.3 per kg and RMB2.3 per kg as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively;
- culling rate for dairy cows of 6.0%, 6.0%, 6.0% and 6.0% as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively;
- 6 lactation periods for dairy cows throughout the Track Record Period;
- milk yield per head per lactation period of 6.3 to 7.7 tonnes, 5.1 to 6.4 tonnes, 5.7 to 6.2 tonnes and 5.7 to 6.2 tonnes as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively; and
- discount rate for dairy farming of 12.4%, 12.5%, 12.8% and 12.8% as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively.

The assumptions used for the fair value of our calves and heifers include:

- per head market price for 14 months old heifers of RMB15,000 and RMB16,000 as at 31 December 2012 and 2013, respectively, RMB22,000 for imported heifers and RMB16,000 for domestic heifers as at 31 December 2014 and RMB22,000 for imported heifers and RMB16,000 for domestic heifers as at 31 March 2015;
- per head breeding costs per day required to raise the newly born calves to six months of RMB23.0, RMB24.1, RMB21.2 and RMB21.2 as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively; and
- per head breeding costs per day required to raise the calves from seven months to 25 months of RMB21.4, RMB22.3, RMB23.8 and RMB23.8 as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively.

The fair value of the biological assets could be affected by, among others, the accuracy of those assumptions, as well as the quality of our herd and changes in the dairy industry. Therefore, the resulting adjustments can be highly volatile. These assumptions may be more favourable than the actual historical rates. In addition, while these assumptions as adopted in the valuation process have been in line with the actual results, we cannot assure you that there will be no significant deviation in the future. For details on the valuation and the application of various assumptions, see the subsection headed "Financial Information – Valuation of the Dairy Cows" in this prospectus. In particular, upward adjustments and gains so recognised do not generate any cash inflow for our operations. As a result, when evaluating our results of operations and profitability, you should consider our profit and margins without taking into account the effects of these biological asset fair value adjustments.

Failure to manage our distribution network may materially and adversely affect our business

We sell our products to retail customers primarily through distributors and sales agents. As at 31 December 2014 and 31 March 2015, sales through our distributors and sales agents accounted for 87.1% and 90.6%, respectively, of our total turnover. The competition for distributors and sales agents is intense in our industry in China and many of our competitors are expanding their distribution networks. We may not be able to compete successfully against our competitors for our existing distributors and sales agents or additional distributors and sales agents in the future. In addition, we may not be able to successfully manage our relationship with the various retail chains in our direct sales channel. There is no assurance that we will not lose any of our distributors, sales agents or retail chains in the future. While we do not believe that we are substantially dependent upon any individual distributor or sales agent, replacing distributors and sales agents could be time-consuming and any delay may be disruptive and costly to our business.

As advised by our PRC legal adviser, our distributors and sales agents are required to possess certain permits and licenses in order to be engaged in the distribution business of dairy products. Failure to possess such permits and licenses by our distributors or sales agents may render the contracts we enter into with such distributors or sales agents void. In the past, our distributors and sales agents may not possess such permits and licenses, although all of such contracts have been fully performed and we did not suffer any losses. We have revised our form of agreements with our distributors and sales agents to require them to possess all permits and licences required for their operation. However, we cannot guarantee that our distributors and sales agents will comply with the requirements and obtain all the required permits and licenses. Any of such failure may render our contracts void, and as a result, our business and operations could be adversely affected.

Raw milk supply, quality and price fluctuation may materially and adversely affect our business

Our costs of raw milk procured from third-party dairy farms and collectively-operated dairy farms accounted for 58.9%, 57.1%, 45.0%, 51.3% and 42.3% of our total production costs after biological asset fair value adjustments for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively. We generally source over 50% of our raw milk required for our production from third-party suppliers and the rest from our self-operated and collectively-operated dairy farms. During the Track Record Period, we sourced raw milk from third-party dairy farms that have over 250 dairy cows to ensure the quality of the raw milk. However, due to the lack of control of those suppliers' dairy farm operations, there is no assurance that we will be able to source sufficient raw milk that meets our stringent quality standard for our production. Until we can fully satisfy our raw milk needs by our self-operated and collectively-operated dairy farms, we will be subject to risks such as insufficient supply of high quality raw milk, substandard quality and price fluctuation of raw milk. Any price increase in raw milk supply will push up our production costs and may materially and adversely affect our profit margin.

Quality control system failures may materially and adversely affect our business

We rely heavily on our quality control system to ensure the safety and quality of our dairy products. Please refer to the section headed "Business – Product Safety and Quality Control" in this prospectus for further details. As at the Latest Practicable Date, no malfunction incident had occurred to our quality control system, but we cannot guarantee you against potential future failures in our quality control system. Qualities and safety of our dairy products may be jeopardised when our quality and safety equipment (e.g. feed quality measuring equipment, chemical residue detector, veterinary drug residue detector, etc.) malfunctions. Such failures may result in our delivering subpar quality dairy products to our customers, which can cause us monetary losses and reputational damages.

Any material disputes between us and local dairy farmers with whom we collectively operate our dairy farms may adversely affect the operations of the relevant dairy farms and, if unresolved, could potentially lead to termination of cooperation with such farmers and as a result adversely affect the operation of our collectively-operated dairy farms

Three of our dairy farms are collectively-operated dairy farms, which are operated through collaborative business arrangements between us and local dairy farmers. We own the dairy farms and facilities and are responsible for the general management of these dairy farms, while the local dairy farmers own the cows, attend to the day-to-day caring of the dairy cows following our farm practices and provide raw milk produced by cows bred in these collectively-operated dairy farms to us at a contracted price. For more information about the cooperation between us and the local dairy farmers with regard to the collectively-operated dairy farms, please see "Business – Dairy Farming and Management". Our collectively-operated dairy farms are important sources of raw milk used in our production, accounting for approximately 19.0% and 21.2% of total volume of raw milk used in our production, respectively, in the year ended 31 December 2014 and the three months ended 31 March 2015. If there is any material dispute between us and the local dairy farmers in connection with the dairy farming operations, we may not be able to resolve such dispute in an amicable manner. The local dairy farmers may also terminate their cooperation with us for financial, family or other reasons. If any of the above events occurs, our production and operation may be materially and adversely affected.

Our operations could be adversely affected if we no longer benefit from favourable government policies in the dairy industry and policies to promote the economic development in northwestern China

We have historically benefited from government policies that favour China's dairy industry, including receiving government subsidies and enjoying preferential tax treatments (such as exemption on, or preferential rates of, valued added taxes and/or income tax). For example, our subsidiaries engaging in dairy farming business activities are exempted from income tax. The PRC and local governments adopted these policies to improve quantities and quality of livestock breeding and promote the PRC husbandry industry. In addition, the PRC government has also implemented favourable tax policies to promote the economy development in the western region of the PRC. As an enterprise located in the western region with our dairy product manufacturing business in the "encouraged industry", we enjoy a reduced income tax rate of 15% from 2011 to 2020. Our subsidiary, Qinghaihu Dairy was exempted from income tax from 2009 to 2012 and such preferential policy expired at the end of 2012. Our tax savings due to these preferential tax treatments were RMB5.6 million, RMB3.8 million, RMB7.4 million and RMB1.9 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. We cannot assure you that we will continue to receive such governmental subsidies or beneficial tax treatments in the future. If there are any unfavourable changes in these policies, our business and operations could be adversely affected.

Disruption of operations at our dairy farms and production plants could materially and adversely affect our business

Our ability to efficiently produce dairy products is critical to our success. In particular, we rely mostly on our dairy farming operations and production facilities for the production of dairy products. Our ability to procure and process feed, manage our dairy farms, produce raw milk, process and deliver raw milk and produce and deliver dairy products to our customers are critical to our business. Damage or disruption to our dairy farms and production plants can result from the following factors, among others, some of which are beyond our control:

- utility supply disruptions, terrorism, strikes or other force majeure events;
- forced closing or suspension of our dairy farms or production plants;
- natural disasters;
- major disease outbreaks at our dairy farms;
- pollution of underground water resources;
- failure to comply with applicable regulations and quality assurance guidelines;
- interruption of the information technology systems that facilitate the management of our dairy farms and production plants;
- accidents in the production plants, including major equipment failures or fires, which may result in suspension of operations, property damage, severe personal injuries or even fatalities; and
- other production problems, including limitations to production capacity due to regulatory requirements, changes in the types of products produced or physical limitations that could impact continuous supply.

We cannot assure you that the events and factors mentioned above will not occur and result in a material disruption to the operations at our dairy farms and production plants in the future. In particular, we require large areas of land to accommodate barns for milking cows, equipment and facilities and warehouses, all of which will require enormous time and cost for relocation upon any material disruption to our dairy farms and production plants. If we fail to take adequate steps to mitigate the likelihood or potential impact of such events or factors, or to effectively respond to such events or factors when they occur or materialise, our business, results of operations and financial condition could be materially and adversely affected.

Our business and future expansion depend on the quality and health conditions of our dairy cows, as well as the quality of raw milk and yield of the cows

We started the dairy farming business in 2009 and since then, our Company has gradually started producing raw milk from our dairy farms to satisfy our production needs, in addition to sourcing raw milk externally. For the year ended 31 December 2014 and the three months ended 31 March 2015, our self-operated dairy farms and collectively-operated dairy farms in total supplied approximately 40.1% and 45.4%, respectively, of the total volume of raw milk used in our production. The quality and quantity of our products therefore to some extent depend on the quality and health conditions of our dairy cows, the quality of our raw milk and the yield of the dairy cows in our self-operated and collectively-operated dairy farms. Our raw milk quality and yield are influenced by a number of factors that are beyond our control, including, but not limited to:

- feed supply factors – the volume and quality of milk produced by dairy cows being linked closely to the nutritional quality of the feed provided;
- seasonal factors – dairy cows generally producing more milk in temperate weather than in extremely cold or hot weather. Extended unseasonal cold or hot weather could potentially lead to lower than expected raw milk production;
- breeding factors – the genetic quality of a dairy cow having a direct impact on the yield and quality of milk produced by such dairy cow; and
- health factors – potential outbreaks of diseases among our cows and cows from neighbouring farms.

The quality and health conditions of our dairy cows are an important factor affecting the production and quality of our raw milk. Currently, the majority of our dairy cows are sourced within China and some are imported from Australia. The expansion of our dairy farm operations also depends heavily on our ability to procure sufficient supply of high quality dairy cows. We currently target to procure a total of 5,000 dairy cows in 2016 and 2017. Our failure to do so could adversely affect our growth prospects. We also breed calves using frozen semen. If the supply of frozen semen is disrupted or the quality of frozen semen is deteriorated, the genetic quality of our herd, and in turn, the quality and yield of milk produced by our dairy cows may not improve at the rate we expect in the long term. In addition to milk yield, our ability to maintain high quality dairy cows has an impact on the protein and fat content of our milk, which in turn could impact the price at which we can sell our raw milk. Therefore, failure to secure adequate supply of high quality dairy cows could adversely affect our results of operation and future expansion.

The outbreak of any major disease among our cows or at neighbouring farms could materially and adversely affect our business

A major outbreak of any disease at any of our dairy farms could have a significant and adverse impact on our milk production capacity and volume. We cannot guarantee that animal diseases, such as FMD, brucellosis, bovine TB and bovine paratuberculosis, will not occur at our dairy farms. The distribution source of these diseases may include our employees, feed supplies, farm visitors, contaminated water and airborne pathogens. As at the Latest Practicable Date, there had been no outbreaks of major diseases at any of our dairy farms. But we cannot assure you that it will not happen in the future. Any major outbreak of diseases at any of our dairy farms may lead to significant reduction in our raw milk production. We may also be required to suspend our business operations temporarily for animal inspection during major outbreaks. Government compensation that we may receive in the event of a disease outbreak may not be sufficient to cover our losses. Additionally, we may have difficulty in recovering any intangible losses such as damage to our corporate reputation.

The public is very sensitive to news related to health risks in dairy products. When there is an outbreak of disease in dairy farms that could potentially impact public health, the demand for dairy products will dwindle across all brands even if it was only an isolated occurrence, or it was concentrated in a few dairy farms and the qualities of others' dairy products were unaffected. In such cases, the public will err on the side of caution, and our product demand will be adversely affected even though our products are perfectly fine. Event like this will adversely and materially impact our sales, reputation, and financial condition.

Feed supply shortage and price fluctuations may materially and adversely affect our business

Our feed includes concentrates and forages. We require a substantial amount of feed for our dairy cows. Our feed costs accounted for 5.1%, 7.3%, 8.5%, 8.9% and 7.9% of our total cost of sales for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively. We generally maintain 12 months stock of silage, six months of alfalfa and three months of concentrated feed. We have not entered into long-term supply agreements with our suppliers. Feed price fluctuations and feed supply shortage could adversely affect our business, sales and operations.

As at the Latest Practicable Date, we had not experienced any major interruptions or feed shortages. But as with most agricultural products, the price of feed is volatile, and may be affected by various factors such as change in weather conditions, plant diseases, pests, acts of nature, harvest conditions, the government, and market competition. In the event of price increases or feed supply shortages, our inability to procure sufficient quantities of feed could have a material adverse effect on our business, financial condition, and operations.

We are subject to potential adverse consequences due to our lack of valid land use rights in respect of certain properties we occupy, as well as uncertainties with respect to the land where certain of our dairy farms are located

During the Track Record Period, we failed to obtain land title certificates for the two parcels of lands before we occupied and used as our Lanzhou Ruixing dairy farm. One parcel of the land is state-owned land with a total area of 69.5415 mu, and the other parcel is collectively-owned land with a total area of 52.77 mu. On 20 April 2014, we started construction of Lanzhou Ruixing dairy farm and breeding dairy cows in the dairy farm before obtaining land title certificates. Our PRC legal adviser has advised us that (i) we may be ordered by the land administration departments of the PRC government to vacate from the land and demolish structures and ancillary facilities on the land, and (ii) we may be subject to a fine of not more than approximately RMB2.4 million in total. We obtained the land use right certificate for the aforesaid state-owned land on 28 June 2015.

We also did not obtain certain construction related permits, including the planning permit for construction land (建設用地規劃許可證), the planning permit for construction project (建設工程規劃許可證) and the construction permit (施工許可證), for the construction of Lanzhou Ruixing dairy farm. Our PRC legal adviser has advised us that (i) we may be ordered to cease construction work on the land, and (ii) we may be subject to a fine not exceeding approximately RMB3.2 million in total. On 15 June 2015, we obtained the planning permit for construction land (建設用地規劃許可證) and the planning permit for construction project (建設工程規劃許可證). We have received written confirmation from the competent authority stating that they will not impose any penalties, orders or injunctions on us for such non-compliances and our PRC legal adviser is of the view that the likelihood that we will be subject to the aforementioned legal consequences as a result of such non-compliances is remote. However, we cannot guarantee that we will be able to obtain the land title certificates that remain outstanding and that we will not be subject to any penalties or fines. If we are ordered to vacate from the land, we may not be able to relocate to another location timely or at all, and as a result our business and operation will be adversely affected. For details on these non-compliance incidents in connection with the construction and operation of Lanzhou Ruixing dairy farms, please see the section headed "Business – Historical Non-Compliance Incidents" in this prospectus.

In addition, six of our eight dairy farms are located on collectively-owned land leased from local villages. We have signed long-term lease contracts with the relevant committees of the local villages and land-use contracts with relevant local governments. As advised by our PRC legal adviser, relevant PRC laws and regulations allow large-scale farming operators of livestock, such as us, to lease agricultural land from local villagers or committees of the local villages, and we have obtained the approvals relating to the land occupied or used by us for large-scale breeding and affiliated activities. However, long-term leasing of collectively-owned rural land is subject to uncertainties, such as termination or breach by local villagers or committees of the local villages or land expropriation by the government, which otherwise are not risks associated with granted state-owned land. We may be forced to relocate and incur additional costs if any of our long-term leases is terminated or materially breached.

We may not be able to achieve our growth plan in dairy farming operations as we anticipate or at all

As part of our business development strategies, we plan to expand our dairy farming business by increasing the number of dairy cows. We may also increase the number of dairy farms through acquisition or construction, although we do not have concrete plans at this stage. We are currently in the process of constructing our Lanzhou Ruixing dairy farm in Gansu. The construction of the main structure and facilities of Lanzhou Ruixing dairy farm was completed in July 2015 while the ancillary structures are expected to be completed by the end of 2015. The dairy farm has commenced the trial operation in July 2015. Our expansion plan requires significant investment and construction lead time, and is also subject to market conditions, customer demand and other factors beyond our control. In addition, we may not be able to successfully identify and/or secure sufficient land resources at competitive costs for the construction of additional dairy farms. We may also encounter difficulty in recruiting and retaining experienced personnel who have the expertise and skills to operate and manage dairy farms. Our managerial, operational and financial resources may also be strained in our plans for expansion. Our management may also be challenged to procure and allocate sufficient resources to support our expansion. We cannot assure you that our personnel, systems, procedures and control measures will be adequate to support our future growth. We might not be able to successfully expand our dairy farms and implement our expansion plans in an effective manner within our desired time frame, or at all. Delays in the growth of our operations could result in loss of revenue, increase in financing costs, inadequacy of working capital or failure to meet profit and earnings projections, any of which could adversely affect our cash flow, business and results of operations.

Our future acquisitions may not be successful and we may face difficulties in integrating acquired operations with our existing business

When there are suitable opportunities, we may acquire and integrate dairy farms or dairy product production plants or companies into our business, although we have not identified suitable opportunities. Acquisitions involve uncertainties and risks, including, without limitation:

- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities; and
- diversion of resources and management attention.

Even if we do identify suitable opportunities, we may not be able to complete the acquisitions on terms acceptable to us, in a timely matter, or at all. The inability to identify suitable acquisition targets or complete acquisitions could materially and adversely affect our competitiveness and growth prospects.

Furthermore, we may face difficulties in integrating acquired operations with our existing business, particularly when integrating our existing workforce with dairy companies we may acquire. Such difficulties could disrupt our ongoing business, distract our management and employees or increase our expenses, any of which could materially and adversely affect our business, financial position and results of operations.

Erosion of the reputation of our brand name or failure to protect our trademarks from counterfeiting or imitation could adversely impact our sales and results of operations

Our business is highly sensitive to consumers' perception of the safety and quality of our products. The brand name and trademarks under which our products are marketed and sold are crucial to our business. As at the Latest Practicable Date, we had 130 registered trademarks and 11 trademark applications under various classes in the PRC which we consider to be material to our business. Any actual or perceived contamination, spoilage or other adulteration, product misbranding or tampering may lead to the erosion of our brands, regardless of its merits. We have not encountered counterfeiting and imitation of our products and trademarks in the past, but we cannot assure you that this will not occur in the future. Our failure to detect counterfeiting and imitation of our products and trademarks and to mitigate the adverse impact from such counterfeiting and imitation could result in a decrease in our sales volume or market share.

We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could subject us to significant liabilities and other costs

Our success depends partly on our ability to use and develop new product design, technology and industrial know-how without infringing the intellectual property rights of third parties. We were involved in a patent infringement claim against us in relation to our use of certain package for one of our yogurt products and we were not able to successfully defend ourselves in the litigation proceedings and were ordered by the court to pay damages of RMB20,000 to the plaintiff. We have subsequently ceased to use such package for the relevant products and have not experienced any material loss in our revenue.

We cannot assure you that third parties will not assert intellectual property claims against us again during the course of our operation in the future. The validity and scope of claims relating to the intellectual property rights of dairy products development and technology may involve complex scientific, legal and factual questions and analyses, which results in uncertainty and ambiguity. Any future third parties assertion of copyright or patent infringement or violations of other intellectual property rights against us may involve us in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or subject us to injunctions prohibiting the development and operation of our dairy and farming business and sales of our dairy products. Moreover, successful infringement claims brought by third parties could cause our reputation to suffer severe damage, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We may be required to relocate our Lanzhou office and cold warehouse from our current Lanzhou office base

The land where our Lanzhou office buildings and some of our warehouses are located is categorised as collectively-owned land under the PRC laws. Our Lanzhou office base comprises of a land of 10.8 mu and buildings and structures erected thereon with a total floor area of 3,630 sq.m. According to the PRC laws, collectively-owned land is not allowed to be used for non-agricultural purpose. Therefore, there is no guarantee that we could continue to lease the relevant properties and use them as our offices and warehouses. We plan to relocate our offices and cold warehouses to our Lanzhou production plant, which is approximately 30 km from our current offices. With respect to the cold warehouses located on this piece of land, we plan to either relocate them to our Lanzhou production plant or to other locations where our other cold warehousing facilities are to be constructed. However, there is no guarantee that such relocation will not have an adverse impact on our business operations. Please refer to the section headed "Business – Historical Non-Compliance Incidents" in this prospectus for more information.

Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of directors and other significant corporate actions. Immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, our Controlling Shareholders will directly or indirectly, individually or together with others control 55.58% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

We had net current liabilities as at 31 December 2012, 2013 and 2014 and 31 March 2015. There can be no assurance that we will record net current assets in the future

We had net current liabilities of approximately RMB95.6 million, RMB170.6 million, RMB190.4 million and RMB181.6 million as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively, primarily due to our continuous investment in our production plants and dairy farms. See "Financial Information – Working Capital" for detailed analysis of our net current liabilities position. We cannot assure you that we will be able to improve our liquidity and record net current assets in the future. If we continue to have net current liabilities, we may face a shortfall of working capital and may not be able to fully service our short-term debts. Any of these events could have a material adverse impact on our financial condition and results of operations.

Our ability to meet working capital requirements or obtain additional financing may be limited, which could delay or prevent the implementation of our strategies

We have, as at the Latest Practicable Date, financed our working capital and capital expenditure needs primarily by cash from our operations and proceeds from bank loans. Our total bank loans as at 31 March 2015 were approximately RMB450.0 million. See "Financial Information – Indebtedness" for more information. We cannot assure you that we will not experience working capital deficiencies or net cash outflows in the future. Although we believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our present and reasonably anticipated cash needs, we may in the future require additional cash resources as we continue to expand our business operations and production facilities and implement other strategies. If our own financial resources are insufficient to satisfy our working capital requirements, we may seek to obtain additional credit facilities or sell additional private or public equity or debt securities.

Our ability to raise additional capital will depend on the financial conditions of our business, the successful implementation of our key strategic initiatives, economic and financial market conditions and other factors. Our source of financing for our operations currently comprises of company capital and bank loans only. Our source of financing is very limited, and not as diversified as other multinational and listed dairy companies. The lack of source of financing has become the bottleneck of our expansion. We cannot assure you that we will be successful in raising the required capital at favourable terms within the required time period, or at all, for our continued growth. Further equity financings may have a further dilutive effect on our Shareholders. If we require additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities, and the debt service payments may be a significant drain on our free capital allocations. If we are unsuccessful in meeting our working capital requirements or obtaining additional financing, we may not be able to continue our business operations and advance our development plan, which could harm our overall business prospects.

We are obligated to unconditionally accept product returns or exchanges pursuant to the agreements with our existing community milk booth franchisees during the Track Record Period, which may have an adverse impact on our sales, results of operations and financial condition

We generally do not allow product returns or exchanges in the sales and distribution of our products except for quality defects or spoilage. However, during the Track Record Period, as an interim measure during the developing stage of our community milk booth operation to maintain our relationships with community milk booth franchisees and support their operations of our community milk booths, we agreed to be obligated to unconditionally accept product returns or exchanges pursuant to the agreements with our existing community milk booth franchisees. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, all of the product returns and exchanges from our community milk booth franchisees were due to quality defects or spoilage and was approximately RMB2,000, RMB6,000, RMB72,000 and RMB11,000, respectively, representing approximately 0.05%, 0.05%, 0.45% and 0.30% of the total sales to community milk booth franchisees in the corresponding period. Such arrangement, however, may have an adverse impact on our sales, results of operations and financial position. In addition, returned products were disposed of by us regardless of the reason for the return, which would incur additional costs and expenses. Product returns or exchanges due to quality defects could also damage our reputation and have a material adverse effect on us, such as reducing sales or damaging our relationships with our community booth franchisees or end-customers.

Going forward, we intend to abolish the terms with respect to unconditional product returns or exchanges in the new agreements we will renew or enter into with community milk booth franchisees, and will only allow product returns or exchanges for substandard or spoiled products due to our faults. However, our community milk booth franchisees may find the amended agreements less attractive to them, which may result in our failure to maintain existing community milk booth franchisees or acquire new community milk booth franchisees at a desirable pace, and may further materially and adversely affect the development of our community milk booth operation and our results of operations. We cannot assure you that we will be able to manage the risks associated with product returns or exchanges arising out of our operations of community milk booths in the future.

Our operations may be disrupted by natural disasters, severe weather conditions, acts of war, terrorism or other factors beyond our control, resulting in lower revenues and unbudgeted costs for remedying any damages

Our dairy farms and production plants are located in the Gansu, Qinghai and Ningxia region, which has historically experienced earthquakes, droughts, sand storms as well as other natural disasters and severe weather conditions. Natural disasters and severe weather conditions may result in disruptions to our operations, which may lead to loss of revenues. Similarly, war, terrorist activity, threats of war or terrorist activity, social unrest as well as geopolitical uncertainty and international conflict and tension could affect international or regional economic development, including China's, which could in turn materially and adversely affect our business, financial condition and results of operations. In addition, we may not be adequately prepared in terms of contingency planning or may not have recovery capabilities in place to deal with a major incident or crisis. As a result, our operational continuity may be adversely and materially affected.

Our insurance coverage and government compensation may be insufficient to cover our potential losses

We have insurance policies covering the deaths caused by diseases, natural disasters and accidents of some of our self-owned dairy cows that are eligible for insurance coverage. Dairy cows become eligible for insurance coverage when they are over 12 months old in China and therefore our dairy cows under 12 months old are not covered by insurance. We also maintain insurance coverage for the buildings in some of our dairy farms and for our production facilities and equipment in our Xining production plant. During our Track Record Period, we incurred a total direct loss of fixed assets and inventories of approximately RMB4.6 million from a fire accident that occurred at our production plant in Xining. In the fire accident, certain of our warehousing facilities and inventories were damaged, and we were not covered by insurance policy when the fire took place as we had not renewed the policy on time. As a result, we were not able to claim insurance for these damages. Thereafter, we have reviewed and improved our insurance renewal procedures to avoid similar mistakes. However, we cannot assure you that similar fire accidents or other casualties will not occur again and that insurance coverage is sufficient to cover any losses or damages we may suffer.

According to the Animal Epidemic Disease Prevention Law of the PRC (中華人民共和國動物防疫法), amended from time to time and last amended and effective on 24 April 2015 when animals or animal products and relevant goods are slaughtered or destroyed, or killed by stress caused by mandatory vaccinations, pursuant to mandatory measures taken to prevent, control, or eliminate epidemics, we may be compensated by the government for such losses. However, the amount of such compensation will be determined by the government and may be insufficient to cover all related losses. In addition, even if we were to replace the lost dairy cows, we cannot guarantee that the replacement would be of the same genetic quality as the lost ones, which could lead to lower milk quality and yield per cow.

In addition, we use third-party logistic providers to transport our dairy products to distributors and the risks and liabilities remain on us and our logistic providers until the goods are delivered to the distributors. We do not have any insurance policies to cover the losses or damages to the goods in transit. Moreover, we do not have any product liability insurance. Thus, any large-scale damages to the goods in transit or any defective product claims, which we have not been subject to since our incorporation, may result in substantial costs and losses, which may materially and adversely affect our business, financial condition, and operations.

Our failure to retain or secure senior management, officers, and key qualified personnel for our operations could hinder our continued growth and success

Our success depends, to a large extent, on the experience and skills of our current senior management, officers, and key qualified personnel. Our senior management has significant experience relating to the breeding of dairy cows and production of dairy products. The expertise, industry experience, and contributions of our senior management are crucial to our success. For more details on the experience of our senior management, please refer to the section headed "Directors, Supervisors and Senior Management" of this prospectus. However, we cannot assure you that such persons will continue to work with us or abide by the agreed terms and conditions of their employment contracts. If we are unable to retain and recruit such key qualified personnel, our business prospects could be materially and adversely affected. Alternatively, even if we were able to retain them, we might incur unexpected increases in compensation expense to meet that end, which also materially and adversely affect our business.

We may not have full control over third-party contractors or service providers

Third-party contractors and service providers can also impact our business to the extent that we engage in their service to design and build our dairy farms. In selecting our contractors, we consider factors such as their construction capability, quality, price, skill, experience, and certification. We require the contractors to carry out their work in accordance with relevant quality, safety and environmental standards. But we cannot assure you that these contractors will comply with the standards at all times. Any failure by the contractors to comply with the relevant standards may result in our breach of government rules and regulations. Upon discovering any breach, we may choose to terminate our relationship with the contractors and service providers, but if we fail to find suitable replacements in time, our business and operations may be materially and adversely affected.

Delivery delays or poor handling by third party logistics providers may adversely affect our business and financial conditions

Similar to other dairy and consumer product manufacturers in China, we rely on third party logistics providers for the delivery of some of our products especially to areas outside of Lanzhou and Xining. Delivery disruptions for various reasons beyond our control, including without limitation, weather conditions, political turmoil, social unrest and strikes could lead to delayed or lost deliveries. The perishable nature of dairy products may also mean that poor handling by third party logistics providers could result in contamination of and/or damage to our products, which may in turn lead to loss of our revenues, increase in our compensation payments to customers, and adversely affect our business and financial conditions.

Increase in labour costs or shortage of labour may hinder our growth, and adversely affect our business

Our staff cost was RMB27.8 million, RMB28.6 million, RMB34.5 million and RMB10.0 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. Labour costs in China have been increasing, and may continue to rise in the future. Any increase could cause our production costs to increase. We may or may not be able to pass on such increase to our customers due to fierce market competition. We also cannot assure you that we will not experience any shortage of labour for our dairy farms and our dairy products manufacturing operations. Any such shortage could hinder our ability to maintain or expand our business operations, which could materially and adversely affect our business and financial condition.

Further, our business also depends on a stable workforce. We cannot guarantee you against any future labour disputes. Our operations can be disrupted as a result of any labour dispute, which will likely decrease our production volume, and adversely affect our sales and hinder our growth.

Our risk management and internal control system may be inadequate or ineffective, which may materially and adversely affect our business

Our risk management and internal control system may not be adequate and effective. For example, we may not be in full compliance with applicable PRC laws to have all permits and licenses required for our operation and complete the required completion inspection procedures for our dairy farms and production plants before commencement of operation or use. For more information of our non-compliance incidents, please see the section headed "Business – Historical Non-compliance Incidents." In preparation for the Listing, we have implemented measures to enhance our internal controls. Our risk management and internal control system consist of the relevant organisational framework policies, procedures, and risk management methods that we believe are appropriate for our business operations. Because some of our risk management and internal control policies and procedures are relatively new, it will take some time for us to fully evaluate the effectiveness of these new measures. Additionally, the successful implementation of our internal control system depends on our employees and we cannot assure you that all of our employees will abide by our policies and procedures at all times. We seek to enhance our risk management and internal control system, but we cannot assure you that our system will be accurate and effective at reporting financial results and preventing fraud.

Lastly, our growth and expansion in business may prevent us from implementing stringent risk management and internal control. Our failure to timely adopt, implement, or modify our risk management policies and procedures can materially and adversely impact our business and financial condition.

RISK RELATING TO OUR INDUSTRY

Adverse publicity concerning dairy products could have a negative impact on the PRC dairy industry

The PRC dairy industry is highly dependent upon consumers' perception of the safety, quality and health benefits of the dairy products. As a result, any substantial or sustained negative publicity concerning dairy products might lead to a loss of consumer confidence in dairy products as a whole in China.

In China, domestic dairy products' quality varies. Any concern with the quality, such as the suspicion of harmful chemical ingredients' presence in the dairy products, may cause the demand for dairy products to drop significantly. China's dairy sector had been exposed to negative publicity in the past due to a number of incidents involving contaminated dairy products. For example, in 2008, milk formula products were found to contain melamine, which caused the deaths of a number of infants and illnesses in nearly 300,000 others. In 2009, additional incidents of milk formula products with melamine were uncovered. Moreover, the media unveiled to the public that illegal hormone substances found in some of the milk formula products had caused premature puberty in several infants in China.

Reports of milk products in China containing melamine or other harmful chemical substance can damage the reputation of the PRC dairy industry and have a material adverse effect on our business, whether or not such report has any basis in fact. In July 2013, there were reports regarding infant formula products manufactured by certain domestic brands that were found to contain trans-fatty acids, including infant formula products manufactured by one of the major dairy product producers in China. In early August 2013, authorities in New Zealand were informed by a producer in China that certain batches of its whey protein concentrate contained Clostridium, which allegedly caused botulinum, but was later proved to be false. Such adverse publicity may affect the dairy industry in China as a whole and adversely impact consumer demand for our product and hinder our growth.

The dairy industry in China could face slower market growth

China's dairy industry has experienced rapid growth beginning in the 1990s. This growth has been, in part, due to increasing demand for dairy products in China. The prices at which we sell our products and the demand for our planned new products could be influenced by the level of consumer demand for dairy products in China. We cannot assure you that China's dairy industry will continue to grow in the future. China's dairy industry may experience slower growth due to market saturation or competition from alternative products, such as soy-based beverages and products, which may have an impact upon the size and growth of the markets for dairy products. If the demand for dairy products in China declines for any reason, including changing consumer preferences, our results of operations and expansion plans could be materially and adversely affected.

Changes in public health and food safety laws and regulations may adversely affect our business

Various aspects of our operations are subject to extensive laws and regulations promulgated by the State Council, the PRC General Administration of Quality Supervision, Inspection and Quarantine, the PRC Ministry of Agriculture, and other national or local PRC regulatory authorities. We cannot assure that we are able to fully comply with future laws and regulations. Any failure to comply with relevant laws and regulations may have a material adverse effect on our business and results of operations.

We cannot assure you that the PRC government will not change the existing laws or regulations, or adopt additional or more stringent laws or regulations applicable to us and our business operations. We may fail to comply with such laws and regulations if they become more stringent or wider in scope in the future. Even if we can comply with such laws and regulations in the future, our production and distribution costs may increase. On 16 September 2010, the General Office of the State Council issued the Notice Relating to Further Strengthen the Safety of Dairy Product Quality (國務院辦公廳關於進一步加強乳品質量安全工作的通知), requiring the strengthening of measures regarding the quality and safety of dairy products, imposing rigorous regulations on the quality and safety of dairy products, and raising the standard of quality and safety of dairy products. We cannot predict the nature of any such future laws and regulations, or the impact on our business operations if and when such future laws and regulations are promulgated. Such future laws and regulations (including without limitation, more onerous food safety, labelling and packaging requirements, and more stringent compliance requirements for waste management) may require the reconfiguration or upgrading of methods and procedures for sourcing raw materials, production, processing and transportation and increased transportation costs and greater uncertainty in production and sourcing estimates. The costs of compliance with current or future legal or regulatory requirements and obtaining and maintaining regulatory approvals may be significant, and could force us to curtail our operations or otherwise have a material adverse effect on our cash flow, financial condition and results of operations. Failure to comply with any such current and future laws and regulations could subject us to civil remedies or administrative penalties, including fines, injunctions, product recalls or seizure, as well as potential criminal sanctions, which could have a material adverse effect on our business, financial condition and results of operations.

Increased competition within the dairy farming and dairy product industries could adversely affect our market share and the sales and pricing of our dairy products

China's dairy industry has not historically had any high entry barrier or major restrictions. Thus, it is highly competitive, especially the markets for liquid milk products, which are experiencing rapid development and increasing competition. Set forth below are certain aspects of such development and competition:

- *Brand recognition*. We compete with large multinational companies as well as regional and local companies in each of the regions in which we operate. In most of the product categories, we compete not only with other widely advertised branded products, but also with private labels, stores and economy brand products that are generally sold at lower prices. Many of our competitors have been in this business longer than we have, may have substantially greater financial and other resources than we have, and/or may have been better established with more solid brand recognition in the business than we have.

- *Advantages in production*. Our competitors in certain regional markets may also benefit from raw material sources or production facilities that are closer to the markets for the downstream products or may benefit from their attempt in integrating upstream and downstream production processes, which provides them with competitive advantages in terms of costs and proximity to consumers. Some of our competitors have used, and we expect them to continue to use, more advanced processes and technologies.

- *Aggressive marketing*. Some of our competitors may use greater amounts of incentive and subsidies for distributors, sales agents and retailers. In addition, our competitors' significant increase in their advertising expenditures and promotional activities might induce us to engage in irrational or predatory price reductions, which could dilute our margins and materially and adversely affect our business, financial condition and results of operations.

- *Industry consolidation*. Consolidation among industry participants in China may result in stronger domestic competitors that are more capable of competing as end-to-end suppliers as well as competitors who are more specialised in particular areas and geographic markets.

- *Vertically integrated business model*. While we believe we are currently benefiting from our vertical business model, a number of our competitors have also engaged in integration within the value chain, including making investments in dairy farms, cooperating with their existing business partners or other international institutions that produce or supply feeds, and other strategic initiatives that could enhance or expand their current operations or products or that might otherwise offer them with growth opportunities. Such strategic moves may lead to a more competitive environment.

The above advantages of our competitors might put us in the position to invest a significant amount of expenditure on quality control, product distribution, marketing and promotion in order to secure our market share and maintain our brand name. Our failure to introduce products that differentiate us from our competitors might result in a loss of our market share or reduction of our product prices, which could materially and adversely affect our business, financial condition and results of operations.

We may incur significant costs in complying with the increasingly stringent environmental laws and regulations

We conduct business in an industry that is subject to stringent PRC environmental laws and regulations. These regulations require companies to adopt measures to effectively control and properly dispose waste gases, waste water, industrial waste and other environmental waste materials. The regulations also require producers to pay for discharging waste. We produce solid wastes and other environmental wastes in our production process, and are subject to the restrictions relating to the discharge of these wastes. In the event that PRC environmental regulations or government policies become more stringent, we may incur increased costs to comply with these requirements. In the course of our operations, we may have unknowingly emitted pollutants, caused environmental damage, or breached applicable environmental regulations. Such environmental violations may continue until they are brought to our attention. Any failure to comply with PRC environmental regulations may lead to claims, liabilities, or suspension of our operation, thereby materially and adversely affecting our business.

RISK RELATING TO CONDUCTING BUSINESS IN CHINA

Currently, all of our business and assets are located in China and all of our revenue was derived from sales in China during the Track Record Period. Accordingly, our financial condition, results of operations and prospects are subject to economic, political, and legal developments in China.

We are vulnerable to adverse changes in economic conditions and government policies

The PRC economy differs from the economies of most developed countries in a number of respects: the extent of government involvement, level of development, growth rate and control of foreign exchange. Before its adoption of reform and open door policies in 1978, China was primarily a planned economy. Since that time, the PRC economy has been reformed into a market economy with socialist characteristics. Our ability to continue to expand our business is dependent on a number of factors including general economic and capital market conditions. In recent years, the PRC government has implemented various measures to stimulate growth in certain industries – dairy industry being one of them. We have benefited from government stimulus and general market growth, but we cannot guarantee that these government macroeconomic measures are effective, or that the high growth rate in China is sustainable.

The financial market in China could also be unpredictable. The PBOC's statutory deposit ratio and lending guideline imposed on commercial banks may restrain loan market and materially affect our liquidity and access to capital. Our business, results of operations and financial condition could also be adversely affected by governmental control over capital investment or changes in environmental protection, health, labour and tax regulations applicable to us.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you

The legal system in China has inherent uncertainties that could limit the legal protections available to our Shareholders. We are incorporated under the laws of the PRC and our business and operations are conducted in China and are governed by PRC law, rules and regulations.

The PRC legal system is a civil law system, which, unlike the common law system, relies largely on the statutes and the Supreme People's Court's interpretation of these statutes. Under such a system, precedent has limited significance for guidance. The PRC government has been developing a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs. Examples of these economic affairs include corporate organisation and governance, foreign investment, commerce, taxation and trade. But because these laws and regulations are new, only limited number of published decisions is available. As a result, the implementation and interpretation of these laws and regulations lack consistency and predictability.

Additionally, the PRC legal system can be retroactive. Thus, the legal protection available to us under the laws, rules and regulations may be limited. Moreover, the litigation or regulatory enforcement actions in China can be protracted, and may result in substantial costs and the diversion of resources and management attention.

Our Articles of Association provide that disputes between holders of H shares and us, our directors, supervisors or senior officers or holders of Domestic Shares arising out of our Articles of Association or any rights or obligations conferred or imposed thereupon by the PRC Company Law and related rules and regulations concerning our affairs are to be resolved through arbitration rather than by a court of law. Our Articles of Association further provide that such arbitral award will be final, conclusive and binding on all parties. A claimant may elect to submit a dispute to arbitration organisations in Hong Kong or the PRC. Awards that are made by PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can ben enforced in Hong Kong. Hong Kong arbitration awards may be recognised and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. We cannot assure you that any action brought in the PRC by any holder of H shares to enforce a Hong Kong arbitral award made in favour of holders of H shares would succeed.

ln addition, PRC laws, rules and regulations applicable to companies incorporated in the PRC do not distinguish among minority and controlling shareholders in terms of their rights and protections, and our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of Hong Kong and certain other jurisdictions.

Changes in PRC laws, regulations and policies may materially and adversely affect our business and financial condition

Our operations are subject to PRC laws and regulations. These regulations affect many aspects of our operations, including product pricing, utility expenses, industry-specific taxes and fees, business qualifications, capital investments, and compliance of environmental protection and safety standards. Thus, we may face significant constraints when implementing our business strategies to expand our operations or to maximise profitability. In addition, our business is not immune from future changes in PRC government policies, and may be materially and adversely affected by these changes.

In recent years, the PRC government has implemented a series of new laws, regulations and policies, which imposed stricter standards on the supervision and inspection of the enterprises engaging in animal husbandry and breeding. It also tightened the quality and safety controls for producing and selling milk products. For instance, the China Food and Drug Administration, together with eight other government agencies, implemented stricter supervision on infant formula producers in June 2013. As a result, we may incur additional costs in order to comply with these tighter standards, which in turn may materially and adversely affect our business and financial condition. If the PRC Government continues to impose stricter regulations on the industry in the future, our cost could continue to rise, which could significantly impact our profitability. Please refer to the subsection headed "Regulatory Overview" in this prospectus for more information.

It may be difficult to effect service of legal process or enforce judgements obtained from non-PRC courts against us

Our Company is incorporated in PRC, and all of the company's and almost all of our directors' assets are located in China. You may not be able to bring claims against our Company, our directors, supervisors, or executive officers, in the United States, Hong Kong, or elsewhere outside of China, even if the legal claims arise out of the law in that country. China has not entered into any treaty for reciprocal recognition and enforcement of court judgements with the United States, the United Kingdom, Japan and many other countries. Thus, court judgements against us obtained outside of China may be difficult or impossible to enforce in China.

On 14 July 2006, China and Hong Kong signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matter by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned." Under this agreement, a party with a final court judgements in a civil case rendered by a Hong Kong court may seek to enforce it in China, and vice versa. For this to work, parties must have entered into a "choice of court agreement" in writing. A choice of court agreement is an agreement in which a Hong Kong court or a PRC court is expressly designated as the sole venue for dispute. Thus, investors should be aware that a foreign judgements rendered against us may not receive recognition and enforcement in PRC courts.

Government control of foreign exchange conversion, and future fluctuation of Renminbi exchange rates, could reduce the value of Shares in the Global Offering in foreign currency, and may materially and adversely affect our business and financial condition

Substantially all of our revenue and expenses are denominated in Renminbi, which is not a freely traded currency. We may need to convert a portion of our revenue to foreign currencies to meet some of our financial obligations (e.g. to pay out declared dividends on H Shares in the Global Offering).

Under China's existing foreign exchange regulations, we will be able to undertake current account foreign exchange transactions without prior approval from SAFE or its local branches following the completion of the Global Offering. But the PRC government may restrict access to foreign currencies for current account transactions in the future. As a result, we may not be able to pay dividends in foreign currencies to shareholders.

On the other hand, foreign exchange transactions under our capital account are subject to significant foreign exchange controls and require SAFE's approval. These limitations could affect our ability to obtain foreign currency through offshore financing. The value of the Renminbi against the foreign currencies depends on many factors such as the government's policies, the domestic and international economic and political developments, and the supply and demand in the local market. From 1994 to July 2005, the official exchange rate for the conversion of Renminbi to the U.S. dollar was generally stable. In July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollars, and Renminbi appreciated more than 20% against the U.S. dollar over the following three years. From July 2008 to June 2010, the Renminbi traded within a narrow range against the U.S. dollar. Since June 2010, the Renminbi has appreciated against the U.S. dollar, from RMB6.82 per U.S. dollar to RMB6.14 per U.S. dollar as at 31 March 2015. Moreover, in August 2015, the Renminbi depreciated significantly against the U.S. dollar as a result of the PRC government's policy decision. It is difficult to predict how Renminbi exchange rates may change going forward.

The Renminbi may further appreciate or depreciate significantly in value against the Hong Kong dollar and the U.S. dollar or other foreign currencies in the long run. The government may also permit Renminbi to enter into full float, which may also result in a significant changes in the foreign exchange rates. Any depreciation of the Renminbi may adversely affect the value of the Shares that are in foreign currency in the Global Offering, and the value of the declared dividends. Under the PRC laws, we must obtain SAFE approval before converting significant sums of foreign currencies into Renminbi. All these factors could materially and adversely affect our business and financial condition, which could reduce the value of the Shares in the Global Offering in foreign currency and any declared dividends.

Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares

Under current PRC tax laws, regulations and rules, foreign individuals and foreign enterprises that are not PRC residents are subject to different tax obligations with respect to the dividends paid by us or the gains realised upon the sale or other disposition of H Shares.

Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (關於國稅發[1993]045號文件廢止後有關個人所得稅征管通知) issued by the SAT on 28 June 2011, we are required to withhold taxes from dividend payments to non-PRC resident individual holders of H Shares at rates ranging from 5% to 20% (usually 10%), depending on the applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides. Non-PRC resident individual holders of H Shares who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20% withholding tax on dividends received from us.

Under the PRC EIT Law and its implementation rules, for foreign enterprises that do not have offices or establishments in the PRC, or have offices or establishments in the PRC to which their income is not related, dividends paid by us and the gains realised by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a rate of 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise's residence. In accordance with the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Nonresident Enterprises (Guo Shui Han [2008] No. 897) (關於中國居民企業向境外H股非居民企業股東派發股息代繳企業所得稅有關問題的通知[2008]897號), which became effective on 6 November 2008, 10% withholding tax shall be imposed on dividends paid by Chinese resident enterprises to holders of H Shares that are overseas non-resident enterprises. These holders of H Shares may apply for tax refunds in accordance with applicable tax treaties or arrangements, if any. In addition, the PRC tax laws, rules and regulations may also change from time to time. If the tax rates stipulated in the 2008 Enterprise Income Tax Law and the related implementation rules are amended, the value of your investment in our H Shares could be materially and adversely affected.

In addition, it is also unclear whether and how the PRC individual income tax and enterprise income tax on gains realised by non-resident holders of H shares through the sale, or transfer by other means, of H shares will be collected by the PRC tax authorities in the future, although such tax has not been collected by the PRC tax authorities in practice. Considering these uncertainties, non-resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on the dividends and gains realised through sale or transfers of the H Shares.

Our business could be adversely affected by health epidemics and other outbreaks of diseases

Any outbreak of any severe communicable diseases in China, such as severe acute respiratory syndrome, or SARS, strains of avian influenza, the human swine influenza A (H1N1) or other epidemic outbreak could materially and adversely affect our business. In the past few years, there have been confirmed cases of avian influenza outbreaks in China, including the H5N1 virus which has occurred in various parts of China and, more recently, the H7N9 virus which has been reported in several provinces.

Our employees and clients, with whom we must deal on a regular basis, could contract these diseases, or similar ones, in the future, and the government may require us to close our dairy farms and facilities temporarily to prevent the spread of the disease. The World Health Organisation or the PRC government may further impose travel restrictions and restrictions on the flow of goods in affected areas. For these reasons, an outbreak of any severe communicable disease, or other epidemic could disrupt our operation, and materially and adversely affect our revenue and profitability.

RISKS RELATING TO THE GLOBAL OFFERING

Any possible conversion of our Domestic Shares into H Shares in the future could increase the supply of our H Shares in the market and negatively impact the market price of our H Shares

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into H Shares in the future, and such converted Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares any requisite internal approval by Shareholders in a general meeting shall have been duly obtained and the approval from relevant PRC regulatory authorities shall have been obtained. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on the Hong Kong Stock Exchange after one year of the Global Offering, which could further increase the supply of our H Shares in the market and negatively impact the market price of our H Shares.

There has been no prior public market for our H Shares; the liquidity and market price of our H Shares may be volatile

Prior to the Global Offering, there has been no public market for our H Shares. The initial issue price range for our H Shares was the result of negotiations between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Hong Kong Stock Exchange. A Listing on the Hong Kong Stock Exchange, however, does not guarantee that an active trading market for our H Shares will develop, or if it does develop, will be sustained following the Global Offering. The market price of our H Shares may also decline following the Global Offering. In addition, the Global Offering may not result in the development of an active and liquid public trading market for our H Shares. Furthermore, the price and trading volume of our H Shares may be volatile. Factors such as the following may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry; and
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control.

In addition, H Shares of other PRC issuers listed on the Hong Kong Stock Exchange have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in price not directly related to our performance.

Future sales, or market perception of sales, of substantial amounts of our H Shares in the public market, including any future offerings, could have a material adverse effect on the market price of our H Shares and make it difficult for you to recover the full value of your investment

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amount of our H Shares could materially and adversely affect the market prices of our H Shares and may also materially and adversely affect our ability to raise capital in the future. In addition, our Shareholders would experience dilution in their holdings upon our issuance or sale of additional securities in future offerings.

We cannot assure you if and when we will pay dividends in the future

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, our Articles of Association, the PRC Company Law and any other applicable law and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. We did not declare any dividends during the Track Record Period. We cannot assure you whether, when and in what form we will pay dividends in the future.

Furthermore, under the applicable PRC laws, dividends may be paid only out of profit after taxation after we have made the following allocations: recovery of accumulated losses, if any; allocations to the statutory common reserve fund equivalent to 10% of our profit after taxation, as determined under PRC GAAP; and allocations that are approved by the shareholders in a shareholders' meeting, if any, to any common reserve fund. Our profit distributable for the above-mentioned allocations and our dividend distribution shall be our profit after taxation as determined by PRC GAAP or IFRSs, whichever is lower. As a result, we may not have sufficient profit to enable us to make future dividend distributions to our Shareholders, even if one of our financial statements prepared in accordance with PRC GAAP or IFRS indicates that our operations have been profitable. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See the section headed "Financial Information – Dividend Policy" in this prospectus for more details of our dividend policy.

Certain facts, forecasts and other statistics with respect to China, China's economy and the dairy industry in this prospectus are derived from various government and official resources, government publications and other publications and may not be reliable

Certain facts, forecasts and other statistics in this prospectus relating to China, China's economy and the dairy industry have been derived from various publicly available government and official sources, as well as an industry report we commissioned from Frost & Sullivan, an independent research institute. However, we cannot assure you the quality or reliability of such source materials. While our Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such government or official resources, they have not been prepared or independently verified by us, the Sole Global Coordinator or the Underwriters, nor any of our or their respective affiliates or advisers and, therefore, we and they make no representation as to the accuracy or completeness of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, such statistics may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy or completeness as may be the case elsewhere. Therefore, you should not place undue reliance on these statistics and information.

You will experience immediate dilution and may experience further dilution if we issue additional H Shares

Potential investors will pay a price per H Share that substantially exceeds the per H Share value of our Company's tangible assets after subtracting our Company's total liabilities and will therefore experience immediate dilution when purchasing the H Shares offered in the Global Offering. As a result, if our Company were to distribute its net tangible assets to our Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their H Shares. In addition, if we issue additional H Shares or equity-linked securities at a price lower than the net tangible asset value per H Share at the time of issuance, you and other purchasers of our H Shares may experience further dilution in the net tangible asset value per H Share.

Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Hong Kong Listing Rules requires that a new applicant applying for a primary listing on the Hong Kong Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Rule 19A.15 of the Hong Kong Listing Rules further provides that the requirement in Rule 8.12 may be waived by the Hong Kong Stock Exchange in its discretion.

Since the business, operation and production bases of our Group are currently located, managed and conducted in China, there is no business need to appoint any executive Director in Hong Kong. All of the executive Directors and senior management members of our Group are, and will continue to be, based in the PRC. As at the Latest Practicable Date, all of our Group's assets are based in China. Our Company does not, and does not contemplate in the foreseeable future that it will have a sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Hong Kong Listing Rules.

An application for a waiver from strict compliance with the requirement to have a sufficient management presence in Hong Kong under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules has been made to the Hong Kong Stock Exchange and such waiver has been granted by the Hong Kong Stock Exchange subject to the following arrangements.

The arrangements proposed by our Company for maintaining at all times regular, adequate and effective communication with the Hong Kong Stock Exchange are as follows:

(a) the Company has appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Hong Kong Listing Rules who will act as our Company's principal point of communication with the Hong Kong Stock Exchange. The two authorised representatives proposed to be appointed are Mr. Ma Hongfu (an executive Director) and Li Siu Bun (the chief financial officer and the joint company secretary of our Company). The authorised representatives, will have the means to contact all our Directors promptly at all times as and when the Hong Kong Stock Exchange wishes to contact our Directors on any matter. They have provided their usual contact details to the Hong Kong Stock Exchange and will be readily contactable by the Hong Kong Stock Exchange if necessary to deal with enquiries from the Hong Kong Stock Exchange from time to time. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Hong Kong Stock Exchange. Our Company will inform the Hong Kong Stock Exchange promptly if there is any change in our authorised representatives or the contact details of any of them;

(b) Mr. Li Siu Bun, our chief financial officer and joint company secretary, ordinarily resides in Hong Kong and will be readily contactable by the Hong Kong Stock Exchange at all times for any matters. All of the Directors who are not ordinarily resident in Hong Kong have confirmed that they have possessed or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange within a reasonable period of time upon prior notice from the Hong Kong Stock Exchange, if required;

(c) our Company has appointed GF Capital as our compliance adviser pursuant to Rule 3A.19 of the Hong Kong Listing Rules who will also act as an additional point of contact between our Company and the Hong Kong Stock Exchange for the period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Hong Kong Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. Our Company will inform the Hong Kong Stock Exchange promptly of any change of its compliance adviser;

(d) our Company will appoint other professional advisers (including legal advisers and accountants) to advise on on-going compliance requirements and other issues arising under the Hong Kong Listing Rules and other applicable laws and regulations in Hong Kong and to ensure that there will be efficient communication with the Hong Kong Stock Exchange after the Listing; and

(e) each of our Directors has provided his or her respective mobile phone number, office phone number, e-mail address and fax number to the Hong Kong Stock Exchange. In the event that a Director expects to travel outside Hong Kong, he or she shall provide to the authorised representatives the phone numbers of the place of his or her accommodations outside Hong Kong or the phone numbers where he or she can be contacted outside Hong Kong.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Hong Kong Listing Rules, our Company must appoint as company secretary an individual who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary. The Hong Kong Stock Exchange considers (i) a Member of The Hong Kong Institute of Chartered Secretaries; (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and (iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) to be acceptable academic or professional qualifications. In assessing "relevant experience", the Hong Kong Stock Exchange will consider the individual's (i) length of employment with the issuer and other issuers and the roles he played; (ii) familiarity with the Hong Kong Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, and the Takeovers Code; (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules; and (iv) professional qualifications in other jurisdictions.

We have appointed Mr. Yan Bin as one of our joint company secretaries. Mr. Yan has held various senior positions in our Group as indicated in his biography which is set out in the section headed "Directors, Supervisors and Senior Management" in this prospectus, and has a thorough understanding of the operation of our Group. However, Mr. Yan does not possess the relevant qualifications as stipulated in Rule 3.28 of the Hong Kong Listing Rules and may not be able to solely fulfil the requirements of the Hong Kong Listing Rules.

Our Company has appointed Mr. Li Siu Bun, who meets the requirements under Note 1 to Rule 3.28 of the Hong Kong Listing Rules, as a joint company secretary to work closely with and to provide assistance to Mr. Yan Bin in the discharge of his duties as a joint company secretary for an initial period of three years commencing from 18 March 2015 and ending on the third anniversary of the Listing Date ("Initial Period") so as to enable Mr. Yan Bin to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Hong Kong Listing Rules) to discharge the duties and responsibilities as a joint company secretary.

Both Mr. Yan Bin and Mr. Li Siu Bun will be assisted by the compliance adviser, particularly in relation to corporate governance practices and ongoing compliance with the Hong Kong Listing Rules and the applicable laws and regulation.

Mr. Yan Bin will endeavour to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Hong Kong Listing Rules organised by the Company's Hong Kong legal advisers on an invitation basis and seminars organised by the Hong Kong Stock Exchange for listed issuers from time to time, in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules.

Upon expiry of the Initial Period, the qualifications and experience of Mr. Yan Bin will be re-evaluated. Mr. Yan Bin is expected to demonstrate to the Hong Kong Stock Exchange's satisfaction that Mr. Yan Bin, having had the benefit of Mr. Li Siu Bun's assistance during the Initial Period, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Hong Kong Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The waiver is valid for the Initial Period. Upon the expiry of the Initial Period, the qualifications of Mr. Yan Bin will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Hong Kong Listing Rules can be satisfied. In the event that Mr. Yan Bin has obtained the relevant experience under Note 2 to Rule 3.28 of the Hong Kong Listing Rules at the end of the Initial Period, a further waiver would no longer be necessary.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars in detail given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Hong Kong Listing Rules for the purpose of giving our information to the public with regard to our Group. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

APPROVAL OF THE CSRC

The CSRC issued an approval letter on 4 June 2015 for the submission of the application to list our H Shares on the Hong Kong Stock Exchange and for the Global Offering. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or on the Application Forms.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 3,513,000 H Shares initially offered and the International Offering of 31,617,000 H Shares initially offered and any H Shares that may be issued pursuant to any exercise of the Over-allotment Option (subject, in each case, to reallocation on the basis under the section headed "Structure and Conditions of the Global Offering" in this prospectus).

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. The International Offering is managed by the Sole Global Coordinator. The International Underwriting Agreement is expected to be entered into on or around Thursday, 8 October 2015, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the International Underwriters) and us. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus, and the procedures for applying for our H Shares are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" of this prospectus and on the relevant Application Forms.

DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on or around Thursday, 8 October 2015 or such later date as may be agreed upon between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, and in any event no later than Monday, 12 October 2015. If the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

RESTRICTIONS ON OFFER AND SALE OF THE H SHARES

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorised or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sales of the H Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the H Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of the H Shares to confirm, that he is aware of the restrictions on offers and sales of the H Shares in this prospectus. In particular, the H Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares to be issued by us pursuant to the Global Offering and upon the exercise of the Over-allotment Option. Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorised approval authorities of the State Council, details of which are set out in the section headed "Share Capital – Conversion of Our Domestic Shares into H Shares" in this prospectus.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on Thursday, 15 October 2015. Except for our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Hong Kong Stock Exchange.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

(a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;

(b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

(c) agrees with us and each our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and

(d) authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. It is emphasised that none of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the H Shares or exercising any rights attached to them.

H SHARE REGISTER AND STAMP DUTY

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the H Share register of members of our Company maintained in Hong Kong. We will maintain our Company's principal register of members at our registered place in the PRC.

Dealings in the H Shares registered in the H Share register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders listed on the H Share register of members of our Company in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi and Hong Kong dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, the translations between Renminbi and Hong Kong dollars were made at the rate of RMB0.82163 to HK$1.00, being the PBOC rate prevailing on 21 September 2015. Further information on exchange rates is set forth in "Appendix III – Taxation and Foreign Exchange" to this prospectus.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Ma Hongfu (馬紅富)	Room 502, No. 307 Yanning Road, Chengguan District, Lanzhou (蘭州市城關區雁寧路307號502室)	Chinese
Mr. Wang Guofu (王國福)	102, No. 2562 Yanbei Road, Neighbourhood Committee of Yanxi Road, Chengguan District, Lanzhou (蘭州市城關區雁西路居委會雁北路2562號102)	Chinese
Mr. Chen Yuhai (陳玉海)	No. 23-1-201 West Zone, Xingqingfu Courtyard, Xingqing District, Yinchuan (銀川市興慶區興慶府大院西區23-1-201號)	Chinese
Mr. Yan Bin (閻彬)	Room 301, Block 1, Tower 9, D Area, Xingangcheng, No. 2910 Yanbei Road, Chengguan District, Lanzhou (蘭州市城關區雁北路2910號新港城D區9號樓1單元301室)	Chinese
Non-executive Directors		
Mr. Yap Kean Chong (葉健聰)	Room 602, No. 3 Oriental Manhattan, No. 128 Hongqiao Road, Xuhui District, Shanghai (上海市徐滙區虹橋路128號東方曼哈頓3號602室)	Malaysian
Mr. Song Xiaopeng (宋曉鵬)	Room 404, Tower 2, East Area, Xiangmixincun, Shenzhen (深圳市香蜜新村東區2棟404)	Chinese
Independent non-executive Directors		
Mr. Bai Yongzhi (白勇志)	Room 502, Block 2, No. 22 Yiwu Road, Chengguan Town, Yuzhong County, Lanzhou (蘭州市榆中縣城關鎮一悟路22號2單元502室)	Chinese

Name	Residential Address	Nationality
Ms. Xin Shihua (信世華)	Room 302, Block 1, Tower 12, C Area, Xingangcheng, No. 2910 Yanbei Road, Chengguan District, Lanzhou (蘭州市城關區雁北路2910號新港城C區12號樓1單元302室)	Chinese
Mr. Wong Cho Hang Stanley (黃楚恆)	Flat A, 15/F, Block 3, Cavendish Heights, 33 Perkins Road, Jardine's Lookout, Hong Kong (香港渣甸山白建時道33號嘉雲臺3座15樓A室)	Chinese

SUPERVISORS

Name	Residential Address	Nationality
Mr. Wei Lin (魏琳)	C16-501, Hongyunrunyuan, Yanbei Road, Chengguan District, Lanzhou (蘭州市城關區雁北路鴻運潤園C16-501)	Chinese
Ms. Du Wei (杜魏)	Room 501, Block 4, 3936 Yantanyinhui Garden, Chengguan District, Lanzhou (蘭州市城關區雁灘銀滙花園3936號4單元501室)	Chinese
Mr. Pan Jin (潘錦)	12F, Fengtingbao, Fengdanyayuan, Shenzhen (深圳市楓丹雅苑楓庭堡12F)	Chinese

For further information about our Directors and Supervisors, please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address
Sole Sponsor	**GF Capital (Hong Kong) Limited** 29–30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Sole Global Coordinator	**GF Securities (Hong Kong) Brokerage Limited** 29–30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Legal advisers to our Company	*as to Hong Kong law* **DLA Piper Hong Kong** 17/F, Edinburgh Tower, The Landmark 15 Queen's Road Central Hong Kong *as to PRC law* **Gansu Zheng Tian He Law Firm** 15/F Real Estate Building 1 Tongwei Road, Chengguan District Lanzhou, China
Legal advisers to the Sole Sponsor and the Underwriters	*as to Hong Kong Law* **P.C. Woo & Co.** 12/F, Prince's Building 10 Chater Road Central Hong Kong *as to PRC law* **Jingtian & Gongcheng Law Firm** Suite 1202–1204, K.Wah Centre 1010 Huaihai Road (M), Xuhui District Shanghai 200031, China
Reporting Accountants	**KPMG** 8/F, Prince's Building 10 Chater Road Central Hong Kong

Name	Address
Compliance adviser	**GF Capital (Hong Kong) Limited** 29–30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Biological assets valuer	**Jones Lang LaSalle Corporate Appraisal and Advisory Limited** 6/F, Three Pacific Place 1 Queen's Road East Admiralty Hong Kong
Receiving bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

Registered office	Sanjiaocheng Village Sanjiaocheng Town Yuzhong County PRC
Headquarters in the PRC	No. 158 Yanerwan Road Chengguan District Lanzhou PRC
Place of business in Hong Kong	18/F, Edinburgh Tower, The Landmark 15 Queen's Road Central Hong Kong
Company website	http://www.lzzhuangyuan.com (*information contained in this website does not form part of this prospectus)*
Joint company secretaries	Mr. Yan Bin (閻彬) Room 301, Block 1, Tower 9 D Area, Xingang Cheng No. 2910, Yanbei Road Chengguan District Lanzhou PRC Mr. Li Siu Bun (李兆彬) *(Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants)* Flat A, 12/F, Block 5 Villa Esplanada Tsing Yi, N.T. Hong Kong
Authorised representatives	Mr. Ma Hongfu (馬紅富) Room 502 No. 307 Yanning Road Chengguan District Lanzhou PRC Mr. Li Siu Bun (李兆彬) Flat A, 12/F, Block 5 Villa Esplanada Tsing Yi, N.T. Hong Kong

Audit Committee	Mr. Bai Yongzhi (白勇志) *(Chairman)* Ms. Xin Shihua (信世華) Mr. Wong Cho Hang Stanley (黃楚恒)
Remuneration and Appraisal Committee	Mr. Bai Yongzhi (白勇志) *(Chairman)* Mr. Wang Guofu (王國福) Ms. Xin Shihua (信世華)
Nomination Committee	Ms. Xin Shihua (信世華) *(Chairman)* Mr. Ma Hongfu (馬紅富) Mr. Wong Cho Hang Stanley (黃楚恒)
Strategy Committee	Mr. Ma Hongfu (馬紅富) *(Chairman)* Mr. Song Xiaopeng (宋曉鵬) Ms. Xin Shihua (信世華)
H Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712–1716 17/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal banker	**Bank of Lanzhou Co., Ltd., Xinglong Branch** No. 133, Guangchang South Road Chengguan District Lanzhou, Gansu PRC

Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in the prospectus contains information extracted from the market research report prepared by Frost & Sullivan, which was commissioned by us, for purposes of this prospectus. We believe that the sources of the information in this "Industry Overview" section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an adverse impact on the quality of information in this section. However, the information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside of China.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent global consulting firm, to conduct an analysis of, and to report on, the dairy industry in China for the period from 2009 to 2019. Founded in 1961 in New York, Frost & Sullivan offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes agriculture, automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology media and telecom.

The report we commissioned, or the Frost & Sullivan Report, has been prepared by Frost & Sullivan independent of our influence. We paid Frost & Sullivan a fee of RMB800,000 for the preparation and use of the Frost & Sullivan Report, and we believe that such fee reflects market rates. The Frost & Sullivan Report that we commissioned includes information on the Chinese dairy market, including China economy overview, China dairy market overview, China dairy industry supply chain overview, China dairy farming market analysis, China raw milk market analysis and China dairy products market analysis. The market research was completed in September 2015. The statistics presented in the Frost & Sullivan Report are not skewed in favour of us.

Research Methodologies

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has also adopted the following methodologies:

- A detailed primary research which involved discussing the current status of the industry with leading industry participants, industry experts, our dairy farms and distributors, and other dairy companies.

- A secondary research involved reviewing company reports, published data from governments and associations, independent research reports and data based on Frost & Sullivan's own research database.

- Projected data was obtained from historical data analysis plotted against macroeconomic data as well as specific industry-related drivers.

Forecasting Bases and Assumptions

Frost & Sullivan based the research report on the following bases and assumptions:

- Chinese economy is expected to maintain a steady growth in the next five years;

- Chinese social, economic and political environment is expected to remain stable in the forecast period; and

- Key market drivers, such as rapid urbanisation, rising health awareness, incentive policies from the Chinese government, and standardisation and modernisation of dairy industry, are expected to boost the development of the Chinese dairy product market.

Except as otherwise specified, all the data and forecast in this section are derived from the Frost & Sullivan Report.

DAIRY INDUSTRY IN CHINA AND IN GANSU AND QINGHAI

Overview

Rapid growth in China's dairy industry began in the 1990's and has continued in recent years, and it will sustain in the next five years. According to Frost & Sullivan, China's dairy product market had a total retail sales value of RMB330.1 billion in 2014 and is expected to further grow at a CAGR of 10.6% to RMB547.2 billion in 2019.

While China is already among the largest dairy consumption countries in the world, per capita consumption of dairy products in China is still very low at the current stage, compared with developed countries. As of 2014, the per capita consumption of dairy products was approximately 30.9 kg per year in China, as compared with 58.9 kg per year, 85.8 kg per year, and 96.3 kg per year in Japan, the European Union, and the United States, respectively.

The dairy product markets in Gansu and Qinghai were still at their early growth stage by 2014. Nevertheless, the overall retail sales value of dairy products in Gansu and Qinghai increased from RMB3.4 billion in 2009 to RMB6.4 billion in 2014, representing a CAGR of 13.3%. The increasing regional nominal GDP and the rising disposable income of residents in Gansu and Qinghai are both expected to further stimulate the continuous growth of dairy products market in these regions. In the forecast period, the dairy product markets in Gansu and Qinghai are expected to maintain a steady growth with a CAGR of 12.0% from 2014 to 2019, and reach the retail sales value of RMB11.3 billion by 2019.

Industry Value Chain and Self-owned Milk Sources

The dairy industry supply chain in China includes processing of feeds, dairy farming, production of raw milk, and manufacturing and sales of dairy products. According to Frost & Sullivan, an integrated and traceable supply chain can effectively ensure raw milk quality in the quality control process of breeding of dairy cows, dairy farm management, milking, storage and transportation. This is because a vertically-integrated business model can align the competing interests among different participants across critical segments of the dairy industry value chain.

Growth Drivers and Future Trends

The key growth drivers and future trends of dairy market in China include the following:

- *Accelerating urbanisation*. According to Frost & Sullivan, China's urbanisation rate will increase from 54.8% in 2014 to 63.8% in 2019. Such accelerating urbanisation also affects the market of consumer goods in lower-tier cities and rural areas. Various consumer products, such as dairy products, which used to be found only in urban markets, are now more often displayed in rural markets, which has helped such products penetrate into broader and more diverse tiers of markets.

- *Rising health awareness*. Chinese consumers are more health-conscious today, and they are getting better educated about the health benefits of dairy products which include, among others, (i) offering an impressive level of calcium which is especially important for bone thickness and density, and (ii) serving as an important source of protein necessary for daily body intake. As such, with the changing dietary habits and increasing health awareness of Chinese people, dairy products have been a daily diet staple of an increasing number of consumers. Such a trend is expected to drive further growth of dairy products consumption in China.

- *Incentive policies from the Chinese government*. To drive the development of dairy industry in China, the Chinese government has kept issuing incentive policies on dairy industry. Key policies include the Outlines of the Restructuring and Revitalisation Plan for the Dairy Industry (奶業整頓與振興規劃綱要), Administrative Regulations of Raw Fresh Milk Production and Procurement (生鮮乳生產收購管理辦法), and Industrial Policy for the Dairy Products Industry (2009 Amendment) (乳製品工業產業政策(2009年修訂)), etc. These policies aimed to lead Chinese dairy industry into a more standardised and healthy development.

- *Standardisation and modernisation of dairy industry*. The dairy industry in China is under the process of industrial upgrading and modernisation. An increasing number of small-scale farms are expected to be wiped out from the industry while modern and large-scale companies are likely to have an increasingly consolidated market position. Quick rise of leading companies are expected to enhance the production technology and efficiency of the dairy industry in China.

With respect to regions in northwestern China, the key growth drivers and future trends of dairy market include the following:

- *Higher growth in disposable income and net income.* The per capita annual disposable income of urban households in Gansu grew at a CAGR of 11.5% from RMB12,060 in 2009 to RMB20,804 in 2014. Similarly, The per capita annual disposable income of urban households in Qinghai grew at a CAGR of 11.9% from RMB12,692 in 2009 to RMB22,307 in 2014. Both regions showed higher growth rates than the 10.9% CAGR for the national average, demonstrating great potentials in the dairy markets of Gansu and Qinghai. The per capita net income of rural residents in Gansu increased from RMB3,050 in 2009 to RMB5,736 in 2014, at a CAGR of 13.5%, slightly lower than the national growth rate of 13.9%. However, the growth rate of per capita net income of rural residents in Qinghai is higher than the national average. The per capital net income of rural residents in Qinghai grew at a CAGR of 16.8% from RMB3,346 in 2009 to RMB7,283 in 2014.

- *Regional incentive policies from the Chinese Government.* The Chinese government has issued regional policies relating to the dairy industry to accelerate the development in the northwestern China. For instance, the "Guiding Opinion on Promoting the Development of Dairy Industry" (關於促進奶業穩定發展的指導意見) was issued by Qinghai to enhance the standardised and scale production in Qinghai.

- *One Belt and One Road initiatives.* One Belt and One Road (一帶一路) initiatives are the continuation and development of the spirit of the ancient Silk Road. The Chinese government has committed to devote as much as RMB1 trillion to infrastructure investments, including the central and western provinces, which are bound to become the gateway to the Silk Road. Such initiatives also aim to accelerate the development and the opening-up of Gansu and Qinghai. Gansu and Qinghai are expected to benefit from that on aspects such as transportation, trade of dairy products, deep-processing cooperation of dairy products, etc.

- *Lanzhou New Area.* A New Area is a comprehensive economic development zone (within or close to a big city or metropolis) established by the State Council with preferential conditions and privileges to boost its development. Currently, there are six New Areas, four of which are located in coastal provinces. Lanzhou New Area, which includes Gansu, Qinghai, Ningxia and Xinjiang, is the first comprehensive zone of this type in northwestern China, and the first on the historic Silk Road. It was created as an important economic growth centre in the northwestern China, a key industrial base, and a "window" for China's cooperation with Asia and Europe.

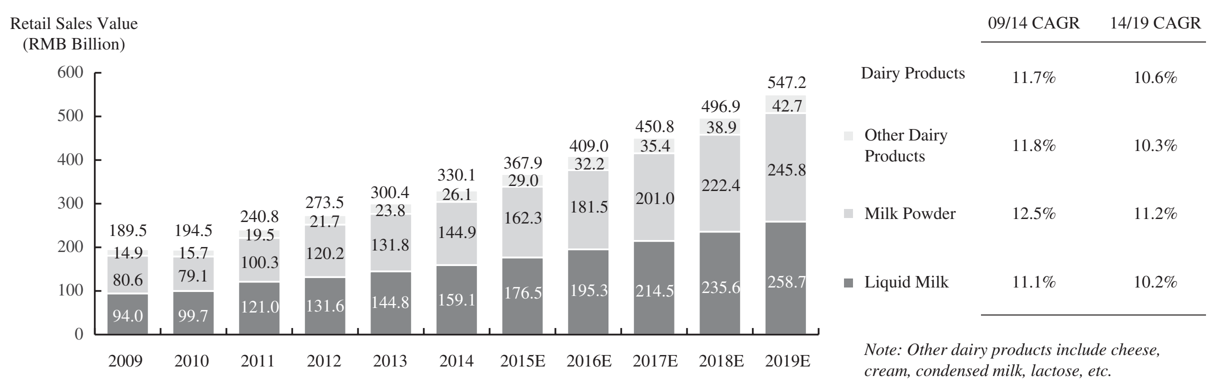
- *Dietary habit of milk and dairy products.* Gansu and Qinghai are two of the national minority regions in China. National minorities, especially the nomads, have had dietary habits consisting of meat, milk and dairy products (e.g. yoghurt and cheese) for years. Thanks to such dietary habits of milk and dairy products, the dairy consumption in the Gansu and Qinghai regional markets are quite stable, showing huge growth potential in the next few years.

DAIRY PRODUCTS MARKET IN CHINA AND IN GANSU AND QINGHAI

Overall Dairy Products Market Size and Growth

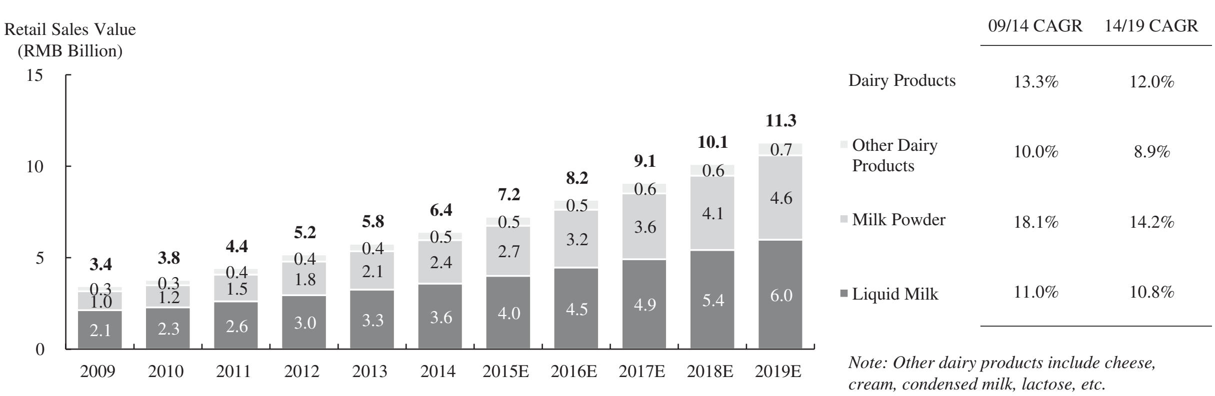
In China, dairy products are mainly divided into three categories: liquid milk, milk powder, and other dairy products. Liquid milk mainly includes UHT milk (including modified milk), pasteurised milk (also known as fresh milk), and yogurt, categorised by different processing techniques. Other dairy products mainly include cheese, cream, condensed milk, lactose, and so on.

China has strong consuming power in dairy products, and Chinese consumers have increasingly realised the benefits of dairy products. The market has therefore been enjoying healthy growth in recent years. The overall dairy products market increased from RMB189.5 billion in 2009 to RMB330.1 billion in 2014 in terms of retail sales value, representing a CAGR of 11.7%, and it is expected that the total retail sales value of dairy products in China is likely to grow to RMB547.2 billion in 2019, with a CAGR of 10.6% from 2014 to 2019. The chart below illustrates the dairy products retail sales value and breakdown in China from 2009 to 2014, and the forecasted sales from 2015 to 2019.



Source: Frost & Sullivan

Similarly, the markets of dairy products in Gansu and Qinghai have shown an upward trend as well. The chart below illustrates the dairy products retail sales value and breakdown in the Gansu and Qinghai regional markets from 2009 to 2014, and the forecasted sales from 2015 to 2019.



Source: Frost & Sullivan

Entry Barriers

The following is a brief summary of the entry barriers of the dairy product market in China:

- *Limited raw materials supply.* Reliable raw milk supply is the foundation for a dairy product industry. While China's raw milk demand exceeds supply, the situation has caused fierce competition among dairy producers for raw milk sourcing. The establishment of a reliable raw milk supply chain requires long-term investment in raw milk base construction, as well as a steady relationship with dairy farms. It is therefore difficult for new entrants to access a sufficient raw milk and dairy materials source, and even harder to establish a supply chain of raw materials on their own.

- *High access requirements.* According to the Dairy Products Industrial Policy (2009 Revised) (乳製品工業產業政策（2009年修訂）by the Ministry of Industry and Information Technology and National Development and Reform Commission, newly-built and enlarged dairy factories or production lines need a series of authorisations and must meet the requirements of financial investment, raw materials, anti-risk capability, etc. Meanwhile, the infrastructure of the raw milk base has been listed as a must. The policy also prescribes the minimum production capacity to ensure the scale efficiency. For instance, in order to engage in the processing and manufacturing of dairy products, investors shall have stable and controllable bases of raw milk supply. For newly-established dairy product processing projects, raw milk supply for no lower than 40% of its process capacity shall come from stable, reliable and controllable supply sources. For rebuilt dairy product processing projects, the proportion should not be lower than 75%. In addition, all raw fresh milk used by liquid milk production enterprises must come from stable and controllable supply bases.

- *Widespread distribution network.* A well-established sales network is the pillar of a dairy enterprise. Distribution channels of dairy products include distributors, wholesalers, or retailers such as supermarkets, convenient stores, and direct sales chain stores. Given the fierce competition of the market, dairy enterprises are fighting for presence in major supermarkets and leading distributors. It can be challenging to establish a widespread distribution network in a short amount of time.

In respect of the dairy markets in Gansu and Qinghai, the following is a brief summary of the relevant entry barriers:

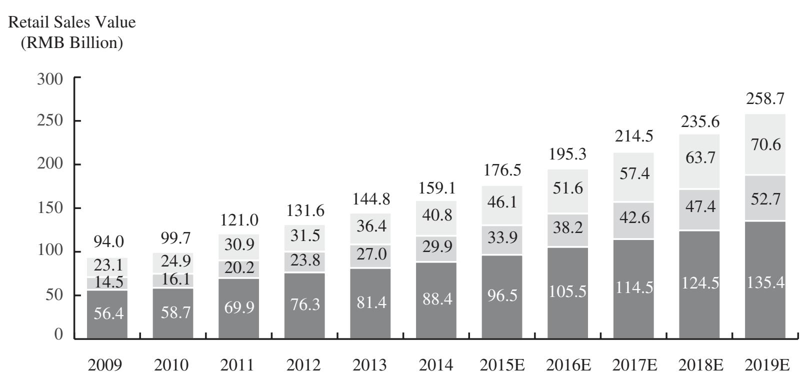
- *Strong market competition for local markets.* The dairy markets in Gansu and Qinghai are highly concentrated. The top five dairy companies accounted for more than 60.0% market share in 2014. Having experienced a long term operation in the local markets, the current leading companies, such as Zhuangyuan, Yili, Mengniu, Tianlu and Xiaoxiniu, have established well-known brand awareness and reputations as well as widespread distribution network. It is difficult for new entrants to enter the local markets and compete with the existing powerful leading market players in the dairy markets of Gansu and Qinghai.

- *Cold-chain network.* With the increasing popularity of pasteurised milk (or fresh milk), local consumers now tend to purchase and consume more fresh milk instead of UHT milk (including modified milk). Due to the shorter expiration period of fresh milk comparing to that of UHT milk (including modified milk), an established cold-chain network is necessary for in-time delivery of fresh milk. However, it is even harder for other new entrants to establish their own cold-chain network for the delivery of fresh milk in short terms.

- *Brand awareness.* Brand is an important factor influencing customers in their choice of dairy products. Customers, urban residents in particular, tend to take good brand image as the guarantee of a product's quality. As a long period of time is needed to build up a well-noted brand with high added value and a strong safety record, it is difficult for new entrants to compete with the existing market participants with high brand awareness and good reputation.

Liquid Milk Products Market

China's liquid milk product market has been growing rapidly in recent years, and according to Frost & Sullivan, it is projected to continue such growth in the near future. Further, with increasing awareness of health and food safety, Chinese consumers are increasingly attracted to liquid milk products with higher nutrition content and food safety assurance. The liquid milk products market in China in terms of retail sales value grew at a CAGR of 11.1% from RMB94.0 billion in 2009 to RMB159.1 billion in 2014, and is expected to further grow at a CAGR of 10.2% to RMB258.7 billion by 2019, according to Frost & Sullivan. The chart below illustrates the liquid milk market size and forecast by retail sales value in China from 2009 to 2019.

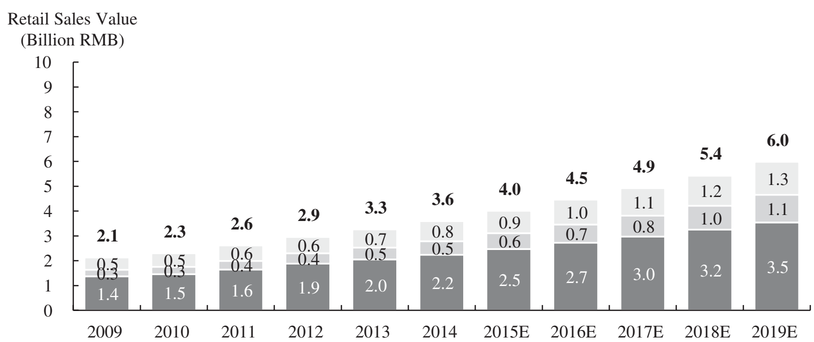


	09/14 CAGR	14/19 CAGR
Liquid Milk	11.1%	10.2%
Yogurt	12.1%	11.6%
Pasteurized Milk	15.5%	12.0%
UHT Milk	9.4%	8.9%

Source: Frost & Sullivan

In particular, UHT milk (including modified milk) took a majority of share in terms of retail sales value in China, whose consumption value accounted for approximately 55.6% in 2014. During the past five years, this ratio has declined due to consumers' transferring consumption preference and is expected to maintain a downward trend in the following five years. With the rising disposable income, ongoing urbanisation progress as well as consumers' rising health awareness, the consumption and the market share of pasteurised milk among liquid milk in China are expected to increase in the forecast period. Similar with pasteurised milk, the market share of yogurt has also been increasing among liquid milk and has become the second largest segment in China's liquid milk product market.

Compared with the overall liquid milk market in China, the liquid milk markets in Gansu and Qinghai were still at their early growth stage in 2014. Pursuant to the rising per capita disposable income and increasing regional nominal GDP of Gansu and Qinghai, the liquid milk markets in these regions are expected to grow faster in the forecast period. According to Frost & Sullivan, the liquid milk products market in Gansu and Qinghai in terms of retail sales value grew at a CAGR of 11.0% from RMB2.1 billion in 2009 to RMB3.6 billion in 2014, and is expected to further grow at a CAGR of 10.7% to RMB6.0 billion by 2019. The chart below illustrates the liquid milk market size and forecast by retail sales value in Gansu and Qinghai from 2009 to 2019.



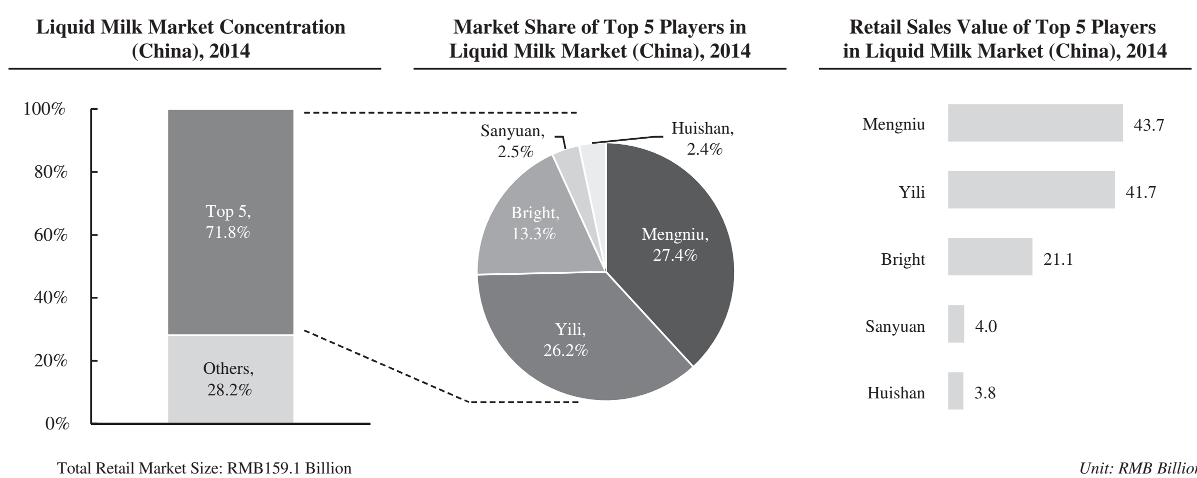
	09/14 CAGR	14/19E CAGR
Liquid Milk	11.0%	10.7%
Yogurt	10.3%	10.5%
Pasteurized Milk	15.5%	15.3%
UHT Milk	10.3%	9.6%

Source: Frost & Sullivan

Competitive Landscape

As of 2014, the liquid milk market in China was rather concentrated. The top five dairy companies occupied 71.8% market share and aggregately realised retail sales value of RMB114.3 billion.

For China's liquid milk retail market, Mengniu and Yili ranked first and second with a retail sales value of RMB43.7 billion and RMB41.7 billion in 2014, holding 27.4% and 26.2% market share, respectively. Bright, Sanyuan and Huishan ranked the third, the fourth and the fifth in the liquid milk retail market in China as of 2014. The following charts illustrate the top five dairy companies in China by liquid milk market concentration, market share, and retail sales value in 2014.



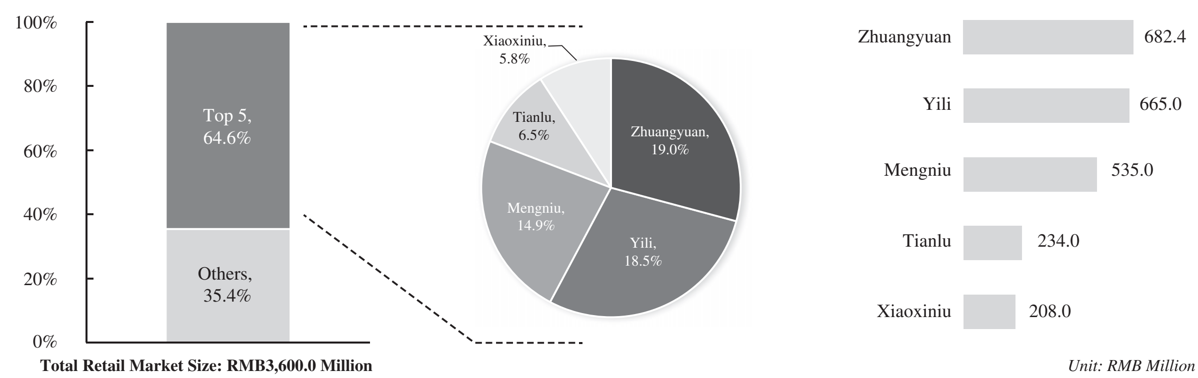
Source: Frost & Sullivan

As of 2014, the liquid milk market in Gansu and Qinghai was rather concentrated with a few leading players. The top five dairy companies occupied 64.6% market share, with a total realised retail sales value of RMB2,324.4 million during 2014. Within the liquid milk retail market in Gansu and Qinghai in 2014, Zhuangyuan and Yili ranked first and second, with a retail sales value of RMB682.4 million and RMB665.0 million, each holding market share of 19.0% and 18.5%, respectively. Moreover, the Company had approximately 0.44% market share in the PRC in terms of retail sales value of liquid milk products in 2014. The following charts illustrate the top five dairy companies in the Gansu and Qinghai regional markets by liquid milk market concentration, market share, and retail sales value in 2014.

Liquid Milk Market Concentration (Gansu and Qinghai), 2014

Market Share of Top 5 Players in Liquid Milk Market (Gansu and Qinghai), 2014

Retail Sales Value of Top 5 Players in Liquid Milk Market (Gansu and Qinghai), 2014

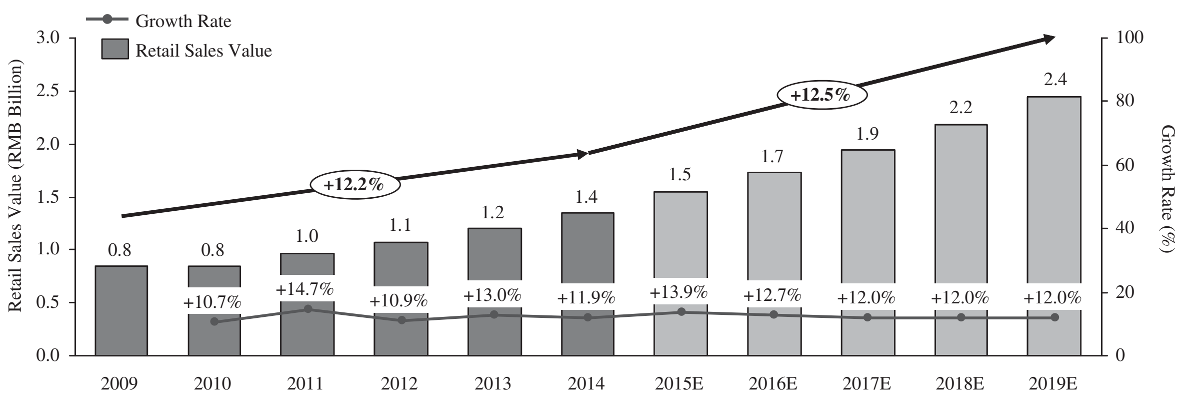


Source: Zhuangyuan's data is provided by the Company; Frost & Sullivan

Cold Chain Liquid Milk Products Market in Gansu and Qinghai

Cold Chain Liquid Milk Products are represented by the liquid milk products that need to be delivered and stored under a low-temperature condition to keep their freshness and taste. Cold Chain Liquid Milk Products, such as yogurt and pasteurised milk, are commonly regarded as more nutritional and better for health given that they are able to maintain the nutrition contents from raw milk to the largest extent and to keep a better taste than UHT milk (including modified milk). As a result, such Cold Chain Liquid Milk Products demand rigorous and high requirements on the conditions of delivery and storage which must be supported by a strong and well-established cold-chain logistics system. In 2014, Zhuangyuan has started to prepare the establishment of new cold warehouses in Gansu, and such cold warehouses are expected to be constructed in the second half of 2015. Zhuangyuan also targets to expand its cold-chain logistics system in the northwestern China region, including Qinghai and Ningxia, to ensure sufficient and timely supply of fresh pasteurised milk and yogurt.

In Gansu and Qinghai, Cold Chain Liquid Milk Products have experienced a rapid growth during the past years, with their retail sales rising at a CAGR of approximately 12.2% from 2009 to 2014, higher than the growth of the overall liquid milk market in these regions. By 2014, Cold Chain Liquid Milk Products recorded a retail sales value of approximately RMB1.4 billion in Gansu and Qinghai. By 2014, Zhuangyuan ranked the first in the Cold Chain Liquid Milk Products market in terms of retail sales value in Gansu and Qinghai, with retail sales value of RMB0.23 billion representing approximately 17.1% of the total market. With the continuous growth of regional GDP and per capita disposable income and the enhancement of cold-chain logistics system and infrastructures, the consumption of Cold Chain Liquid Milk Products is expected to keep increasing in the following years. According to Frost & Sullivan, the overall Cold Chain Liquid Milk Products market in Gansu and Qinghai is likely to grow at a CAGR of 12.5% from 2014 and mount to about RMB2.4 billion by 2019. The chart below illustrates the historical and forecasted Cold Chain Liquid Milk Products market size by retail sales value in Gansu and Qinghai.



Source: Frost & Sullivan

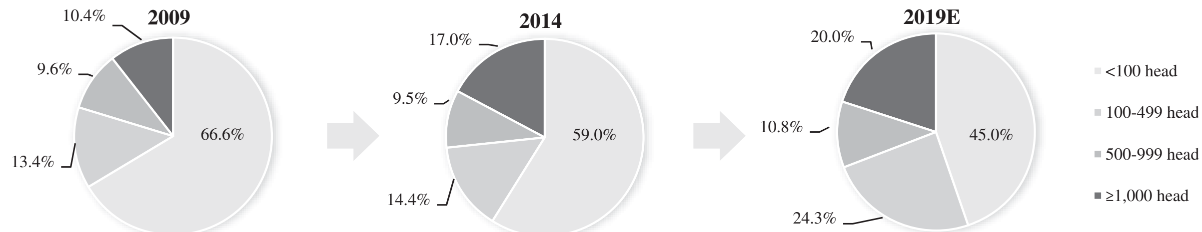
DAIRY FARMING AND RAW MILK SUPPLY IN CHINA AND IN GANSU AND QINGHAI

Climatic and Geographical Suitability for Dairy Farming

Dairy farming is largely affected by climate. In general, dairy cows prefer relatively cool temperature and dry weather. Compared to some regions in humid Southern China, regions in Northeast China, Northwest China, and East China are ideal for dairy farming, as well as forage planting, such as alfalfa and corn. Gansu and Qinghai, located in the northwestern China, have semi-arid to arid, continental climate that are favourable to dairy farming. Such climate is also suitable for the growing, processing and storage of alfalfa, which is a key feed component to increase milk yield of a milkable cow as well as protein level of raw milk produced. In addition, the Yellow River passes through part of Gansu, Qinghai, and Ningxia, bringing plenty water to those regions. With the benefits of favourable geographical conditions such as wide cultivated land, sufficient and lower-priced feeds and plentiful water, Gansu and Qinghai are suitable regions for dairy farming.

Development of Modern Large-Scale Dairy Farming

In recent years, as a result of government policies to promote large-scale dairy farms in response to the melamine incidents in 2008, an increasing number of dairy cows are housed in large-scale dairy farms. In terms of dairy cow numbers, the proportion of large-scale dairy farms grew rapidly in China. As shown in the charts below, in 2009, large-scale dairy farms housed approximately 10.4% of total dairy cows in China, which is about the herd size of 12.6 million head of dairy cows. By the end of 2014, that percentage had increased to 17.0%, which is about the herd size of 15.0 million head of dairy cows. According to Frost & Sullivan, large-scale dairy farms are expected to house 20.0% of overall dairy cows in China in 2019 (about the herd size of 17.0 million head of dairy cows).



Herd size of dairy cows (2009) = 12.6 million head | **Herd size of dairy cows (2014) = 15.0 million head** | **Herd size of dairy cows (2019) = 17.0 million head**

Source: MOA; Frost & Sullivan

Note: Large-scale dairy farms with more than 1,000 dairy cows are generally considered as dairy farms that require greater capital investment, more advanced technology, more experienced management teams and standardised management procedures, all of which result in higher milk yield and higher quality raw milk than smaller dairy farms. Large-scale dairy farms expand their business by establishing new dairy farms, which depend heavily on imported heifers, own-bred calves using imported frozen semen, or purchased dairy cows from local farmers. The quality of imported dairy cows is generally better than that of purchased dairy cows from local farmers.

Raw Milk Production

Raw milk production is affected by the number of milkable dairy cows and the average milk yield per milkable cow.

Herd Size

The dairy farming industry in China is highly fragmented. According to China Dairy Association, as of 31 December 2014, there were approximately 15.0 million dairy cows in China, with the top five dairy farming companies in terms of herd size owning, in aggregate, only approximately 4.1% of the total number of dairy cows in China. The leading farms include Modern Dairy, Huishan Dairy, Shengmu, Sunlon and Yili.

Ranking	Dairy Farming Company	Herd Size of Dairy Cows (Thousand Head)	Market Share
1	Modern Dairy	201.5	1.3%
2	Huishan Dairy	168.0	1.1%
3	Shengmu	103.3	0.7%
4	Sunlon	73.0	0.5%
5	Yili	71.0	0.5%
	Others	14,369.2	95.9%
	Top 5	**616.8**	**4.1%**
	Total	**14,986.0**	**100.0%**

Source: China Dairy Association; Frost & Sullivan

Similar to the whole China's dairy farming industry, the dairy farming industry in Gansu and Qinghai is highly fragmented, with the top five dairy farming companies occupying 8.1% of the total number of dairy cows in Gansu and Qinghai by the end of 2014. As at 31 December 2014, the Group had 4,822 dairy cows, accounting for approximately 1.0% and 0.032% of the total dairy cows in Gansu and Qinghai and the total dairy cows in the PRC, respectively. The leading farms include Qianjin, Ronghua, Zhuangyuan, Tianlu and Xinhao.

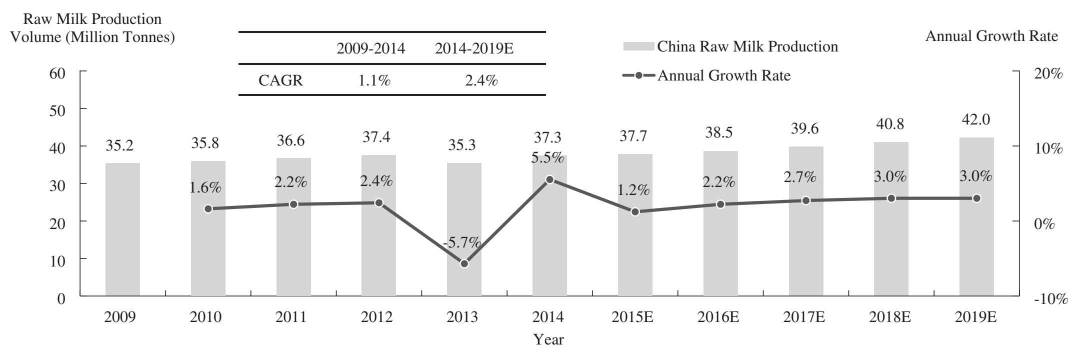
Ranking	Dairy Farming Company	Herd Size of Dairy Cows (Thousand Head)	Market Share
1	Qianjin	17.0	3.5%
2	Ronghua	10.0	2.1%
3	**Zhuangyuan**	**4.8**	**1.0%**
4	Tianlu	4.0	0.8%
5	Xinhao	3.0	0.6%
	Others	441.2	91.9%
	Top 5	**38.8**	**8.1%**
	Total	**480.0**	**100.0%**

Source: Zhuangyuan's herd size is provided by the Company; other data is provided by Frost & Sullivan

Raw Milk Demand and Production in China

China's raw milk demand has been increasing steadily in the last few years. Driven by the increasing demand of dairy products by Chinese consumers, demand for raw milk is also expected to grow continuously in the next few years. The total raw milk demand in China is projected to further increase at a CAGR of 7.2% from approximately 52.3 million tonnes in 2014 to approximately 74.0 million tonnes in 2019. Particularly, the pasteurised milk products market in the PRC in terms of retail sales value grew at a CAGR of 15.5% from RMB14.5 billion in 2009 to RMB29.9 billion in 2014, and is expected to further grow at a CAGR of 12.0% to RMB52.7 billion by 2019. Unlike production of UHT milk, production of pasteurised milk usually requires higher quality of raw milk in terms of nutrition and safety indicators. As a result, pasteurised milk is usually manufactured and processed through locally-produced fresh raw milk, which is not substituted by domestic and imported milk powder. As a result, the rapid growth of pasteurised milk is likely to drive the demand for domestically-produced fresh raw milk. Although China's raw milk production remained relatively stable from 2009 to 2014, there had been an excessive demand over raw milk supply in China. The raw milk supply is expected to continue to grow from approximately 37.3 million tonnes in 2014 and reach approximately 42.0 million tonnes in 2019, with a CAGR of 2.4% which is lower than the growth pace of the domestic raw milk demand. As such, the faster growth in the demand for domestic raw milk than that for the supply is likely to lead to an expanding gap between demand and supply, which is expected to increase at a CAGR of 16.2% from 2014 to 2019 and reach approximately 32.0 million tonnes in 2019, according to the Frost & Sullivan Report.

From the second half of 2013 to 2014, prices of raw milk experienced a surge, attracting massive investment into raw milk production industry. As a result, China's raw milk production experienced a robust growth in 2014, reaching 37.3 million tonnes. According to Frost & Sullivan, the number of dairy cows is likely to keep increasing, and more dairy farms are expected to adopt large-scale farming, which would intensify industry concentration. The production volume of raw milk in China is therefore forecasted to reach 42.0 million tonnes by 2019, representing a CAGR of 2.4% from 2014 to 2019. The chart below illustrates the raw milk production in China by production volume and annual growth rate from 2009 to 2014 and a forecast from 2015 to 2019.



Source: National Bureau of Statistics of China; Frost & Sullivan

China's raw milk market is highly fragmented with top five players contributing to approximately 6.6% of the total production volume in 2014. The top five players include Modern Dairy, Huishan Dairy, Shengmu, Yili and Sunlon. The table below illustrates the top five raw milk producers in China by production volume and market share in 2014.

Ranking	Dairy Farming Company	Production of Raw Milk (Thousand Tonnes)	Market Share
1	Modern Dairy	931.3	2.5%
2	Huishan Dairy	568.0	1.5%
3	Shengmu	353.3	0.9%
4	Yili	321.0	0.9%
5	Sunlon	300.0	0.8%
	Others	34,776.4	93.4%
	Top 5	**2,473.6**	**6.6%**
	Total	**37,250.0**	**100.0%**

Source: Frost & Sullivan

In terms of raw milk production in 2014, Qianjin, who has the largest number of dairy cows in Gansu and Qinghai, was also the largest producer of raw milk in these regions, occupying 5.7% of the total raw milk production with 38,000 tonnes of raw milk produced in 2014. Zhuangyuan produced 13,500 tonnes of raw milk in 2014, and ranked as the third largest producer of raw milk in Gansu and Qinghai. Other major dairy farming companies in Gansu and Qinghai include Ronghua, Tianlu, and Xinhao, etc. The table below illustrates the top five raw milk producers in Gansu and Qinghai by production volume and market share in 2014.

Ranking	Dairy Farming Company	Production of Raw Milk (Thousand Tonnes)	Market Share
1	Qianjin	38.0	5.7%
2	Ronghua	30.0	4.5%
3	**Zhuangyuan**	**13.5**	**2.0%**
4	Tianlu	13.0	1.9%
5	Xinhao	8.2	1.2%
	Others	567.2	84.7%
	Top 5	**102.7**	**15.3%**
	Total	**670.0**	**100.0%**

Source: Zhuangyuan's raw milk production volume is provided by the Company; other data is provided by Frost & Sullivan

Price of Raw Milk

In general, the raw milk price has predominantly maintained an upward momentum in recent years. The average market price of raw milk in China increased from RMB2,433 per tonne in 2009 to RMB4,042 per tonne in 2014, representing a CAGR of 10.7%. The monthly average raw milk price increased from RMB2,630 per tonne in January 2009 to RMB3,790 per tonne in December 2014. Increasing prices of cow feed, labour cost, the shortage of raw milk supply and the strong domestic demand have been the major drivers for the rise of raw milk in recent years. As raw milk can generally be stored for only 12 to 24 hours, the major competition for domestic raw milk producers is from foreign producers of milk powder, which can be used as a substitute for raw milk for certain dairy products and milk beverage. From the second half of 2013, there was a surge in China's raw milk price, pulling up the price of raw milk in northwestern China as well. Such rising price of raw milk also attracted a large amount of investors into this industry, leading to the pressure of oversupply.

Despite the general increase in average market price of raw milk in 2014 compared to 2013, the monthly raw milk price in 2014 experienced a slight increase from RMB4,232 per tonne in January 2014 to RMB4,255 per tonne in February 2014, and a downturn from RMB4,228 per tonne in March 2014 to RMB3,790 per tonne in December 2014. It was partly due to a significant increase in the imports of milk powder (being a substitute for raw milk in certain dairy products and milk beverage) during the same period. The import volume of milk powder in the PRC increased significantly from 573,100 tonnes in 2012 to 854,400 tonnes in 2013 and further to 923,700 tonnes in 2014. In 2014, the total import volume of milk powder accounted for 19.8% of raw milk production volume in the PRC. The price of imported milk powder (milk equivalent) increased from RMB2,655 per tonne in 2012 to RMB3,224 per tonne in 2013 and further to RMB3,700 per tonne in 2014, which was generally in line with the increase in price of domestically-produced raw milk in the PRC during the same period. Although there was a minimal increase in price of raw milk from January 2014 to February 2014, the monthly average raw milk price in December 2014 decreased by 10.4% compared to that in January 2014. Under the influence of the same factor, the average market prices of raw milk in northwestern China, Gansu, and Qinghai initially increased and subsequently experienced a fall from January 2014. Despite the decrease since March 2014, the average market price of raw milk in China was RMB4,042 per tonne in 2014, increased by 11.9% from 2013.

In the first quarter of 2015, the monthly average raw milk price in the PRC decreased by 4.0% from RMB3,563 per tonne in January 2015 to RMB3,420 per tonne in March 2015, and then was stabilised at RMB3,404 per tonne in April 2015 and RMB3,400 per tonne in May 2015. However, it began to recover to RMB3,413 per tonne in June 2015 and slightly decreased to RMB3,410 per tonne in July 2015.

The decrease in raw milk price primarily impacted the local upstream business (dairy farming and raw milk production), which may negatively affect the profit margins of dairy farms. Compared with certain small and medium dairy farms and individual dairy farmers who were seriously affected by the falling raw milk price, large-scale dairy farming companies were less impacted due to their higher production efficiency and better safety and quality control. However, the key customers of dairy farming companies remain having stronger bargaining power due to their market positions.

However, the decline in raw milk price is likely to be favourable to downstream business (milk processing). For milk processing participants with their own dairy farming business, the raw milk productions mainly cater for their internal production of liquid milk and other dairy products and hence the decrease of raw milk price has had limited impact on them. For the other participants who focus on downstream business and have little presence in upstream business, they have enjoyed the benefits of decreasing raw milk price since raw milk is the major raw material for many of their dairy products. In general, the decrease in raw milk price has, to some extent resulted in decreasing cost for downstream producers and made them more profitable than the past. Therefore, some major players that integrated upstream and downstream businesses are focusing more on the higher margin downstream products. The decrease in raw milk price may also attract more upstream players in the dairy industry to extend their business to downstream business to achieve a higher profit margin.

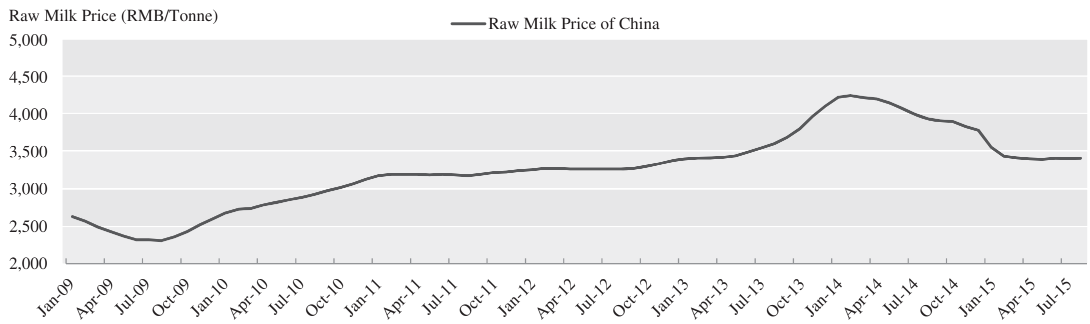
In addition, the decrease in raw milk price has an impact on the valuation of the biological assets. Generally speaking, the fall in raw milk price would result in a decrease in the valuation of biological assets, for both local or overseas milk industry, on the condition that other assumptions and factors of the valuation remain the same. It is expected that the average raw milk price in the PRC will rebound in the long run. According to the Frost & Sullivan Report, the demand for raw milk is expected to outpace supply in the next three to five years driven by the increasing demand for dairy products by Chinese consumers. The faster growth in the demand for domestic raw milk than that for the supply is likely to lead to an expanding gap between demand and supply, which is expected to realise a CAGR of 16.2% from 2014 to 2019 and reach approximately 32.0 million tonnes in 2019. See also "— Raw Milk Demand and Production in China" in this section. Therefore, the average raw milk price in China is likely to increase steadily in the next three to five years.

Foreign operators have entered China to build up and expand their local dairy farms. Currently, foreign operators in China are still at the early stage of dairy farm operation and are usually in small-scale in terms of herd size. The major foreign operators in China had an aggregate 120,000 dairy cows in 2014. Foreign operators of dairy farms are able to take advantage of advanced dairy farm management and premium dairy cows breed to produce premium raw milk with high nutrition and quality. Most of the foreign operators produce raw milk for their own use in the dairy processing rather than provide raw milk for sale in the market. The raw milk supplied by foreign operators is generally priced at the same level as that supplied by domestic large-scale dairy farms. If the foreign operators increase their investments and expand substantially in the future, they may be able to compete with domestic dairy brands.

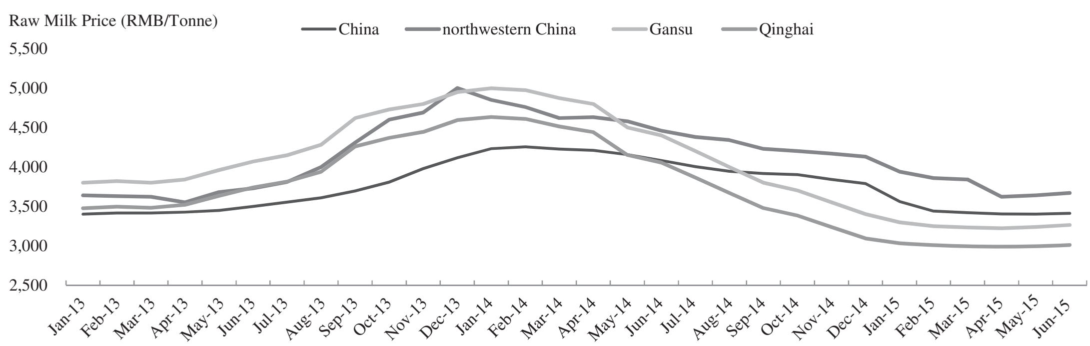
We source our raw milk from our self-operated and collectively-operated dairy farms as well as from third-party suppliers. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, raw milk sourced from third-party suppliers represented 72.3%, 69.7%, 59.9% and 54.6% of the total raw milk used for our production. We have gradually increased our herd size and therefore the raw milk production in our self-operated and collectively-operated dairy farms over the years, but raw milk sourced from third-party suppliers still represents a significant portion of the total raw milk used for our production.

The market price of raw milk not only has an effect on the production costs incurred for our liquid milk products relating to raw milk purchased externally, but also affects the valuation of the dairy cows as the raw milk price is an assumption in the valuation process. Due to the fluctuation in the monthly average raw milk price in 2014 and the decrease in raw milk price from January 2015 to March 2015 and which were offset by other factors, such as market demand, our product mix and average selling prices of our products and cost structure, profit from operation before biological asset fair value adjustments was RMB114.7 million and RMB30.2 million for the year ended 31 December 2014 and the three months ended 31 March 2015, respectively. For the same periods, profit from operation after biological asset fair value adjustments was RMB100.0 million and RMB25.9 million, respectively.

The charts below illustrate the monthly raw milk price trend from January 2009 to August 2015 in China, and the monthly raw milk price trend from January 2013 to June 2015 in China, northwestern China, Gansu, and Qinghai, respectively.



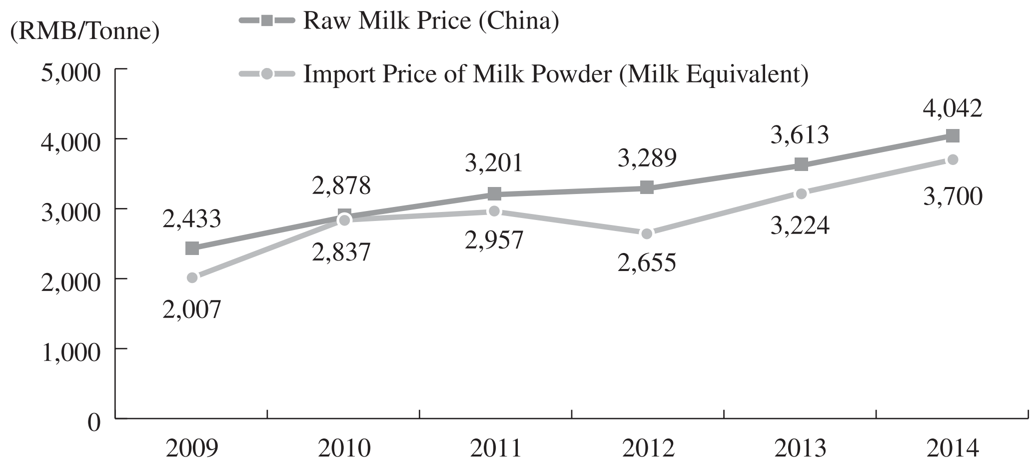
Source: *MOA*



Source: *MOA; Frost & Sullivan*

Note: The Ministry of Agriculture did not publish monthly raw milk price in northwestern China, Gansu, and Qinghai before 2013.

The import price of milk powder (milk equivalent) increased from RMB2,655 per tonne in 2012 to RMB3,224 per tonne in 2013 and further to RMB3,700 per tonne in 2014, which was generally in line with the increase in price of domestically-produced raw milk price in China during the same period. The fluctuation in import price of milk powder is caused by many factors including the cost of sales of the foreign producers, the exchange rates between Renminbi and foreign currency and the international market condition. The table below illustrates the raw milk price in China and import price of milk powder from 2009 to 2014.



Source: Frost & Sullivan

Raw Material Prices

Raw materials for the dairy industry generally consist of dairy cow feeds and packaging materials. Feeds for dairy cows mainly include forages, concentrated feeds, and a very small portion of supplementary feeds. Forages represent approximately 60% of a dairy cow's daily feed consumption, and concentrated feeds represent approximately 40% of a dairy cow's daily feed consumption.

- Principal types of forages are higher-fiber feeds including alfalfa, corn silage and other types of grass. Alfalfa is a high quality forage crop grown widely across North China, northwestern China, and northeastern China. Alfalfa is a herbaceous perennial legume, which is rich in protein, vitamins and minerals, and high in energy and fiber. As a key feed component, alfalfa is critical for increasing the milk yield of a milkable cow as well as the protein level of the raw milk produced, which is one of the key determinants of the selling price of raw milk. In addition, corn silage, a high quality palatable forage for dairy cows that can be easily stored and handled, is widely used in dairy farms with herd size above 100 dairy cows as well as some dairy cow raising zones. According to China Customs, the imported alfalfa price in China showed an overall upward trend, rising from RMB1,928 per tonne in 2009 to RMB2,369 per tonne in 2014 at a CAGR of 4.2%. According to Frost & Sullivan, the average market price of corn silage increased from RMB236 per tonne in 2009 to RMB400 per tonne in 2014, at a CAGR of 11.1%. Given the strong demand and lower price of corn silage compared to other forages, dairy farming companies usually purchase corn silage locally to save freight costs. Currently, dairy farms in China generally procured corn planted by local farmers, and then made corn silage by themselves. Accordingly, the price of corn silage largely relies on the increase of corn price and labour cost.

- Concentrated feeds are low-fiber feeds primarily consisting of corn, soybean meal, and cotton seed meal. In China, corn and soybean meal are two commonly used concentrated feeds. According to China's Ministry of Agriculture, the market price of corn showed an upward trend from 2009 to 2014. The average market price of corn increased from RMB1,684 per tonne in 2009 to RMB2,488 per tonne in 2014, with a CAGR of 8.1%. The market price of soybean meal had a steady growth, with its average market price increased from RMB3,690 per tonne in 2009 to RMB4,075 per tonne in 2014, realising a CAGR of 2.0% in the same period.

- Supplementary feeds mainly consist of mineral and vitamin, which can improve the nutritional quality of the dairy cow feeds.

Domestic packaging materials for liquid milk products used by dairy companies are purchased from industry leading suppliers of food packaging materials, such as Tetra Pak, Greatview, and SIG Combibloc. The industry average market price of 250 ml packs was stable during the past five years. It has increased slightly from RMB205 per 1,000 packs in 2009 to RMB213 per 1,000 packs in 2014, with a CAGR of 0.8% during such period. Further, Zhuangyuan uses advanced packaging materials and processing and filling equipment. Leading dairy companies use Tetra Pak's products and equipment to keep their dairy products fresh and safe.

A summary of the main PRC laws, rules and regulations applicable to our current business and operations is set out below.

INDUSTRY POLICIES AND REGULATIONS

Foreign Investment in Dairy Farming and Production of Dairy Products

Guidance on foreign investment in different industries in the PRC can be found in the Foreign Investment Industrial Guidance Catalogue (《外商投資產業指導目錄》), or the Catalogue, jointly issued by NDRC and MOFCOM and such Catalogue will be amended and re-promulgated from time to time by these two government authorities. Industries generally fall into four categories for the purposes of guiding foreign investment, namely, encouraged, permitted, restricted and prohibited. The Catalogue only lists out specific industries falling under the encouraged, restricted and prohibited categories and what is not listed there would fall into the permitted category. The current effective version of the Catalogue was issued on 10 March 2015 and became effective on 10 April 2015. According to the 2015 Catalogue, dairy farming and production of dairy products should both belong to the permitted category.

Modern Husbandry and Dairy Industry

Since 2006, the State Council of the PRC (中華人民共和國國務院) (the "State Council"), the MOA and the NDRC have promulgated a series of policies aiming at promoting the development of modern husbandry and the healthy and sustainable development of the dairy industry. These policies include the Several Opinions of the State Council Concerning the Promotion of Sustainable and Healthy Development of Husbandry (《國務院關於促進畜牧業持續健康發展的意見》), promulgated by the State Council in January 2007, the Several Opinions of the State Council Concerning the Promotion of Sustainable and Healthy Development of the Dairy Industry (《國務院關於促進奶業持續健康發展的意見》), promulgated by the State Council in September 2007, the Circular of the General Office of the State Council Regarding the Transmittal of the Outlines of the Restructuring and Revitalisation Plan for the Dairy Industry issued by NDRC and Other Ministries (《國務院辦公廳關於轉發發展改革委員會等部門奶業整頓和振興規劃綱要的通知》), issued by the General Office of the State Council in November 2008, the Development Plan of Major Dairy Cow Farming Regions (2008-2015) (《全國奶牛優勢區域佈局規劃(2008-2015)》), promulgated by MOA on 24 January 2009 and the Several Opinions of MOA Concerning the Acceleration of the Work of Promoting Standardised Large Scale Raising and Breeding of Livestock and Poultry (《農業部關於加快推進畜禽標準化規模養殖的意見》), issued by MOA on 22 March 2010.

On 26 June 2009, the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) and the NDRC released Dairy Product Industrial Policies (2009 Version) (《乳製品工業產業政策(2009年修訂)》). Investor in dairy product industry must meet some requirements or standards, such as a steady and controllable milk base, strong economic power, capability to withstand risks, rich experience on management, good reputation and good sense of responsibility. Investment in dairy products must comply with certain admission conditions. For example, to engage in dairy products processing and manufacturing, investors shall have stable and controllable bases of raw milk supply; for new dairy product processing projects, the supply of raw milk for no lower than 40% of its process capacity shall come from stable and controllable supply bases; for rebuilt dairy product processing projects, the proportion should be no lower than 75%; all raw fresh milk used by liquid milk production enterprises must come from stable and controllable supply bases; and for formula milk powder production enterprises, the proportion shall be no lower than 50%.

Large-Scale Animal Raising and Breeding Industry

Recordal of Animal Breeding Farms

The Husbandry Law of the PRC (《中華人民共和國畜牧法》), or the Husbandry Law, which was promulgated by the Standing Committee of the National People's Congress of the PRC (全國人民代表大會常務委員會), or the Standing Committee of the NPC, on 29 December 2005 and became effective on 1 July 2006 and amended on 24 April 2015, stipulates the conditions an animal breeding farm must meet, and requires the owner of a breeding farm to submit the name of the farm, address, strains of livestock and poultry as well as scale of breeding for recordal with the administrative department for animal husbandry and veterinary medicine under the people's government at the county level where the farm is located, and to obtain labels and codes for the livestock and poultry.

Disease Prevention

The Law on Animal Epidemic Prevention of the PRC (《中華人民共和國動物防疫法》), or the Law on Animal Epidemic Prevention, which was amended by the Standing Committee of the NPC on 29 June 2013 and last amended on 24 April 2015, and the Measures for the Examination of Animal Epidemic Prevention Conditions (《動物防疫條件審查辦法》), which was promulgated by MOA on 21 January 2010 and became effective on 1 May 2010, stipulate the conditions for prevention of animal epidemics that an animal breading farm shall meet and require the operators of an animal breeding farm to apply to the administrative departments for veterinary medicine under the people's government at the county level for a certificate for meeting animal epidemic prevention conditions.

Measures for Management of Animal Diseases Inspection (《動物檢疫管理辦法》) which was issued by MOA on 21 January 2010 and effective on 1 March 2010 provides the animal disease inspection activities in the territory of the PRC to strengthen management of animal disease inspection to prevent, control and eradicate animal diseases.

According to the Law on Animal Epidemic Prevention, animal epidemic prevention institutions shall monitor the arising and spreading of animal epidemic; any entities and individuals engaged in animal raising, slaughtering, isolation, transportation or operation must report to the local administrative departments for veterinary medicine, animal health supervision institutions or animal epidemic prevention and control institutions immediately once they find the animals have got epidemics or suspect epidemics, and shall take measures to prevent the spread of such epidemics.

Where animals are eradicated and animal products and relevant goods are destroyed through mandatory measures taken in the course of prevention, control and elimination of animal epidemics, people's governments at or above the county level shall provide compensation. The specific rates and measures for compensation shall be determined and adopted by the department of finance under the State Council together with the departments concerned.

Water Resource

Pursuant to the requirements of the "Water Law of the People's Republic of China" (《中華人民共和國水法》) (promulgated on 29 August 2002 and effective as of 1 October 2002), "Regulation on the Administration of the License for Water Drawing and the Levy of Water Resource Fees" (《取水許可和水資源費徵收管理條例》) (promulgated on 21 February 2006 and effective as of 15 April 2006), "Measures for the Administration of Water Abstraction Licensing" (《取水許可管理辦法》) (promulgated and effective as of 9 April 2008), "Measures for the Administration of the License for Water Drawing and the Levy of Water Resource Fees in Gansu" (《甘肅省取水許可和水資源費徵收管理辦法》) (promulgated on 21 June 2014 and effective on 1 August 2014), "Measures for the Administration of the License for Water Drawing and the Levy of Water Resource Fees in Qinghai" (《青海省取水許可和水資源費徵收管理辦法》) (promulgated on 26 November 2006 and effective as of 1 January 2007), " Implementation Measures for the Administration of the License for Water Drawing and the Levy of Water Resource Fees in the Ningxia Hui Autonomous Region" (《寧夏回族自治區取水許可和水資源費徵收管理實施辦法》) (promulgated on 20 June 2008 and effective as of 1 August 2008), any entity or individual that draws water resources must, except for certain circumstances, apply for a permit for water drawing, and pay water resource fees. The permit for water drawing should include the term for water drawing, the volume of water for drawing, the purpose of water drawing, the type of the water source, the location of water drawing and water withdrawal and the volume of water withdraw. An applicant may not build water drawing engineering structures or facilities until its application for water drawing has been approved by the approval authority. After the construction of water drawing engineering structures or facilities is completed and upon satisfactory inspection, the approval authority will issue the permit for water drawing. For any water drawing by an entity or individual that exceeds the planned volume, water resource fees shall be charged progressively on the excessive part. The amount of payment of water resource fees will be determined according to the levy standard of water resource fee at the locality of the water intake and the actual volume of water for drawing.

Quality of Dairy Products

According to the Regulation on the Supervision and Administration of the Quality Safety of Dairy Products (《乳品質量安全監督管理條例》), which was promulgated by the State Council and became effective on 9 October 2008, dairy animal breeders, raw milk purchasers, dairy products production enterprises and sellers are the first responsible persons who shall assume responsibility for the quality safety of the dairy products which they produce, purchase, transport and sell. Fresh milk and dairy products must comply with the national safety standards governing the quality of dairy products, which are developed by the competent health department of the State Council and amended from time to time in accordance with the results of risk monitoring and risk assessments. The addition of non-edible chemical substances or other substances which may be harmful to human health during the production process of dairy products is prohibited.

According to the Administrative Measures for Fresh Milk Production and Procurement (《生鮮乳生產收購管理辦法》), which was promulgated by MOA and became effective on 7 November 2008, provides that dairy animal breeders, purchasers of raw fresh milk and transporters of raw fresh milk are the first responsible persons who shall assume responsibility for the quality safety of the raw fresh milk that they produce, purchase, transport or sell. Raw fresh milk produced, purchased, stored, transported or sold shall comply with the national quality safety standards for dairy products. No substance is permitted to be added in during the processes of production, procurement, storage, transportation and sale of raw fresh milk. Dairy products producers, dairy animal breeders, production cooperatives for farmers of dairy animals who wishes to open raw fresh milk purchase stations shall apply to the administrative department for animal husbandry and veterinary medicine under the people's government at the county level where they are located for a raw fresh milk purchase permit. Such raw fresh milk purchase permits are valid for a period of two years.

The owners of vehicles transporting raw fresh milk must obtain for such vehicles permits for transportation of raw fresh milk issued by the administrative department for animal husbandry and veterinary medicine under the people's government at the county level where they are located.

Prevention and Control of Pollution

The Regulations on the Prevention and Control of Pollution Caused by Large-scale Breeding of Livestock and Poultry (《畜禽規模養殖污染防治條例》), issued by the State Council on 11 November 2013 and implemented since 1 January 2014, provide that, livestock and poultry farms and breeding districts shall be built, reconstructed and expanded to meet the requirements of animal epidemic prevention and in compliance with the development plan of animal husbandry and pollution prevention and control plan of livestock and poultry breeding, and such farms and districts must undergo environmental impact assessment. In the livestock and poultry farms and breeding districts there must be relevant facilities for faeces of livestock and poultry, shunting sewage and rains, storage of faeces and sewage, and comprehensive utilisation and harmless treatment facilities for anaerobic digestion and stack retting of faeces, organic fertiliser processing, methane producing, separation and delivery of dregs and fluid of methane, sewage treatment and corpse treatment. China encourages and supports comprehensive use of wastes of breeding of livestock and poultry by way of rebuilding farms with manure, production methane and organic fertiliser, and the like; and China encourages and supports the disposal and containment of wastes of breeding of livestock and poultry by way of combining planting and breeding to utilise wastes such as manure of livestock and poultry and sewage nearby; and China encourages and supports comprehensive utilisation such as methane and organic fertiliser production and construction of facilities for delivery and utilisation of dregs and fluid of methane and methane electricity generation and the like.

Food Industry in General

Food Safety

The Food Safety Law of the PRC (《中華人民共和國食品安全法》), or the Food Safety Law, which was last amended by the Standing Committee of the NPC on 24 April 2015 and shall become effective on 1 October 2015 and its implementation regulation (《中華人民共和國食品安全法實施條例》), which was promulgated by the State Council and became effective on 20 July 2009, adopt measures and requirements in the following aspects to improve food safety and prevent large scale food safety accidents:

- strengthen the role of local government in the supervision and coordination of food safety regulation work;
- strengthen food safety risk monitoring, assessment; early intervention and quick control over food safety accidents;
- revise the standards for the use of food additives and strengthen regulation of use of food additives;
- establish a food recall system;
- abolish food safety inspection exemption system; and
- clarify the fundamental principles in formulating food safety standards.

Food Production

In accordance with the Food Safety Law, China implements a licensing system on food production.

According to the Measures for the Administration of Food Production Licenses (《食品生產許可管理辦法》), which was issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局), or AQSIQ, on 7 April 2010 and became effective on 1 June 2010, food production enterprises must meet the required production conditions stipulated therein and must obtain food production licenses. An enterprise intending to produce food shall apply to the local quality and technical supervision department where food will be produced. The effective period for a food production license is three years.

According to the Inspection and Regulation Rules for Quality and Safety of Dairy Products (《乳品質量安全監督管理條例》) which was promulgated and effective on 9 October 2008, a food production license shall be obtained from the local quality supervision governmental department for entering into the dairy products production industry, and any individual or entity shall not produce any dairy products without such a license.

Food Inspection

In accordance with the Food Safety Law, China has implemented an inspection system relating to food production and operations. The state and local food safety supervision and administrative departments are required to carry out food inspection and may not exempt any food from inspection. The quality and technical supervision departments, industry and commerce administrative departments and food and drug supervision and administration departments at and above the county level shall carry out food inspections by taking samples on a regular or irregular basis. An enterprise engaging in the production or operations of food may itself inspect the food it produces, or entrust a qualified food inspection institution to undertake the inspection.

Product Quality

The Product Quality Law of the PRC

Products that we manufacture are subject to the laws, rules and regulations in relation to the product quality in the PRC. The Product Quality Law of the PRC (《中華人民共和國產品質量法》), or the Product Quality Law, which was promulgated by the Standing Committee of the NPC on 22 February 1993 and became effective on 1 September 1993 and amended on 8 July 2000, is the principal law governing the supervision and administration of product quality.

According to the Product Quality Law, manufacturers are liable for the quality of products they produce and sellers must take reasonable actions to ensure the quality of the products they sell.

The manufacturer shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products of the manufacturer unless the manufacturer is able to prove that:

- it has not circulated the product;
- the defect did not exist at the time when the product was circulated; or

- the state of scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered.

The seller will be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products it sold if such defect is attributable to the seller. A person who is harmed or whose property is damaged by the defective product may claim such loss against the manufacturer or the seller.

Agriculture Products Safety

The Agricultural Products Safety Law of the PRC (《中華人民共和國農產品質量安全法》), or the Agricultural Products Safety Law, which was promulgated by the Standing Committee of the NPC on 29 April 2006 and became effective on 1 November 2006, governs the supervision and administration of the quality and safety of primary agricultural products, namely plants, animals, microorganisms and other products obtained in the course of agricultural activities. The Agricultural Products Safety Law regulates the agricultural products in the following aspects to ensure that they meet the requirements necessary to protect people's health and safety, including:

- the quality and safety standards of agricultural products;
- the production places of agricultural products;
- the production of agricultural products; and
- the packaging and labelling of agricultural products.

According to the Agricultural Products Safety Law, producers of agricultural products shall reasonably use chemical products in order to avoid contaminating production places of agricultural products. The agricultural producers shall also ensure that the preservatives, additives and other chemicals used in the process of production, packaging, preservation, storage and transportation of agricultural products shall be in conformity with the relevant compulsory technical specifications set by the State.

Product Liabilities

Pursuant to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which was promulgated by the National People's Congress of the PRC on 12 April 1986, effective on 1 January 1987, and amended on 27 August 2009 and the Law on the Protection of Consumers' Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》), which was promulgated by the Standing Committee of the NPC on 31 October 1993 and became effective on 1 January 1994, and further amended by the Standing Committee of the NPC on 27 August 2009 and 25 October 2013, both manufacturers and distributors shall be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture or distribute.

The Tort Liability Law (《中華人民共和國侵權責任法》), which was promulgated by the Standing Committee of the NPC on 26 December 2009 and became effective on 1 July 2010, provides that where a product endangers personal life or property due to its defect, the manufacturers and the distributors shall bear liability in tort.

Land Use for Agriculture Facilities

According to Notice of the Ministry of Land and Resources and the MOA on Further Support for the Healthy Development of Facility Agriculture (《國土資源部、農業部關於進一步支持設施農業健康發展的通知》), which was promulgated and became effective on 29 September 2014, land used for agricultural facilities is divided into three categories, land for production facilities, land for ancillary facilities and land for supporting facilities, which in nature are different from land used for non-agricultural construction project and are treated and administered as agricultural land.

According to Law on Land Contract in Rural Areas of the PRC (《中華人民共和國農村土地承包法》), which was promulgated on 29 August 2002 and revised and effective on 27 August 2009, the right to land contractual management obtained through household contract may be circulated by subcontracting, leasing, exchanging, transferring or other means.

TAXATION

Enterprises Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, which was promulgated by the National People's Congress of the PRC on 16 March 2007 and became effective on 1 January 2008, and the Implementation Rules to the EIT Law (《中華人民共和國企業所得稅法實施條例》), or the Implementation Rules, which was promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise must pay enterprise income tax on its income deriving from both inside and outside China at the rate of enterprise income tax of 25.0%. A non-resident enterprise that has an establishment or place of business in the PRC shall pay enterprise income tax on its income deriving from inside China and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business, at the rate of enterprise income tax of 25.0%. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10.0%.

According to the EIT Law and the Implementation Rules, income of an enterprise generated from farming cattle and poultry or primary process of agricultural products will be exempted from enterprise income tax.

Circular of the Ministry of Finance and the State Administration on Releasing the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (《財政部、國家稅務總局關於發佈享受企業所得稅優惠政策的農產品初加工範圍(試行)的通知》) issued on 20 November 2008 and effective on 1 January 2008 and Supplementary Circular on the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on

Enterprise Income (《關於享受企業所得稅優惠的農產品初加工有關範圍的補充通知》) issued on 11 May 2011 and effective on 1 January 2010 by the Ministry of Finance, State Administration of Taxation, prescribes the primary processing ranges of agricultural products which can enjoy the preferential policies on Enterprise Income.

Pursuant to Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax Concerning In-depth Implementation of Western Region Development Strategy (《國家稅務總局關於深入實施西部大開發戰略有關企業所得稅問題的公告》) promulgated by the State Administration of Taxation on 6 April 2012 and effective on 1 January 2011, from 1 January 2011 to 31 December 2020, enterprises (1) that are based in the western region; (2) that their primary business is listed in one of the industry items provided in the Catalogue of Encouraged Industries in Western Regions; and (3) the annual primary business revenue of which accounts for more than 70% of the total enterprise revenue, may pay enterprise income tax at the reduced tax rate of 15% subject to their application to the competent tax authority and upon the examination and confirmation by the said authority.

Value-Added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), or VAT Regulations, which was amended by the State Council on 10 November 2008 and became effective on 1 January 2009, and its implementation rules (《中華人民共和國增值稅暫行條例實施細則》), which was amended by the Ministry of Finance of the PRC (中華人民共和國財政部) on 28 October 2011 and effective on 1 January 2009, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax. Unless provided otherwise, the rate of value-added tax for general value-added tax payers is 17.0%. Self-produced agricultural products sold by agricultural producers shall be exempt from value-added tax.

Circular of the Ministry of Finance and the State Administration of Taxation on Value-Added Tax Policies Concerning the Application of Low Tax Rates and Simplified Taxing Method for Certain Goods (《財政部、國家稅務總局關於部分貨物適用增值稅低稅率和簡易辦法徵收增值稅政策的通知》), which was issued on 19 January 2009 and effective on 1 January 2009 by State Administration of Taxation and Ministry of Finance, agricultural products (primary products made of various plants and animals produced in crop cultivation, breeding, forestry, animal husbandry and aquaculture) apply 13% as the value-added tax rate.

ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), or the Environmental Protection Law, which was amended on 24 April 2014 and effective on 1 January 2015 by the Standing Committee of the NPC, establishes the legal framework for environmental protection in the PRC. The environmental protection department of the State Council supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions.

Prevention and Control of Pollution

The Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was amended by the Standing Committee of the NPC on 28 February 2008 and became effective on 1 June 2008, the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), which was amended by the Standing Committee of the NPC on 29 April 2000 and became effective on 1 September 2000, and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), which was promulgated by the Standing Committee of the NPC on 29 October 1996 and became effective on 1 March 1997, as well as the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), which was amended by the Standing Committee of the NPC 29 December 2004, effective on 1 April 2005, and amended from time to time and last amended on 24 April 2015, prescribe the details for the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution.

Environmental Protection on Construction Projects

The Environmental Impact Appraisal Law (《中華人民共和國環境影響評價法》), which was promulgated by the Standing Committee of the NPC on 28 October 2002 and became effective on 1 September 2003, the Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which was promulgated by the State Council and became effective on 29 November 1998, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by the State Environmental Protection Administration of the PRC (中華人民共和國國家環境保護總局) on 27 December 2001 and became effective on 1 February 2002, require enterprises planning construction projects to engage qualified professional institution to provide assessment reports on the environmental impact of such projects. The assessment report must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises must file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

LABOUR

Employment Contracts

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), or the Labour Contract Law, which was amended on 28 December 2012 and became effective on 1 July 2013, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employment contract. The Labour Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

Social Security

Under applicable PRC laws and regulations, including the Social Insurance Law of The PRC (《中華人民共和國社會保險法》), which was promulgated by the Standing Committee of the NPC on 28 October 2010 and became effective on 1 July 2011, and the Regulations on the Administration of Housing Accumulation Fund (《住房公積金管理條例》), which was amended by the State Council and became effective on 24 March 2002, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and employers who fail to contribute may be ordered to make all or outstanding contributions within a specified period and imposed a late payment fee at the rate of 0.05% per day from the date on which the contribution becomes due and prior to 1 July 2011, at the rate of 0.2% of the total amount, according to Interim Regulations on Levying Social Insurance Premiums promulgated by the State Council and effective on 22 January 1999. If such employers fail to make the overdue contributions within such time limit, the relevant administrative department may impose a fine equivalent to 1–3 times the overdue amount.

PRODUCTION SAFETY

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》), or the Production Safety Law, which was amended by the Standing Committee of the NPC on 31 August 2014 and became effective on 1 December 2014, is the principal law governing the supervision and administration of production safety in the PRC. This law requires production entities to meet the relevant legal requirements, such as providing its staff with training and a handbook on production safety and providing safe working conditions in compliance with relevant laws, rules and regulations. Any production entities unable to provide the required safe working conditions may not engage in production activities. Violation of the Production Safety Law may result in the imposition of fines and penalties, the suspension of operations, an order to cease operations, or even criminal liability in severe cases.

Pursuant to the Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》), which was promulgated by the State Council on 11 March 2003 and became effective on 1 June 2003 and amended on 24 January 2009, special equipment, including boilers, pressure vehicles (including gas cylinders), pressure pipelines, elevators, lifting alliances, passenger ropeways, and large amusement devices, which relate to safety of human lives or having high risks, shall be registered with competent departments for safety supervision and administration of special equipment. The operators of special equipment shall not engage in operation or management of the special equipment until they have passed the examination organised by the departments for safety supervision and administration of special equipment.

INTELLECTUAL PROPERTY

China has adopted legislations related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory party to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement on the International Registration of Marks and Madrid Protocol, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Regulations on Patents

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated on 12 March 1984 and amended on 4 September 1992, 25 August 2000 and 27 December 2008, with the last amendment effective on 1 October 2009, patent protection is divided into three categories, namely, invention patent, utility patent and design patent. Invention patents are valid for twenty years from the date of application, while design patents and utility patents are valid for ten years from the date of application. Once an invention patent, utility patent or a design patent is granted, unless otherwise permitted by law, no individual or entities are permitted to engage in the manufacture, use, sale, or import of the product protected by such patent or otherwise engage in the manufacture, use, sale, or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder. The patent application system in China is different in many ways from that in other countries. The patent system in China uses the "first to file" principle, which means when more than one person files for a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Although patent rights are national rights, the Patent Cooperation Treaty allows an applicant in one country to seek patent protection for an invention in multiple member countries at the same time by filing an international patent application. However, the fact that a patent application is pending is not a guarantee that a patent will be granted. Furthermore, even if a patent application is granted, the scope of a patent may not be as broad as the applicant requested in the initial application.

Regulations on Trademarks

The Trademark Law of the PRC (《中華人民共和國商標法》), or the Trademark Law, was promulgated in August 1982, subsequently amended on 22 February 1993, 27 October 2001, and 30 August 2013, with the latest amendment effective on 1 May 2014 and Implementation Regulations on the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) was amended by the State Council on 29 April 2014, and became effective on 1 May 2014. These laws and regulations provide the basic legal framework for the regulations of trademarks in China. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks. The Trademark Office under SAIC is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of ten years. Six months prior to the expiration of the ten-year term, an applicant can renewed the application and reapply for trademark protection.

Under the Trademark Law, any of the following acts may be regarded as an infringement of the exclusive right to use of a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark on the same or similar kind of commodities of the trademark registrant's without the authorisation of the trademark registrant;
- sale of commodities infringing upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorisation, representations of a registered trademark, or sale of such representation of a registered trademark; and
- otherwise infringing upon other person's exclusive right to use a registered trademark and cause damages.

Violation of the Trademark Law may result in the imposition of fines, confiscation and destruction of the infringing commodities. Trademark license agreements must be filed with the Trademark Office under SAIC or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

Regulations on Domain Names

The Measures for the Administration of Domain Names for the Chinese Internet (《中國互聯網絡域名管理辦法》) were promulgated by the Ministry of Information Industry on 5 November 2004 and became effective on 20 December 2004. These measures regulate the registration of domain names in Chinese with the Internet country code of ".cn." The Measures on Domain Names Dispute Resolution (《中國互聯網絡信息中心域名爭議解決辦法》) were amended by the Chinese Internet Network Infrastructure Centre on 28 May 2012 and became effective on 28 June 2012. These measures require domain name disputes to be submitted to institutions authorised by the Chinese Internet Network Information Centre for resolution.

OVERVIEW

Our Group was founded by Mr. Ma Hongfu and Mr. Chen Gang (who is no longer our shareholder) on 25 April 2000 through the establishment of Lanzhou Zhuangyuan Dairy Co., Ltd., the predecessor of our Company, as a limited liability company in the PRC with an initial registered capital of RMB500,000. The initial registered capital of Zhuangyuan Dairy was funded using their personal financial resources. Upon its establishment, 60% of the equity interest was held by Mr. Ma Hongfu and 40% was held by Mr. Chen Gang.

When Zhuangyuan Dairy was established, it was primarily engaged in the dairy product development, manufacture and sales of liquid milk products.

Subsequently, the scope of our business was expanded to include dairy farming operation. Zhuangyuan Dairy was converted into a joint stock limited liability company under PRC Company Law on 19 April 2011.

BUSINESS MILESTONE IN OUR HISTORY

The following table sets out major events and milestones in the development of our Company's business:

Year	Event
2000	Our predecessor, Zhuangyuan Dairy (莊園乳業) was founded in Gansu, PRC on 25 April 2000.
	We imported the leading Tetra Fino Aseptic production line and the Tetra Fino Aseptic milk was launched in the market in October 2000.
2005	We installed a milk powder production line with a daily processing capacity of 40 tonnes of milk in our Lanzhou production plant.
2007	We introduced an advanced Ecolean eco-friendly packaging (愛克林環保包裝) line from Sweden in our Lanzhou production plant and launched products using this new package to the market in May 2007.
2009	We established a project development department in May 2009 to be responsible for the construction of dairy farms and started the construction of three self-operated and collectively-operated farms in Gansu, Qinghai and Ningxia.
2010	Our Company acquired Qinghaihu Dairy (青海湖乳業) in 2010 and as a result of which, Qinghaihu Dairy became our major subsidiary and our operations were expanded into Qinghai. Qinghaihu Dairy was established in Qinghai in 2004 and it subsequently established the Shenghu (聖湖) brand in 2005.
2011	We started the new sales model of community milk booths in Lanzhou.
2012	We implemented the new sales model of "Delivery of Milk to Family" (送奶到戶) in Lanzhou.

Year	Event
2013	We acquired 18% of the equity interests in Xi'an Dongfang, which became an affiliate of our Company. We successfully launched condensed yogurt products with Ecolean package (愛克林包裝濃縮酸奶) in the PRC market. We finished enhancing the technology and equipment in our Lanzhou production plant so as to strengthen our productivity.

OUR HISTORY AND DEVELOPMENT

Equity Interest Transfers and Share Capital Increases

After the establishment of Zhuangyuan Dairy, for purposes of our business expansion and working capital, our Group had experienced various equity interest transfers and capital increases, the details of which are set out in the section headed "Appendix VI – Statutory and General Information – 2. Changes in Share Capital".

Interim restructuring and reversion

On 15 March 2008, in preparation for a listing in Singapore, the then shareholders of our Company (including Mr. Ma Hongfu, Mr. Chen Gang, Mr. Shi Yong, Mr. Cui Ming, Mr. Hu Kaisheng, Mr. Wang Guofu, Mr. Chen Niru, and Mr. Tao Shengjian (collectively the "Transferring Shareholders")) entered into an equity transfer agreement with Qinghaihu Dairy which was then wholly-owned by Zhuangyuan Investment, pursuant to which the Transferring Shareholders agreed to transfer their entire equity interest in Zhuangyuan Dairy to Qinghaihu Dairy for a total consideration of RMB50 million determined based on the then registered capital of Zhuangyuan Dairy. Immediately after such equity transfer, the entire equity interest of Zhuangyuan Dairy was held by Qinghaihu Dairy and Zhuangyuan Dairy became a wholly-owned subsidiary of Qinghaihu Dairy. The equity transfer was carried out because, based on the recommendation of our potential cooperation party in connection with the preparation for the Singapore listing, we believe that, when compared to Zhuangyuan Dairy, the name "Qinghaihu" and the business of Qinghaihu Dairy, which can be associated with special Qinghai-Tibet Plateau features and have potential to position its dairy products for nationwide market in the PRC are expected to be more attractive to international investors or investors in Singapore.

After the interim restructuring described above, we changed our listing plan due to the global financial crisis outbreak in 2008. We decided to unwind the above equity transfer pending our decision on whether we should list and if so, in which market. Accordingly, on 6 May 2009, the Transferring Shareholders entered into an equity transfer agreement with Qinghaihu Dairy, pursuant to which Qinghaihu Dairy transferred its equity interest in Zhuangyuan Dairy back to the Transferring Shareholders and the consideration of RMB50 million was repaid by the Transferring Shareholders to Qinghaihu Dairy. After the completion of such transfers, the equity interests of Zhuangyuan Dairy were held as to 64.40% by Mr. Ma Hongfu, 0.79% by Mr. Chen Gang, 28.28% by Mr. Shi Yong, 3.65% by Mr. Cui Ming, 1.89% by Mr. Hu Kaisheng, 0.33% by Mr. Wang Guofu, 0.33% by Mr. Chen Niru, and 0.33% by Mr. Tao Shengjian.

Capital Increase through Private Equity Investment in 2010

On 9 September 2010, our Company's registered capital was increased from RMB80,000,000 to RMB93,980,000 following investments made by four private equity institutional investors namely Caiding Investment, Caicheng Investment, Shanghai Rongyin and Chongqing Fukun and an individual investor, Mr. Zheng Jiaming. Please refer to the section headed "History and Development – Private Equity Investment" for further details of the investments.

Conversion into a Joint Stock Limited Company and Subsequent Changes in the Registered Capital of our Company

(a) The entering into the Promoters' Agreement in respect of our Company in 2011

On 26 March 2011, our Promoters, namely Mr. Ma Hongfu, Mr. Hu Kaisheng, Mr. Zheng Jiaming, Zhuangyuan Investment, Lucky Cow, Caiding Investment, Caicheng Investment, Chongqing Fukun, and Shanghai Rongyin, entered into an agreement of promotion which states the respective rights and obligations of the promoters during the course of conversion into a joint stock limited company.

(b) Conversion from a limited liability company into a joint stock company in 2011

On 19 April 2011, our Company was converted from a limited liability company into a joint stock company and adopted its current name. Pursuant to the capital verification report issued by Guofu Haohua Certified Public Accountants on 1 March 2011, the net asset value of Zhuangyuan Dairy amounted to approximately RMB203,471,980.17 as at 31 December 2010, representing a capital surplus of RMB109,491,980.17 based on the then registered capital of Zhuangyuan Dairy of RMB93,980,000. Immediately after the conversion, the equity interests of our Company were held as to 34.26% by Mr. Ma Hongfu, 32.87% by Zhuangyuan Investment, 15.96% by Lucky Cow, 7.44% by Chongqing Fukun, 2.98% by Caiding Investment, 2.03% by Mr. Hu Kaisheng, 1.49% by Caicheng Investment, 1.49% by Mr. Zheng Jiaming and 1.49% by Shanghai Rongyin, which was the same as that prior to the conversion.

Further Capital Increase through Private Equity Investment in 2011

On 2 September 2011, our Company's registered capital was increased from RMB93,980,000 to RMB105,370,000 as a result of investments by five new investors comprising private equity institutional investors, namely Tianjin Chuang Dongfang, Shenzhen Chuang Dongfang, Tianjin Jiufeng, Huaren Chuangxin, Mr. Huang Changrong, an individual investor, and one existing shareholder, Shanghai Rongyin. Please refer to the section headed "History and Development – Private Equity Investment" for further details of the investments.

We have been advised by our PRC legal adviser, Gansu Zheng Tian He Law Firm that we (including our predecessor) have complied with all the relevant laws and regulations of the PRC and have obtained all requisite approvals, permits and licenses in relation to the corporate changes, including but not limited to the establishment, transfer of equity interest, increase of registered capital, the promotion of our Company, and the conversion into a joint stock company since our establishment.

OUR SUBSIDIARIES AND AFFILIATES

Subsidiaries

As at the Latest Practicable Date, our Company has established presence in Gansu, Qinghai, and Ningxia in the PRC through its nine wholly-owned subsidiaries, brief details of which are set out in the table below:

No.	Name of our subsidiary	Place of establishment	Date of establishment	Principal business
1)	Qinghaihu Dairy	PRC	6 December 2004	Primarily engaged in manufacture and sales of liquid milk products such as pasteurised milk, modified milk and yogurt
2)	Qinghai Shengya	PRC	17 December 2009	Primarily engaged in dairy farming, breeding and sales of fresh milk. It provides raw milk to our Group
3)	Qinghai Shengyuan	PRC	15 July 2010	Primarily engaged in dairy farming, breeding and sales of fresh milk. It provides raw milk to our Group
4)	Yuzhong Ruifeng	PRC	25 May 2010	Primarily engaged in dairy farming and breeding. It provides raw milk to our Group
5)	Linxia Ruiyuan	PRC	25 March 2010	Primarily engaged in dairy farming and breeding. It provides raw milk to our Group
6)	Linxia Ruian	PRC	25 March 2010	Primarily engaged in the acquisition of raw milk, sales of forage, dairy farming, provision of veterinary services including diagnosis and treatment of animal diseases and sales of veterinary medicine. It provides raw milk to our Group
7)	Wuwei Ruida	PRC	27 April 2010	Primarily engaged in the acquisition of raw milk, sales of forage, dairy farming and provision of veterinary services. It provides raw milk to our Group
8)	Ningxia Zhuangyuan	PRC	23 July 2010	Primarily engaged in the sales of forage, dairy farming and provision of veterinary services. It provides raw milk to our Group

No.	Name of our subsidiary	Place of establishment	Date of establishment	Principal business
9)	Lanzhou Ruixing	PRC	25 July 2013	Primarily engaged in dairy farming and breeding. It provides raw milk to our Group after the construction of the main structure of the farm was completed and the farm commenced trial operation in July 2015

1. *Qinghaihu Dairy*

Qinghaihu Dairy was established on 6 December 2004 in Qinghai in the PRC with a registered capital of RMB5,000,000 contributed by eight individuals, including Mr. Ma Hongfu. After its incorporation, there were various changes to its paid-up and subscribed capital. On 25 May 2010, Zhuangyuan Dairy, our Company's predecessor, entered into an equity transfer agreement with Zhuangyuan Investment, pursuant to which Zhuangyuan Investment (which is controlled by Mr. Ma Hongfu) transferred its 51.22% interest in the registered capital in Qinghaihu Dairy to Zhuangyuan Dairy for a consideration of RMB30,000,000. The consideration was determined with reference to the then paid-up registered capital of Qinghaihu Dairy. The consideration was settled and the transfer was completed before 30 June 2010. As a result of this transfer and the transfer from a third party to Mr. Ma Hongfu on the same date, Qinghaihu Dairy was owned as to 51.22% by our Company and 48.78% by Mr. Ma Hongfu. Following the reduction of all the capital subscribed for by Mr. Ma Hongfu in Qinghaihu Dairy, and other capital reductions, Qinghaihu Dairy became our wholly-owned subsidiary. The transfer was in line with the strategy of expanding our Company's operations and with a view to eliminate any direct competition between our Company and Qinghaihu Dairy. During the Track Record Period, the entire equity interests of Qinghaihu Dairy were held by our Company.

2. *Qinghai Shengya*

Qinghai Shengya was established on 17 December 2009 in Qinghai in the PRC with a registered capital of RMB10,000,000 contributed by Qinghaihu Dairy. On 25 May 2010, the same date when Zhuangyuan Dairy acquired Qinghaihu Dairy, Zhuangyuan Dairy also entered into an equity transfer agreement with Qinghaihu Dairy, pursuant to which Qinghaihu Dairy transferred its entire equity interests in Qinghai Shengya to Zhuangyuan Dairy at a consideration of RMB10,000,000. The consideration was determined based on the registered capital of Qinghai Shengya. As a result of the transfer, Qinghai Shengya became a wholly-owned subsidiary of Zhuangyuan Dairy. Similarly, the transfer was in line with the strategy of expanding our Company's operations and with a view to eliminate any direct competition between our Company and Qinghai Shengya. On 18 November 2013, the registered capital of Qinghai Shengya has been increased from RMB10,000,000 to RMB30,000,000. During the Track Record Period, the entire equity interests of Qinghai Shengya were held by our Company.

3. *Qinghai Shengyuan*

Qinghai Shengyuan was established on 15 July 2010 in Qinghai in the PRC with a registered capital of RMB5,000,000 contributed by Zhuangyuan Dairy. The registered capital of Qinghai Shengyuan was increased from RMB5,000,000 to RMB30,000,000 on 18 December 2013. During the Track Record Period, the entire equity interests of Qinghai Shenyuan were held by our Company.

4. Yuzhong Ruifeng

Yuzhong Ruifeng was established on 25 May 2010 in Gansu in the PRC with a registered capital of RMB1,000,000 contributed by Zhuangyuan Dairy. The registered capital of Yuzhong Ruifeng was increased from RMB1,000,000 to RMB20,000,000 on 25 November 2013. During the Track Record Period, the entire equity interests of Yuzhong Ruifeng were held by our Company.

5. Linxia Ruiyuan

Linxia Ruiyuan was established on 25 March 2010 in Gansu in the PRC with a registered capital of RMB1,000,000 contributed by Zhuangyuan Dairy. The registered capital of Linxia Ruiyuan was increased from RMB1,000,000 to RMB30,000,000 on 27 December 2013. During the Track Record Period, the entire equity interests of Linxia Ruiyuan were held by our Company.

6. Linxia Ruian

Linxia Ruian was established on 25 March 2010 in Gansu in the PRC with a registered capital of RMB1,000,000 contributed by Zhuangyuan Dairy. The registered capital of Linxia Ruian was increased from RMB1,000,000 to RMB20,000,000 on 27 December 2013. During the Track Record Period, the entire equity interests of Linxia Ruian were held by our Company.

7. Wuwei Ruida

Wuwei Ruida was established on 27 April 2010 in Gansu in the PRC with a registered capital of RMB1,000,000 contributed by Zhuangyuan Dairy. The registered capital of Wuwei Ruida was increased from RMB1,000,000 to RMB20,000,000 on 12 December 2013. During the Track Record Period, the entire equity interests of Wuwei Ruida were held by our Company.

8. Ningxia Zhuangyuan

Ningxia Zhuangyuan was established on 23 July 2010 in Ningxia in the PRC with a registered capital of RMB1,000,000 contributed by Zhuangyuan Dairy. The registered capital of Ningxia Zhuangyuan was increased from RMB1,000,000 to RMB20,000,000 on 5 December 2013. During the Track Record Period, the entire equity interests of Ningxia Zhuangyuan were held by our Company.

9. Lanzhou Ruixing

Lanzhou Ruixing was established on 25 July 2013 in Gansu in the PRC with a registered capital of RMB10,000,000 contributed by our Company. During the Track Record Period, the entire equity interests of Lanzhou Ruixing were held by our Company.

Affiliates

As at the Latest Practicable Date, our Company has two affiliates in the PRC, namely Xi'an Dongfang and Gansu Yuzhong Rural Cooperative Bank. We own 18% equity interest in Xi'an Dongfang which we had acquired in 2013. We own less than 1% equity interest in Gansu Yuzhong Rural Cooperative Bank.

For further information about Xi'an Dongfang and our acquisition of interests in the company, please refer to the section headed "History and Development — Acquisition of Minority Interest".

PREVIOUS LISTING ATTEMPT

Shenzhen Stock Exchange Listing Attempt

In January 2013, our Company submitted a listing application to the CSRC for the proposed listing of its shares on the Shenzhen Stock Exchange. We voluntarily and formally withdrew the application on 27 May 2013 due to our plan to acquire Xi'an Dongfang, the details of which are set out in the section headed "History and Development — Acquisition of Minority Interest". We believe that the acquisition represented an important investment for us and is critical for our future business expansion in Shaanxi Province in the PRC. Such an acquisition would not had allowed us to allocate sufficient time and attention to a listing process. The sponsor for the proposed listing on the Shenzhen Stock Exchange at that time had also advised that in light of the foregoing factors, the fact that the CSRC had not undertaken any substantive review of many applications submitted before us due to policy reasons, and the uncertainties relating to our investment in Xi'an Dongfang, including without limitation, the amount of investment to be made, the size of the acquisition and the timing for completion, we may not be able to complete the proposed listing within our initially planned time frame and we should withdraw our Shenzhen Stock Exchange listing application before the completion of our investment in Xi'an Dongfang. The CSRC did not raise any questions in respect of our application, including, without limitation, the suitability for the listing of the business and assets of our Group.

To the best knowledge of the Sole Sponsor, it is not aware of any matter which arose during the course of the aforesaid application that might lead to a rejection by the CSRC of our Group's previous listing attempt or potentially affect the suitability of our Company to list on the Shenzhen Stock Exchange. The Sole Sponsor is of the view that the voluntary suspension in the previous listing attempt of our Company shall not have any adverse implication on the current listing application on the Hong Kong Stock Exchange and is not aware of any matter affecting the suitability of our Company to list on the Hong Kong Stock Exchange. Save as mentioned in this prospectus, our Company and the Sole Sponsor are of the view that there is no other matter which should be brought to the attention of the regulators and the investors in Hong Kong in respect of the previous listing attempt on the Shenzhen Stock Exchange.

Singapore Exchange Listing Attempt

In March 2008, we underwent an interim restructuring and reversion in preparation for a listing in Singapore, the details of which are set out in the section headed "History and Development – Our History and Development – Interim restructuring and reversion". After the interim restructuring, we changed our listing plan due to the global financial crisis outbreak in 2008 as we believe the global financial crisis could severely affect our ability to raise sufficient capital through a public offering. We did not engage any sponsor for the proposed listing nor submit any formal application in connection with the Singapore listing.

To the best knowledge of the Sole Sponsor, it is not aware of any matter which arose during the course of the aforesaid preparation that might lead to a rejection by the Singapore Exchange of our Group's previous listing attempt or potentially affect the suitability of our Company to list on the Singapore Exchange. The Sole Sponsor is of the view that the previous preparation by our Company to list on the Singapore Exchange shall not have any adverse implication on the current listing application on the Hong Kong Stock Exchange and is not aware of any matter affecting the suitability of our Company to list on the Hong Kong Stock Exchange.

Corporate Structure Used for the Previous Listing Attempts

As disclosed in the section headed "History and Development – Interim restructuring and reversion", in May 2009 our Company unwound the interim restructuring that was carried out for the purposes of Singapore listing due to the change in listing plan. In 2010, our Company started to consider an A-share listing. Our Company confirmed that at that time, the then PRC legal advisors had advised that, to satisfy the listing requirements for an A-share listing under PRC laws, Zhuangyuan Dairy should be selected as the listing vehicle and should acquire Qinghaihu Dairy as a subsidiary since the business operation and financial performance of Zhuangyuan Dairy had been better than those of Qinghaihu Dairy at that time. In addition, as advised by the then PRC legal advisors, if Zhangyuan Dairy were acquired by Qinghaihu Dairy as a subsidiary, such an acquisition would constitute a major asset restructuring pursuant to PRC laws and Qinghaihu Dairy would not qualify for the A-share listing within the timeframe required by our Company. Accordingly, in May 2010, in line with the strategy of expanding our Company's operations and with a view to eliminating any direct competition between our Company and Qinghaihu Dairy, Qinghaihu Dairy was injected into the Group as a subsidiary of Zhuangyuan Dairy. Shortly after the transfer in September 2010, our Company brought in the 2010 PE Investors who required Zhuangyuan Dairy to convert into a joint stock company for the purpose of the proposed domestic listing in accordance with PRC laws. Accordingly, our Company was converted into a joint stock company in April 2011 and subsequently brought in the 2011 PE Investors in September 2011. Based on all the foregoing reasons, our Company became the listing vehicle for its previous A-share listing application.

After our Company decided to withdraw its application for listing from the CSRC, as our Company had completed the joint stock company conversion, there were no commercial or financial reasons to conduct any further reorganisation of our Group. Hence, the group structure became the current group structure and our Company, as a joint stock company, has naturally become the listing vehicle for the H Shares listing in Hong Kong.

We are now seeking to list our H Shares on the Hong Kong Stock Exchange as our Directors consider that the Hong Kong Stock Exchange is an internationally recognised and reputable stock exchange and will therefore provide a good platform for us to raise capital from international investors.

PRIVATE EQUITY INVESTMENTS

In connection with our reorganisation and for the long-term business development of our Group, we entered into the below Pre-IPO investments:

Private Equity Investments in 2010

On 18 May 2010, the 2010 PE Investors entered into an investment agreement with Zhuangyuan Dairy, Mr. Ma Hongfu and Mr. Hu Kaisheng (the "2010 Investment Agreement") pursuant to which the 2010 PE Investors agreed to invest in our Company and we agreed to provide special rights to the 2010 PE Investors. Details of these rights are set out below.

On 9 September 2010, the registered capital of our Company was increased from RMB80,000,000 to RMB93,980,000 as a result of the investments made by the 2010 PE Investors. Immediately after the completion of the 2010 Investment Agreement, the equity interests of Zhuangyuan Dairy were held as to 34.26% by Mr. Ma Hongfu, 2.03% by Mr. Hu Kaisheng, 32.87% by Zhuangyuan Investment, 15.96% by Lucky Cow, 2.98% by Caiding Investment, 1.49% by Caicheng Investment, 1.49% by Mr. Zheng Jiaming, 7.44% by Chongqing Fukun, and 1.49% by Shanghai Rongyin.

Pursuant to a supplemental agreement amongst the same parties dated 20 December 2011 (the "First Supplemental Agreement"), the special rights provided to the 2010 PE Investors relating to minimum profit guarantee and compensation, time during which the shares of our Company will be listed and repurchase option were terminated. On 20 April 2015, the parties agreed that all the residual special rights granted to the 2010 PE Investors will be terminated on or before Listing pursuant to a second supplemental agreement to the investment agreement of our Company amongst the same parties (the "Second Supplemental Agreement").

The principal terms and conditions of the investments are as follows:

Investors:	The 2010 PE Investors
Relevant agreements:	(a) The 2010 Investment Agreement; (b) The First Supplemental Agreement; and (c) The Second Supplemental Agreement.

Principal terms and conditions of the relevant agreements and other related information:

Percentage of the equity interest to be acquired:	14.88%
Amount of consideration paid:	RMB50,000,000
Payment date of the Private Equity Investment:	Before 10 August 2010
Completion Date of the Private Equity Investment:	9 September 2010
Cost per Share Paid:	RMB3.58 per registered capital (as Zhuangyuan Dairy did not have a share capital due to its corporate form under PRC law)
Discount to the IPO Price:	Approximately 44.15% to the Offer Price assuming the Offer Price of HK$6.41, being the mid-point of the Offer Price range.
Use of proceeds:	The proceeds received from the 2010 PE Investors was fully utilised to, *inter alia*, provide funding for the construction of manufacturing plant, general working capital and for other uses as approved by the Board.
Basis of determining the consideration paid by the Investors:	The consideration was determined on the basis of the 2009 after-tax profit as presented in the PRC GAAP audited financial statements and the price to earning ratio rate agreed by the parties in the 2010 Investment Agreement and arm's length negotiation between the relevant parties.

Special rights granted to the Investors:

(a) *Minimum profit guarantee and compensation:*

The 2010 PE Investors have the right to subscribe for certain equity interest of our Company without additional consideration if our Company is not able to meet the financial targets set in 2008, 2010 and 2011. This right has been terminated by the First Supplemental Agreement.

(b) *Redemption rights*

If our Company is unable to list within a stipulated timeframe, the 2010 PE Investors shall have rights to, *inter alia*, require Mr. Ma Hongfu and Mr. Hu Kaisheng to acquire or require our Company to redeem part or whole of their shares. This right has been terminated by the First Supplemental Agreement.

(c) *Repurchase right upon rejection of listing*

If our Company meets the requirements of listing within a stipulated timeframe and the listing is approved by the Directors designated by the 2010 PE Investors but rejected at a shareholders' meeting and the Board of Directors, the 2010 PE Investors shall have rights to, *inter alia*, require our Company to repurchase part or all of the shares held by them. This right has been terminated by the First Supplemental Agreement.

(d) *Prior consent for certain corporate actions/changes in articles*

The prior consent of the two-third of the 2010 PE Investors and the two-thirds of the Directors designated by the 2010 PE Investors is required for certain corporate actions including without limitation any issue of shares and securities by our Company, or changes in the Articles of Association.

(e) *Information rights*

The 2010 PE Investors have the right to request for true and completed monthly, quarterly and annually unaudited financial statements, as well as other financial information of our Company. Our Company shall provide the financial budgets, business plans and investment plans for the coming year within a period of time.

(f) *Director designation rights*

The 2010 PE Investors shall have the rights to appoint Directors, Supervisors and senior executives and replace such designated persons with notice. Such replacement does not require the shareholders' nor Board's approval.

The 2010 PE Investors' prior written consent is required for changing the number of Directors and Supervisors.

(g) *Forbidden transfer*

Before Listing, as long as the 2010 PE Investors hold collectively not less than 10% interests in our Company, Mr. Ma Hongfu and Mr. Hu Kaisheng shall not transfer part or whole of their shares without the 2010 PE Investors' prior consent.

(h) *Preferential rights to acquire shares*

If our Company offers new securities to other third parties investors, the 2010 PE Investors are entitled to the pre-emptive rights to acquire such shares at the same price and under the same conditions within 30 days upon receipt of the notification by our Company.

(i) *Right of first refusal and tag along rights*

If either of Mr. Ma Hongfu or Mr. Hu Kaisheng intends to sell part or whole of their respective shares to any third party purchaser, the 2010 PE Investors have the right of first refusal to acquire shares to be sold or to include part or whole of their shares for sale together with shares of the selling shareholder(s) as part of the sale to the third party purchaser in proportion to their shareholding in our Company.

(j) *Priority in liquidation*

If our Company is in liquidation, dissolved or ceases to operate in any other ways, the 2010 PE Investors have the priority over Mr. Ma Hongfu and Mr. Hu Kaisheng in obtaining a repayment of their investment in our Company together with all accumulated undistributed dividend and interests.

(k) *Anti-dilution rights*

Prior to Listing, the 2010 PE Investors are entitled to subscribe to any capital increase or subscribe for new shares so as to maintain their percentage of shareholding in our Company.

If the price paid by any future investors for an investment in our Company is lower than the price paid by the 2010 PE Investors, the 2010 PE Investors will be entitled to additional shares, so that their cost of investments is the same as that paid by the future investors.

If our Company undertakes a public offering or reverse takeover, the 2010 PE Investors are entitled to new shares and a guarantee of no less the 25% premium on their investment.

(l) *No more favourable terms*

The price of the shares reserved and awarded by our Company to employees after the completion of the investments by the 2010 PE Investors cannot be lower than the price of shares subscribed for by the 2010 PE Investors.

Lock-up provisions:	The 2010 PE Investors are subject to one-year lock-up commencing from the completion of 2010 Investment Agreement. In addition, pursuant to Article 141 of the PRC Company Law, for a period of one year from the Listing, the 2010 PE Investors will not be allowed to transfer any of the Shares they acquired prior to Listing. Save as mentioned, the 2010 PE Investors will not be subject to any lock-up period after the Listing.
Benefits to our Company:	The investments made by the 2010 PE Investors provided funding for the construction of manufacturing plant, and general working capital.
Shareholding in our Company upon Listing (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option):	Caiding Investment – 1.99% Caicheng Investment – 1.00% Shanghai Rongyin (also a 2011 PE Investor as further described in "– Private Equity Investments 2011" below) – 2.01% Chongqing Fukun – 4.98% Mr. Zheng Jiaming – 1.00%

Public float:	Since each of the 2010 PE Investors holds less than 10% of the total issued share capital of our Company immediately following the completion of the Listing, they will not be our substantial Shareholders upon Listing and hence not a core connected person. Accordingly, all the Shares held by each of the 2010 PE Investors will be part of the public float after Listing for the purposes of Rule 8.08 of the Listing Rules.

Detailed information about each of the 2010 PE Investors is set out in the section headed "History and Development – Background of Our Shareholders".

Private Equity Investments in 2011

On 30 July 2011, we entered into a share subscription and capital increase agreement (the "Share Subscription Agreement") with the 2011 PE Investors pursuant to which the 2011 PE Investors subscribed for an aggregate of 11,390,000 Domestic Shares for an aggregate consideration of RMB80 million. As a result, the registered capital of our Company was increased from RMB93,980,000 to RMB105,370,000. The Share Subscription Agreement provided special rights to the 2011 PE Investors, details of which are set out below.

On 20 April 2015, the parties agreed that all the special rights granted to the 2011 PE Investors will be terminated on or before Listing pursuant to a supplemental agreement to the Share Subscription Agreement amongst our Company and the 2011 PE Investors (the "Supplemental Agreement").

The principal terms and conditions of the investments are as follows:

Investors:	The 2011 PE Investors
Relevant agreement:	(a) The Share Subscription Agreement
	(b) The Supplemental Agreement

Principal terms and conditions of the relevant agreement and other related information:

Number of Shares Issued:	11,390,000 Shares
Amount of consideration paid:	RMB80,000,000
Payment date of the Pre-IPO Investment:	15 August 2011
Completion Date of the Pre-IPO Investment:	2 September 2011
Cost per Share Paid:	RMB7.02

Premium over the IPO Price:	Approximately 9.52% to the Offer Price assuming the Offer Price of HK$6.41, being the mid-point of the Offer Price range.
Use of proceeds:	The Share Subscription Agreement provided that the proceeds received from the 2011 PE Investors must be utilised, *inter alia*, to provide funding for the construction of dairy farms and milk booths, as operating fund and for such other use as approved by 2011 PE Investors.
Basis of determining the consideration paid by the Investors:	The consideration was determined on the basis of an arm's length negotiation between the relevant parties.
Special rights granted to the Investors:	*(a) Supervisor nomination right* The 2011 PE Investors have the right to nominate one Supervisor. *(b) Information rights and supervision rights* The 2011 PE Investors have the right to request for the monthly report, annual financial statement, annual audit report, annual business plans, annual financial budgets and forecast of our Company periodically. Our Company shall provide the 2011 PE Investors with an opportunity to discuss and review the financial statement of our Company. Our Company shall provide the other financial, statistics, transaction information of our Company to the 2011 PE Investors from time to time. *(c) Prior consent of share transfer by controlling shareholder* Before Listing, the controlling shareholders of our Company shall neither transfer any shares of our Company to the other shareholder(s) or any third party, nor pledge the shares which will result in the change of controlling shareholder, without the written consent of the 2011 PE Investors.

(d) *Right of first refusal and tag-along rights*

Before Listing, if the 2011 PE Investors consent to the proposed share transfers by the controlling shareholder(s), the 2011 PE Investors may choose to (i) purchase the proposed shares under the same conditions; or (ii) include the 2011 PE Investors' shares for sale together with the shares of the controlling shareholder as part of the sale to the third party purchaser (in which case the 2011 PE Investors shall have the rights to sell their proportionate shares to the potential purchaser first). The controlling shareholders and our Company shall procure the purchasers to accept the terms in the Share Subscription Agreement.

(e) *Pre-emptive rights*

Before Listing, the 2011 PE Investors are granted preferential rights to purchase additional securities (equities interests or convertible bonds) to be issued in the future by our Company at the same price and under the same conditions so as to maintain their percentage of shareholding in our Company.

(f) *No more favourable terms*

If our Company introduces any new investor(s) other than through a public offering, the price for such new investment shall not be lower than the price subscribed for by the 2011 PE Investors.

If our Company grants more favourable terms to any new investors, the 2011 PE Investors shall be entitled to the same rights automatically.

If the cost paid by the 2011 PE Investors is higher than the cost paid by any new future investors, the 2011 PE Investors may be entitled to either (i) additional shares to be transferred by the controlling shareholder(s), so the cost of the 2011 PE Investors is no higher than the one of the new investor; or (ii) the return of corresponding investment payment of the 2011 PE Investors by our Company or the controlling shareholder(s) so that the cost between the 2011 PE Investors and the new investors will be the same.

(g) *Preferential rights to acquire shares*

If our Company intends to issue new shares to any future investors, the 2011 PE Investors are entitled to the pre-emptive rights to acquire such shares in proportion to their shareholdings at the same price and under the same conditions.

Lock-up provisions:	The 2011 PE Investors are subject to a one-year lock-up period from the date of completion of the investment and 6-month lock-up period prior to the submission of listing application to CSRC. In addition, pursuant to Article 141 of the PRC Company Law, for a period of one year from the Listing, the 2011 PE Investors will not be allowed to transfer any of the Shares they acquire prior to Listing. Save as mentioned, the 2011 PE Investors will not be subject to any lock-up period after the Listing.
Benefits to our Company:	The Pre-IPO investments made by the 2011 PE Investors provided funds for, *inter alia*, our business expansion.
Shareholding in our Company upon Listing (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option):	Tianjin Chuang Dongfang – 2.03% Shenzhen Chuang Dongfang – 2.03% Tianjin Jiufeng – 1.01% Huaren Chuangxin – 1.01% Mr. Huang Changrong – 1.01% Shanghai Rongyin – 2.01%
Public float:	Since each of the 2011 PE Investors holds less than 10% of the total issued share capital of our Company immediately following the completion of the Listing, they will not be our substantial shareholders upon Listing and hence not a core connected person. Accordingly, all the Shares held by each of the 2011 PE Investors will be part of the public float after Listing for the purposes of Rule 8.08 of the Listing Rules.

Detailed information about each of the 2011 PE Investors is set out in the section headed "History and Development – Background of Our Shareholders"

Save as disclosed above, there are no other pre-IPO investment arrangement.

Sole Sponsor's Confirmation

Our Company and the Sole Sponsor are of the view that the pre-IPO investments mentioned above are in compliance with the Interim Guidance (i.e., Guidance Letter HKEX-GL29-12), the Guidance Letter HKEx-GL43-12 and the Guidance Letter HKEx-GL44-12.

ACQUISITION OF MINORITY INTEREST

Xi'an Dongfang was established on 6 September 2000 in Shaanxi Province in the PRC with a registered capital of RMB35,300,000.

Xi'an Dongfang's business license provides that it can engage in the production and sales of liquid milk products such as pasteurised milk, sterilised milk, modified milk, and fermented milk and beverages such as protein drinks, and it can also engage in the acquisition of agricultural by-products.

On 25 March 2013, we entered into an equity transfer agreement to acquire 18% equity interest in Xi'an Dongfang from Mr. Hu Keliang for a consideration of RMB33,676,200. The consideration was determined based on arm's length negotiations and the valuation provided by an independent valuer. The consideration was fully settled in cash. The remaining equity interest of Xi'an Dongfang was held as to 49.17% by Mr. Hu Keliang, 16.80% by Mr. Zhang Chenbin and 16.03% by Mr. Li Yanan. These shareholders of Xi'an Dongfang are all Independent Third Parties. Prior to and subsequent to such acquisition during the Track Record Period, Xi'an Dongfang had been a customer of our Group sourcing our Group's milk powder.

We have been advised by our PRC legal adviser, Gansu Zheng Tian He Law Firm that we have obtained all requisite approvals, permits and licenses in relation to such acquisition from the PRC competent authorities.

We undertook the acquisition with an aim to further develop our business and to explore opportunities in the Xi'an dairy industry.

BACKGROUND OF OUR SHAREHOLDERS

Immediately prior to the completion of the Global Offering, our Company was owned directly by four individuals, two investment vehicles, namely Zhuangyuan Investment and Lucky Cow, and eight institutional investors.

Our Individual Investors

Among our four individual Shareholders, Mr. Ma Hongfu is our Chairman, executive Director, general manager and a Controlling Shareholder. Immediately prior to the completion of the Global Offering, Mr. Ma Hongfu directly holds 30.56% equity interests in our Company and he is interested in and controls indirectly through Zhuangyuan Investment and Lucky Cow 29.32% and 14.24% equity interests in our Company, respectively.

The remaining three individual Shareholders are:

- Mr. Zheng Jiaming, who invested in our Company together with the other private equity investors in September 2010;
- Mr. Hu Kaisheng, who had been our shareholders since 2011 and who became our Promoter when our Company converted into a joint stock limited company in April 2011; and
- Mr. Huang Changrong, who is a businessman looking for investment opportunities in the PRC and who is independent of Mr. Ma Hongfu.

Among the two investment vehicles, Zhuangyuan Investment is owned as to 97.38% by Mr. Ma Hongfu (our Chairman) and as to 2.62% by Mr. Hu Kaisheng (who also owns shares in our Company directly). Lucky Cow is owned by a group of 18 individuals, including Mr. Ma Hongfu, our Chairman, who owns 39.44% in Lucky Cow, and Mr. Wang Guofu, our deputy chairman, executive Director, deputy general manager and financial controller, who owns 4% in Lucky Cow, and each of Zhang Fenmei, Zheng Linyun, Li Jun and Wang Jian who owns 18.22%, 13.33%, 6.67% and 6.67% in Lucky Cow, respectively. In addition, three beneficial shareholders of Lucky Cow are shareholders and/or senior management of Wenzhou Shuangfeng Light Machinery Limited Company and Wu Zong City Funong Dairy Cow Breeding Coop, which are suppliers of our Company for packaging materials, milk can vehicles and raw milk, respectively, during the Track Record Period. The other individual shareholders of Lucky Cow are all Independent Third Parties and as far as our Directors are aware, they do not have any past or present relationship (other than being Shareholders) among themselves.

Our Institutional Investors

The eight institutional investors of our Company immediately prior to the completion of the Global Offering, were Shanghai Rongyin, Chongqing Fukun, Shenzhen Chuang Dongfang, Tianjin Chuang Dongfang, Caiding Investment, Caicheng Investment, Tianjin Jiufeng and Huaren Chuangxin which are investment companies looking for investment opportunities in the PRC. These institutional investors came to know Mr. Ma Hongfu through, *inter alia*, their investment due diligence, or the reference by existing shareholder, or third-party institution and they held optimistic views on the prospect of our Company when they decided to invest in our Company. To the best of our Directors' knowledge, information and belief having made all reasonable enquiry, the respective ultimate beneficial owners of the eight institutional investors of our Company are Independent Third Parties and not connected with our Company and our subsidiaries.

The PRC Company Law provides that in relation to a public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the public listing on any stock exchange.

Set out below are further information about each of our institutional investors:

Shanghai Rongyin

Shanghai Rongyin is an investment company and was established on 25 November 2009 in the PRC. Each of Mr. Chen Zhangyin, Mr. Chen Yifan and Baoxiniao Group Co., Ltd. (報喜鳥集團有限公司) owns 20%, 20% and 60% interest in the registered capital of Shanghai Rongyin respectively. As at the Latest Practicable Date, Shanghai Rongyin held 2.68% interest in our Company.

Save as disclosure above, Shanghai Rongyin does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Chongqing Fukun

Chongqing Fukun is a limited liability partnership enterprise established in the PRC on 22 September 2009. Chongqing Fukun is owned as to 20% by Chongqing Technology Venture Risk Investment Guide Fund Co., Ltd. (重慶科技創業風險投資引導基金有限公司), 10% by Chongqing Hi-tech Group Co., Ltd. (重慶高科集團有限公司), 6.5% by Shenzhen Yide Group Co., Ltd. (深圳一德集團有限公司), 5% by each of Shenzhen Guangtian Investment Holding Co., Ltd. (深圳廣田投資控股有限公司), Shenzhen City Shiye Investment Co. Ltd. (深圳市視野投資有限公司), Shanghai Zhida Investment Co., Ltd. (上海致達投資有限公司), Mr. Cao Huibin (曹惠彬), Shanghai Jiucheng Real Estate Co., Ltd. (上海九城置業有限公司) and Guangdong Haohe Venture Co., Ltd. (廣東浩和創業有限公司) respectively, and the remaining 33.5% collectively by 20 partners, each holding not more than 5% interest in the registered capital of Chongqing Fukun, and among which Shanghai Rongyin, another institutional investor of our Company holds 2.5% interest of Chongqing Fukun. As at the Latest Practicable Date, Chongqing Fukun held 6.63% interest in our Company.

Save as disclosed above and in the biography of Mr. Song Xiaopeng in the section headed "Directors, Supervisors and Senior Management", each of the shareholders of Chongqing Fukun does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Shenzhen Chuang Dongfang

Shenzhen Chuang Dongfang is a limited liability partnership enterprise established in the PRC on 7 May 2010, which is owned as to 7.81% by Guangdong Hengfeng Investment Group Co., Ltd. (廣東恒豐投資集團有限公司), and 92.19% collectively by 35 partners, each holding not more than 5% of the interest. Shenzhen CDF – Capital Co., Ltd. (深圳市創東方投資有限公司) is the general partner and partner executing the partnership affairs of both Shenzhen Chuang Dongfang and Tianjin Chuang Dongfang, another institutional investor of our Company. As at the Latest Practicable Date, Shenzhen Chuang Dongfang held 2.70% interest in our Company.

Save as disclosed above, Shenzhen Chuang Dongfang does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Tianjin Chuang Dongfang

Tianjin Chuang Dongfang is a limited liability partnership enterprise established in the PRC on 20 April 2011, which is owned as to 8% by Xiao Shuyue, and 92% collectively by 49 partners, each holding not more than 5% of the interest. Shenzhen CDF – Capital Co., Ltd. (深圳市創東方投資有限公司) is the general partner and partner executing the partnership affairs of both Tianjin Chuang Dongfang and Shenzhen Chuang Dongfang, another institutional investor of our Company. As at the Latest Practicable Date, Tianjin Chuang Dongfang held 2.70% interest in our Company.

Save as disclosed above, Tianjin Chuang Dongfang does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Caiding Investment

Caiding Investment is a limited liability company established in the PRC on 9 July 2010, which is owned as to 19% by each of Yao Chengjie, Shao Zhuling, Zhou Ningguo and Wang Yusen respectively, 9.5% by each of Wang Shiguang and Liang Luyue respectively, and 5% by Tian Guangfeng. As at the Latest Practicable Date, Caiding Investment held 2.65% interest in our Company.

Save as disclosed above, Caiding Investment does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Caicheng Investment

Caicheng Investment is a limited liability company established in the PRC on 8 July 2010, which is owned as to 80% by Zhang Jian and 20% by Heyi. As at the Latest Practicable Date, Caicheng Investment holds 1.33% interest in our Company.

Save as disclosed above, Caicheng Investment does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Tianjin Jiufeng

Tianjin Jiufeng is a limited liability partnership enterprise established in the PRC on 2 April 2011, which is owned as to 27.52% by Yang Zhimao（楊志茂）, 18.35% by Guangdong Huamei International Investment Group Co., Ltd. (廣東華美國際投資集團有限公司), 9.17% by Hubei Yonglong Zhiye Investment Co., Ltd. (湖北永隆置業投資有限公司), 9.17% by Yang Wei (楊巍), 9.17% by Jiang Liangyu (江量宇), 2.75% by Jiuyin Investment Fund Management (Beijing) Co., Ltd. (久銀投資基金管理（北京）有限公司) and 23.84% collectively by 8 individual partners, each holding not more than 5% of the interest. As at the Latest Practicable Date, Tianjin Jiufeng held 1.35% interest in our Company.

Save as disclosed above, Tianjin Jiufeng does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

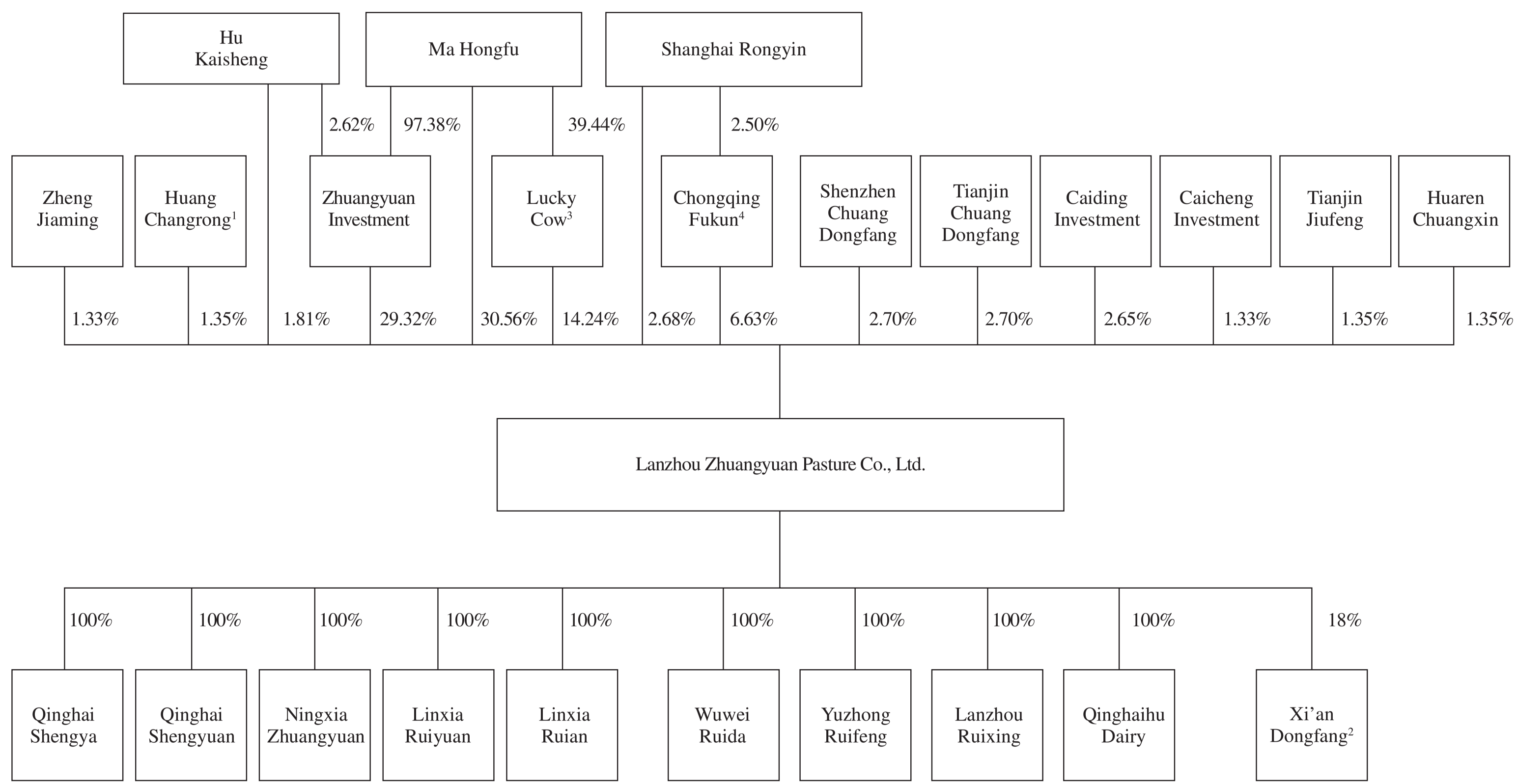
Huaren Chuangxin

Huaren Chuangxin is a limited liability company established in the PRC on 6 March 2000, which is owned as to 88.5% by Kuang Yuanping and 11.5% by Kuang Qiong. As at the Latest Practicable Date, Huaren Chuangxin held 1.35% interest in our Company.

Save as disclosed above, Huaren Chuangxin does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

CORPORATE STRUCTURE

The following chart sets out the corporate structure of our Group immediately before the Global Offering:



Note:

1. The Shares held by Mr. Huang Changrong have been frozen as a result of ongoing litigation involving Mr. Huang Changrong.
2. The remaining equity interest of Xi'an Dongfang are held as to 49.17% by Mr. Hu Keliang, 16.80% by Mr. Zhang Chenbin and 16.03% by Mr. Li Yanan, all of whom are Independent Third Parties.

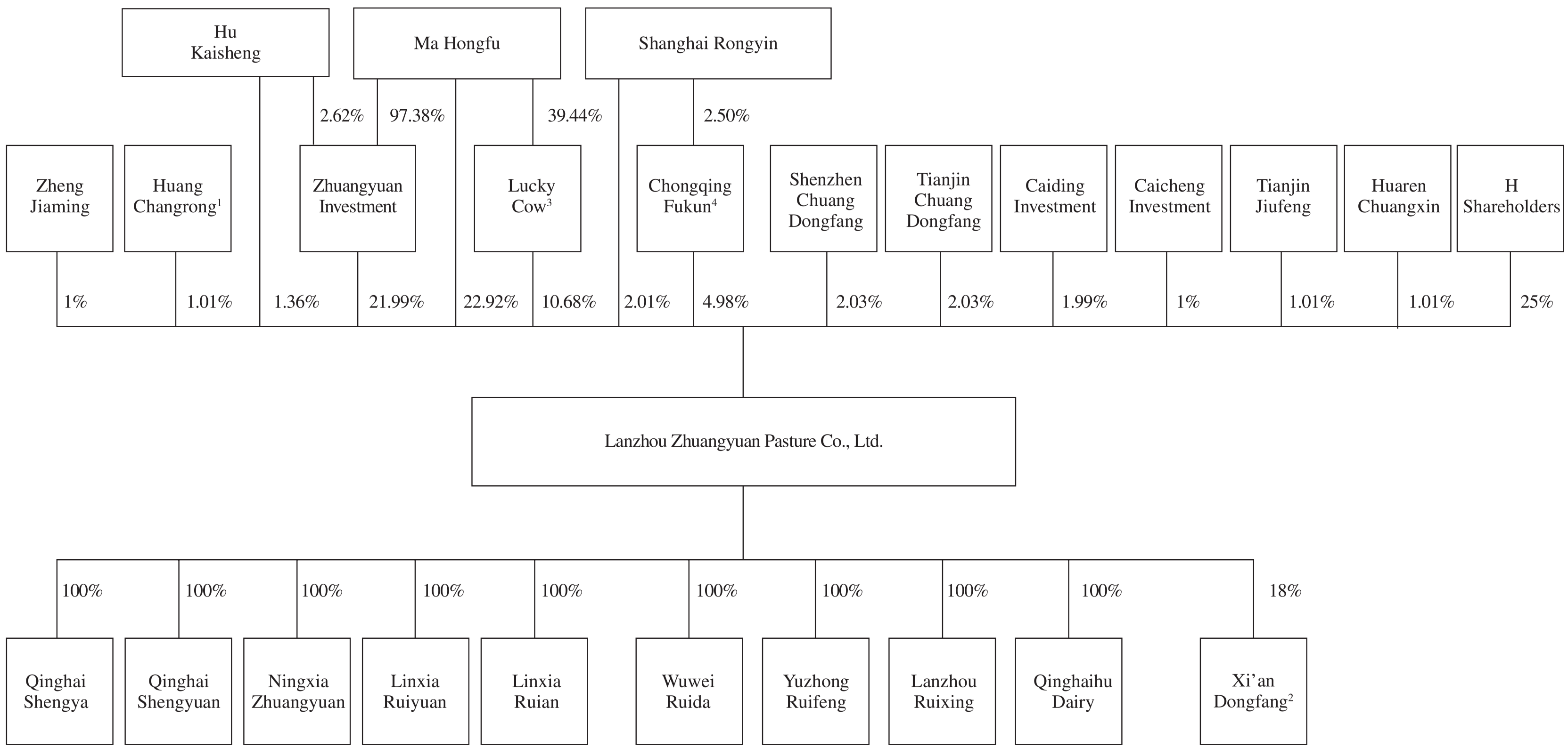
3. The remaining shareholders of Lucky Cow are:

No.	Name	Percentage of shareholding
1.	Wang Guofu (王國福)	4.00%
2.	Wang Xiaojuan (王曉娟)	1.33%
3.	Ma Junming (馬俊明)	0.67%
4.	Li Jun (李俊)	6.67%
5.	Zhang Kuishan (章魁山)	0.67%
6.	Li Zhiqi (李志起)	0.67%
7.	Li Yanling (李豔玲)	0.67%
8.	Li Wensheng (李文勝)	3.33%
9.	Qu Jialin (曲佳林)	0.33%
10.	Xu Yuqin (徐玉琴)	0.67%
11.	Wang Jian (王建)	6.67%
12.	Wang Jilin (王集林)	1.33%
13.	Zhou Yi (周毅)	0.67%
14.	Zheng Linyun (鄭淩雲)	13.33%
15.	Yan Zhengyou (鄢正友)	0.67%
16.	Qin Ruisheng (秦瑞生)	0.67%
17.	Zhang Fenmei (張芬梅)	18.22%

4. The remaining shareholders of Chongqing Fukun are:

No.	Name	Percentage of shareholding
1.	Chongqing Technology Venture Risk Investment Guide Fund Co., Ltd. (重慶科技創業風險投資引導基金有限公司)	20.00%
2.	Chongqing Hi-tech Group Co., Ltd. (重慶高科集團有限公司)	10.00%
3.	Shenzhen Yide Group Co., Ltd. (深圳一德集團有限公司)	6.50%
4.	Shenzhen Guangtian Investment Holding Co., Ltd. (深圳廣田投資控股有限公司)	5.00%
5.	Shenzhen City Shiye Investment Co. Ltd. (深圳市視野投資有限公司)	5.00%
6.	Shanghai Zhida Investment Co., Ltd. (上海致達投資有限公司)	5.00%
7.	Cao Huibin (曹惠彬)	5.00%
8.	Shanghai Jiucheng Real Estate Co., Ltd. (上海九城置業有限公司)	5.00%
9.	Guangdong Haohe Venture Co., Ltd. (廣東浩和創業有限公司)	5.00%
10.	Shanghai Zhongzhen Science Development Co., Ltd. (上海中臻科技發展有限公司)	3.50%
11.	Sichuan Taiji Property Co., Ltd.(四川泰基地產有限責任公司)	2.50%
12.	Wang Mei (王梅)	2.50%
13.	Chen Zhicheng (陳志程)	2.50%
14.	Pan Wei (潘煒)	2.50%
15.	He Liqing (何麗卿)	2.50%
16.	Zhang Hecan (張何燦)	2.50%
17.	Shenzhen Yuehai Global Logistics Co., Ltd. (深圳市越海全球物流有限公司)	1.75%
18.	Liu Zhiwei (柳志偉)	1.75%
19.	Chongqing Zhongji Import Export Co., Ltd. (重慶市中基進出口有限公司)	1.50%
20.	Shenzhen Fukun Venture Investment Co., Ltd. (深圳市富坤創業投資有限公司)	1.00%
21.	Liu Xiaosong (劉曉松)	1.00%
22.	Fang Yanxia (方廷俠)	1.00%
23.	Tan Wei (譚偉)	1.00%
24.	Zhan Hongwei (詹宏偉)	1.00%
25.	Li Li (李黎)	1.00%
26.	Qin Xiujuan (秦秀娟)	0.50%
27.	Qiu Chunmei (邱春媚)	0.50%
28.	Ao Jianfeng (敖劍峰)	0.50%

The following chart sets out the corporate structure of our Group immediately after the Global Offering, assuming the Over-allotment Option is not exercised:



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11.	Sichuan Taiji Property Co., Ltd.(四川泰基地產有限責任公司)	2.50%
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OVERVIEW

We are a leading dairy company in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. We ranked the first with a market share of 19.0% in the liquid milk product market in terms of retail sales value in the Gansu and Qinghai regional market in 2014, according to the Frost & Sullivan Report. Our sales in Gansu and Qinghai accounted for approximately 75.5% and 22.2% of our total sales, respectively, for the year ended 31 December 2014 and approximately 73.3% and 25.2% of our total sales, respectively, for the three months ended 31 March 2015.

Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. As at Latest Practicable Date, we owned and operated five dairy farms (including a dairy farm that commenced trial operation in July 2015) and collectively operated three dairy farms through cooperation with local dairy farmers. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, raw milk sourced from third-party suppliers represented approximately 72.3%, 69.7%, 59.9% and 54.6% of the total raw milk used for our production. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so that approximately 60% of our raw milk requirement could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products. Founded in 2000, we have gradually transitioned to a well-recognised integrated dairy company through our dedicated efforts. We have been named as one of the National Leading Enterprises for Agricultural Industrialisation (農業產業化國家重點龍頭企業) by MOA, NDRC, MOF, MOFCOM and other government authorities since 2008.

We offer a broad range of dairy products tailored to the needs and taste preferences of different consumer groups. Our principal products sold to retail consumers include (i) liquid milk products, which comprise pasteurised milk (i.e. fresh milk), UHT milk, modified milk and yogurt, and (ii) milk beverages. As at 31 March 2015, we had over 50 offerings of principal liquid milk and milk beverage products. We place strong emphasis on our product development to continuously develop new products that meets the evolving tastes and preference of our consumers, which differentiates us from our competitors in the region.

We market our products under three different brands, namely Zhuangyuan Ranch (莊園牧場), Shenghu (聖湖) and Yongdaobu (永道布). Our Zhuangyuan Ranch (莊園牧場) and Shenghu (聖湖) brands are widely recognised in Gansu and Qinghai, respectively. In particular, our Zhuangyuan Ranch (莊園牧場) brand has received many recognitions in recent years. In 2014, we started to market and sell under the Yongdaobu (永道布) brand our specialty dairy products featuring yak milk ingredient, which is richer in protein, fat and other minerals such as calcium and phosphorus compared to normal cow milk, and other specialty products featuring Qinghai-Tibet Plateau characteristics, such as highland barley and black gojiberry which are unique to the Qinghai-Tibet Plateau. We plan to position this brand for the nation wide market.

We introduced to the market our Cold Chain Liquid Milk Products (i.e., pasteurised milk and yogurt) since the commencement of our production of dairy products in 2000, and we made a strategic decision in 2012 to enhance our efforts in the development and sales of such products, which we believe will represent the new consumption trend in the near future. Since then, we have been making continuous effort to expand our production capacity and distribution network of our Cold Chain Liquid Milk Products. As a result, we have become a market leader in the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market. According to the Frost & Sullivan Report, we ranked the first in the Cold Chain Liquid Milk Product market in terms of retail sales value in the Gansu and Qinghai regional market in 2014. Turnover from our Cold Chain Liquid Milk Products was RMB75.2 million, RMB98.7 million, RMB179.1 million and RMB63.8 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively, accounting for 17.9%, 21.3%, 32.8% and 43.9% of our total turnover for the same periods, respectively. We enjoy higher gross profit margin for our Cold Chain Liquid Milk Products as compared to our other dairy products. The gross profit margin for our Cold Chain Liquid Milk Products was 38.6% and 38.2% for the year ended 31 December 2014 and for the three months ended 31 March 2015, respectively. According to the Frost & Sullivan Report, in Gansu, the Cold Chain Liquid Milk Product market in terms of retail sales value increased at a CAGR of 12.5% from RMB0.6 billion in 2009 to RMB1.0 billion in 2014, and is expected to grow at a CAGR of 12.8% to RMB1.9 billion by 2019. In Qinghai, the Cold Chain Liquid Milk Product market in terms of retail sales value increased at a CAGR of 11.6% from RMB0.2 billion in 2009 to RMB0.3 billion in 2014, and is expected to grow at a CAGR of 11.6% to RMB0.6 billion by 2019. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market in Gansu and Qinghai due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and then further expand into other provinces in the northwestern China market.

While focusing on the Cold Chain Liquid Milk Product market, we also leveraged on our strong brand recognition in the regional market to continue to strengthen the sales of our popular UHT milk and modified milk products during the Track Record Period, thereby maintaining our diversified product offerings. For example, condensed modified milk using Tetra Prisma and other aseptic carton packaging has become one of our popular products since its launch in 2013 due to the general acceptance of its taste which is catered to the preference of local customers, allowing us to command higher selling price and gross profit margin. Going forward, we intend to continue our efforts in the sales of our UHT milk and modified milk products that are popular among local customers to maintain our diversified product offerings.

We have established strict quality control and product safety management systems for all stages of our business from the procurement of feeds to dairy farming, sourcing and processing of raw milk to production, packaging, storage and delivery of our products. Due to our stringent compliance with applicable quality standards, we have received various awards and certifications, including Green Food certificate (綠色食品證書) for our pasteurised milk and UHT milk products issued by the China Green Food Development Centre (中國綠色食品發展中心), the ISO9001:2008 Quality Management System Certificate (質量管理體系認證證書) issued by the China Quality Certification Centre (中國質量認證中心) and the HACCP certification for our Lanzhou production plant issued by the China Quality Certification Centre. Our brands and products have never been associated with any food safety incidents. We believe we have successfully forged a brand image that signifies freshness, safety and high quality through our significant emphasis on safety and quality of our products.

BUSINESS MODEL

Our business consists of dairy farming, manufacturing and sales of dairy products. We began our production of dairy products in Lanzhou in 2000 and further expanded our business into dairy farming operations in Lanzhou in 2009. In 2010, our Company acquired Qinghaihu Dairy, which has been offering Shenghu (聖湖) branded products in Qinghai since 2005. As a result, we expanded our dairy business and dairy farming operation in Qinghai. We currently own two milk production plants, one in Gansu and one in Qinghai, with a total annual production capacity of 125,200 tonnes of liquid milk and milk beverages as at 31 December 2014. As at 31 March 2015, our total annual production capacity of liquid milk and milk beverages was 129,017 tonnes.

As at 31 March 2015, we operated a total of eight dairy farms with an aggregate area of approximately 1,300 mu, which can collectively house up to approximately 15,800 dairy cows. Our dairy farms are strategically located in Gansu, Qinghai and Ningxia, a region that has favourable climate and geographical conditions for dairy cattle raising. Among the eight dairy farms, we own and operate five dairy farms, including Lanzhou Ruixing dairy farm, which commenced its trial operation with raw milk production after the completion of construction of its main structure and facilities in July 2015. We collectively operate the remaining three dairy farms through cooperation with local dairy farmers. In the self-operated dairy farms, we breed our own cows and are fully responsible for the management of the farms in every aspect. With respect to the collectively-operated dairy farms, we own the dairy farms and facilities and are responsible for the general management of the farms, while local dairy farmers own the cows, attend to the day-to-day caring of the cows following our farm practices and provide raw milk to us exclusively at a contracted price. Under the collectively-operated dairy farm operation model, we are able to utilise the dairy cows owned by local dairy farmers to expand our operation scale of dairy farms without the initial purchase cost of heifers or calves and the respective breeding costs, while maintaining the source of raw milk and its quality through our quality control procedures. By this reason, we adopt the collectively-operated dairy farm operation model which is complementary to our self-operated dairy farms. To attract quality and experienced dairy farmers to cooperate with us, we granted advances to some of these farmers on a case by case basis for them to purchase dairy cows. We required the contracted farmers to pledge to us the dairy cows purchased using advances provided by us. We also required the contracted farmers to repay the advances provided by us on a monthly basis by way of partially offsetting our raw milk payment due to them. Apart from the advances, we do not provide the contracted farmers with incentives or financial support in other forms. According to the Frost & Sullivan Report, it is a common practice for dairy companies to adopt the collectively-operated dairy farm operation model in the PRC.

All of our raw milk suppliers are dairy farms that are within close proximity to our dairy production plants. We have strict quality control procedures to test the safety and quality of raw milk supplied to us to ensure it meets our requirements. As at 31 March 2015, we had entered into raw milk supply agreements with 12 external raw milk suppliers. For the year ended 31 December 2014, raw milk produced in our self-operated dairy farms and collectively-operated dairy farms accounted for approximately 40.1% of the total amount of raw milk used in our production, while raw milk sourced externally accounted for approximately 59.9%. For the three months ended 31 March 2015, raw milk produced in our self-operated dairy farms and collectively-operated dairy farms accounted for approximately 45.4% of the total amount of raw milk used in our production, while raw milk sourced externally accounted for approximately 54.6%.

Going forward, we plan to focus on our operations of our self-operated dairy farms and maintain the number of our collectively-operated dairy farms at current level under the same arrangements with our contracted farmers. We believe the best way to ensure the stable supply of premium and safe raw milk for our production is to have our self-operated dairy farms, because we are able to implement a full range of direct quality control procedures over our self-operated dairy farms at all times and at each stage including control over quality of feeds, dairy cows milking and processing of raw milk. With respect to our collectively-operated dairy farms, the local dairy farmers own the cows for which we have less control over the quality of their breeds and they also attend to the day-to-day caring of the cows, but they use our facilities and are required to follow our farm practices and management procedures, through which we are able to control the quality over the raw milk produced at these farms and as such our collectively-operated dairy farms serve as an alternative source to secure stable supply of premium and safe raw milk for our production. We intend to increase our herd size of premium dairy cows breed at our self-operated dairy farms. We also plan to expand the herd size at our existing collectively-operated dairy farms to supplement the supply of our raw milk so that a significant portion of our raw milk could be sourced internally. We plan to use part of the net proceeds from the Global Offering to import approximately 5,000 dairy cows from Australia or New Zealand by 2017. Furthermore, we plan to improve our raw milk production capacity and quality to satisfy the needs of our fast growing business. Our Directors confirm that we had not experienced shortage of the supply of high quality raw milk during the Track Record Period.

To maximise our reach to consumers, we utilise three main sales channels to sell and distribute our dairy products, namely distributors, sales agents and direct sales. In Lanzhou and Xining, we primarily sell our dairy products to end-consumers through sales agents and direct sales; whereas outside of Lanzhou and Xining, we primarily sell our dairy products through third-party distributors. As at 31 March 2015, we had 154 distributors and 126 sales agents. For the year ended 31 December 2014, our sales to distributors and sales agents generated approximately RMB298.4 million and RMB176.8 million, respectively, which accounted for approximately 54.7% and 32.4% of our total turnover, respectively. For the three months ended 31 March 2015, our sales to distributors and sales agents generated approximately RMB75.4 million and RMB56.3 million, respectively, which accounted for approximately 51.9% and 38.7% of our total turnover, respectively. Under the direct sales channels in Lanzhou and Xining, we sell our dairy products directly to major supermarkets and a large number of local schools. For the year ended 31 December 2014, our direct sales generated approximately RMB70.0 million, which accounted for approximately 12.9% of our total turnover. For the three months ended 31 March 2015, our direct sales generated approximately RMB13.6 million, which accounted for approximately 9.4% of our total turnover. Our sales network covers most of the local markets in Gansu and Qinghai.

Our total turnover increased from RMB420.4 million in 2012 to RMB463.5 million in 2013, and to RMB545.2 million in 2014. Our turnover increased from RMB118.0 million for the three months ended 31 March 2014 to RMB145.4 million for the three months ended 31 March 2015. Our gross profit increased from RMB115.5 million in 2012 to RMB117.6 million in 2013, and to RMB176.0 million in 2014. Our gross profit increased from RMB33.1 million for the three months ended 31 March 2014 to RMB47.1 million for the three months ended 31 March 2015. With the ability to offer a wide range of safe and high quality dairy products, we believe we are well positioned to replicate our success in the Gansu and Qinghai regional market in other markets.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths differentiate us from our competitors and have contributed to our success:

Trusted regional brands in Gansu and Qinghai associated with high quality and safety

We have built two top regional brands in the northwestern China, namely Zhuangyuan Ranch (莊園牧場) in Gansu and Shenghu (聖湖) in Qinghai. Our brands have strong market reputation and consumer recognition. Our strong brand recognition has enabled us to develop a loyal customer base in our principal markets. According to the Frost & Sullivan Report, we ranked the first with a market share of 19.0% in the liquid milk markets in terms of retail sales value in the Gansu and Qinghai regional market in 2014. We are also a leading provider of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market. According to the Frost & Sullivan Report, we ranked the first in the Cold Chain Liquid Milk Product market in terms of retail sales value in the Gansu and Qinghai regional market in 2014.

We began to offer our dairy products under the Zhuangyuan Ranch (莊園牧場) brand in 2000 when we commenced our business. Our Zhuangyuan Ranch (莊園牧場) branded products are manufactured in our milk production plant located in Gansu and primarily target customers in Gansu. In 2010, our Company acquired Qinghaihu Dairy, which has been marketing and selling dairy products under the Shenghu (聖湖) brand in Qinghai since 2005. Going forward, we plan to continue to strengthen the top regional brand position of our Zhuangyuan Ranch (莊園牧場) brand and Shenghu (聖湖) brand. We began to offer Yongdaobu (永道布) branded products in 2014, primarily offering dairy products with yak milk ingredient, which is richer in protein, fat and other minerals such as calcium and phosphorus compared to normal cow milk. We plan to position our Yongdaobu (永道布) brand as a national brand and further promote our dairy products nationwide featuring yak milk ingredient and other Qinghai-Tibet Plateau characteristics, such as highland barley and black gojiberry which are unique to Qinghai-Tibet Plateau. We believe such specialised products differentiate us from our competitors.

During our entire operational history, our products under Zhuangyuan Ranch (莊園牧場), Shenghu (聖湖) and Yongdaobu (永道布) brands have not been associated with any food-safety incidents of any material nature. We received various certifications which attest to our high production standards. For example, we received the ISO 9001:2000 quality management system certification in 2003, covering the product development and the production of pasteurised milk, UHT milk, yogurt, milk beverages and milk power issued by the China Quality Certification Centre. We started to receive the HACCP certifications for the production of our dairy products in our Lanzhou production plants in 2005. We also received the Green Food Certificate since 2003 and the Integrity Management System Certificate since 2013.

We believe that our long good track records have forged our trusted brand image which signifies safety and quality. Our brands have received many awards and recognitions in recent years. Our Zhuangyuan Ranch (莊園牧場) branded pure milk was named a "Famous Branded Product in Gansu Province" (甘肅名牌產品(「莊園牧場」牌純牛奶)) by the Gansu Province Brand Strategic Promotion Committee (甘肅省名牌戰略推進委員會) and our trademark Zhuangyuan Ranch (莊園牧場) was named a "Renowned Trademark in Gansu Province" (甘肅省著名商標(「莊園牧場」商標)) by the Gansu Province Administration for Industry & Commerce (甘肅省工商行政管理局). Our Shenghu (聖湖) branded pure milk was named a "Gold Medal Award Product in Qinghai Province" (青海省名優商品金獎) jointly by the Renowned Brand Evaluation Committee of Qinghai Province (青海省商業名牌評選委員會) and the Business Association of Qinghai Province (青海商業聯合會) in 2013 and our trademark Shenghu (聖湖) was named a "Renowned

Trademark in Qinghai Province" (青海省著名商標) by the People's Government of Qinghai Province (青海省人民政府) in 2012. We expect our well-recognised brands will continue to help us to develop new customer base and increase our market shares with our continuous expansion.

Extensive sales and distribution regional network in Gansu and Qinghai, which provides advantages to us in marketing and delivering fresh products to local customers

We utilise multiple sales and distribution channels for our dairy products to maximise our reach to consumers. In Lanzhou and Xining, we primarily sell our dairy products to end-consumers through sales agents and direct sales; whereas outside of Lanzhou and Xining, we primarily sell our dairy products through third-party distributors. As at 31 March 2015, we had 154 distributors and 126 sales agents. In addition, we also engage in direct sales through retail chains such as supermarkets and local schools. We have also started to use e-commerce sales channels to meet consumers' demand for convenience of purchase and accommodate consumers' habit of purchase.

We have actively responded to market development through the establishment of different sales channels. For example, we commenced our franchised community milk booths operation in Lanzhou to increase local penetration and supplement our network of sales agents in Lanzhou in 2011. We have also expanded our sales and distribution network by engaging additional distributors, especially in second- and third-tier cities in Gansu and Qinghai. Our sales and distribution network covers most of the local markets in Gansu and Qinghai.

We have established a distribution network for our Cold Chain Liquid Milk Products in Lanzhou and Xining, through our continuous effort and investments in the past few years. We also have established 179 community booths in large residential complex and high-end residential communities in Lanzhou to distribute our Cold Chain Liquid Milk Products.

Our extensive sales and distribution network in our principal markets allows us to reach a wide spectrum of customers and drive high product-turnover rates. It also allows us to efficiently and effectively roll out new products and marketing campaigns. In general, dairy product consumers have a high demand for the freshness of the products to be consumed as compared to other products. This is particular true for pasteurised milk, which contains more nutrition. We believe that the size and breadth of our sales and distribution network with high level of penetration in Gansu and Qinghai allow us to deliver our products to the local consumers much faster, which keeps our products fresh and provides a strategic advantage to us over our competitors.

Broad product portfolio and strong market-oriented product development capabilities to increase our product variety

We manufacture, market, distribute and sell a broad range of dairy products tailored to the needs and preferences of different consumer groups in our principal markets. As at 31 March 2015, we had over 50 offerings of principal liquid milk and milk beverage products. Our broad product portfolio enables us to meet the different demands and taste preferences of consumers. We are dedicated to introducing new products to further improve our product range and offering so that we can keep up with changes in consumer preference and capture new market trends. Innovative product offerings differentiate us from our competitors.

We constantly evaluate our products and seek to adapt to changing market conditions. Our marketing team performs market research and analysis to identify the latest consumer preferences. Our product development team then follows up by conducting a feasibility analysis and updating our existing products. We have devoted resources to adjust our product portfolio, upgrade our product lines, and add new products or line extensions to respond to market needs and target a wider group of consumers. In the future, we aim to continue to develop dairy products featuring yak milk ingredient and other Qinghai-Tibet Plateau characteristics under our Yongdaobu (永道布) brand which we launched to the market in 2014.

We strive to introduce new product offerings by engaging devoted product development efforts. We have two technology centres responsible for product development, one in Gansu and one in Qinghai. We have a product development team consisting of five personnel headed by Mr. Tao Shengjian. In 2010, Mr. Tao launched a research project on the stratification of yak milk (牦牛特濃乳分層問題研究) and was awarded the scientific and technological achievements completion certificate (科學成果完成證書) from the Science and Technology Department of Qinghai Province (青海省科學技術廳). In addition, we received the First Runner Up of Qinghai Tibet Yak Milk Deep Processing Technology Research and Product Development – National Science and Technology Award (青藏高原牦牛乳深加工技術研究與產品開發 – 國家科學技術進步二等獎) from the State Council of the People's Republic of China (中華人民共和國國務院). We were identified as the Gansu Provincial Enterprise Technology Centre (甘肅省省級認定企業技術中心) by several provincial government authorities jointly.

Ability to produce and procure a stable supply of high quality raw milk from different channels that are complementary to each other

A stable supply of premium and safe raw milk for processing and consumption is crucial to our business. To ensure stable supply of raw milk, we adopt multiple supply models to source our raw milk requirement: (i) raw milk produced in our self-operated dairy farms, (ii) raw milk produced in our collectively-operated dairy farms; and (iii) raw milk supplied by external dairy farms. We are conveniently located in northwestern China, which not only allows our dairy farms to benefit from the favourable geographic conditions but also allows us to take advantage of the abundant local supply of high quality raw milk to ensure a stable supply for our dairy product manufacturing.

In our own dairy farms, we raise and breed our own herd of dairy cows, which provide good source of high quality raw milk for further processing into dairy products. In September 2014, we imported high quality heifers aged between 12 months to 16 months from Australia. Australian pedigree dairy cows generally have relatively high milk yield. According to Frost & Sullivan, we currently have one of the largest herds of Holstein cattle in the Gansu and Qinghai regional market. We also collectively operate three dairy farms with local contracted farmers who undertake to carry out our farm practices for the breeding of their cows at these dairy farms. We procure raw milk produced by these farmer-owned cows from the contracted farmers at a pre-set price, adjustable according to market conditions but subject to a minimum purchase price payable on a monthly basis. We select local contracted farmers primarily based on their herd sizes, physical attributes of dairy cows and ability to strictly adhere to our farm practices. As at 31 March 2015, we had over 30 contracted farmers in our three collectively-operated dairy farms. In addition, we generally source high quality raw milk from selected external raw milk suppliers who are large-scale dairy cow breeding companies with over 250 dairy cows and located within close proximity to our milk production plants. We have entered into strategic cooperation agreements with these external breeding companies, which supplement our raw milk needs and ensure we have sufficient and stable supply of high quality raw milk.

Gansu, Qinghai and Ningxia are traditionally considered to be very suitable for dairy cow raising, not only because of the climate but also because of the abundant natural resources, such as wide grasslands and sufficient feeds. Gansu features a land area of 425,800 square kilometers, including 54,100 square kilometers of cultivated land and 179,000 square kilometers of grassland. In Qinghai, the eastern region is in the fertile valley of the Yellow River, centred on Xining where our dairy farms in Qinghai are located, which is the main agricultural and industrial centre. Ningxia features a land area of approximately 30,000 square kilometers of grassland, making Ningxia one of the regions suitable for dairy cow raising.

The abundant arable land in northwestern China ensures stable and quality feed supplies for dairy farms in this area. The dry climate also helps preserve the nutrients in the feeds. Silage can be kept for approximately one year after frementation. As the quality and yield of milk produced by a dairy cow are largely determined by the nutritional composition of its diet, stable supplies of quality feed are critical to the quality of raw milk. We source feed products from carefully selected feed suppliers based on their ability to supply quality feeds in accordance with our specifications. We also procure our forage supplies from local suppliers who provide forage according to our specifications to ensure consistent feed quality and quantity. As our dairy cows maintained a proper nutritional diet, we are able to produce and procure a steady supply of nutritious raw milk which is crucial to our business.

Strategic location in northwestern China enabling us to benefit from the significant growth of the dairy markets, as well as the supportive government policies in this region

China's economy, including that in northwestern China, has grown significantly in recent years. According to the Frost & Sullivan Report, the disposable income per capita of urban household in Gansu and Qinghai increased from RMB12,060 to RMB20,804 and from RMB12,692 to RMB22,307, respectively, between 2009 and 2014, or a CAGR of 11.5% and 11.9%, respectively. The growth in disposable income among consumers has led to a greater awareness of the importance of nutritional products to the health of consumers. We believe that as disposable income increases, nutritional products become more affordable and consumers generally spend an increasing portion of their disposal income on nutritional products. This has, in turn, led to a strong demand for nutritional products, including dairy products.

According to the Frost & Sullivan Report, the dairy market in China has experienced significant growth during the past few years. The total retail sales revenue from dairy products increased from RMB189.5 billion in 2009 to RMB330.1 billion in 2014, representing a CAGR of 11.7%. According to the Frost & Sullivan Report, the total sales revenue from dairy products in the Gansu and Qinghai regional market increased from RMB3.4 billion in 2009 to RMB6.4 billion in 2014, representing a CAGR of 13.3%. As a leading dairy producer in this region, we have the geographical advantages to capture the growth opportunity of the dairy market in Gansu and Qinghai. The Gansu and Qinghai region has historically had a high demand for dairy products due to its special ethnical group composition and their high milk consumption habit. Strategically located in this region, we believe we will continue to benefit from the high demand for dairy products in this region. In addition, we have received Halal Food Permit (清真食品許可證) for our dairy products, which we believe gives us an advantage in the sales of dairy products in the Gansu and Qinghai regional market where there are large population of people of Hui ethnic group.

In addition, the PRC government has in recent years promulgated various regulations and policies to further promote the economic development in northwestern China. For example, the PRC government provides preferential income tax treatments to businesses located in the northwestern region of China, which we have benefited from in the form of tax reductions or exemption. Pursuant to the Announcement of the State Administration of Taxation on Issues Concerning Enterprise Income Tax Related to

Enhancing the Western Region Development Strategy (關於深入實施西部大開發戰略有關企業所得稅問題的公告) issued by the State Administration of Taxation on 6 April 2012 and the relevant notices issued by local tax authorities, we enjoyed a reduced enterprise income tax rate of 15%. Strategically located in northwestern China, we believe that we will continue to enjoy the significant benefits resulting from government economic policies and preferential tax treatment.

Experienced and committed management team with proven track record

Our experienced management team comprises industry leaders and experts and has spearheaded our rapid development into a leading dairy company in Gansu and Qinghai. Our management team possesses long-term strategic vision. For example, our founder and chairman, Mr. Ma Hongfu, has accumulated in-depth knowledge about the dairy industry from his experience as an entrepreneur in the food industry for more than 10 years. Mr. Ma Hongfu is responsible for the overall management of our Company. Mr. Ma Hongfu is also president of the Dairy Association of Gansu Province (甘肅省奶業協會) and deputy president of the Food Industry Association of Gansu Province (甘肅省食品工業協會). In addition, Mr. Ma Hongfu has been honoured as "Rural Entrepreneur of Lanzhou (蘭州市鄉鎮企業家)".

Furthermore, Mr. Ma Hongfu has brought together an experienced and loyal senior management team, of which most members have over ten years of experience in their respective specialised areas. For example, Mr. Wang Guofu, our executive Director, deputy chairman and deputy general manager has completed his master courses in Lanzhou University (蘭州大學) majoring in Business Management and has an accountant qualification. Mr. Wang was appointed as our financial controller and is primarily responsible for the financial management and control of our Company. Please refer to "Directors, Supervisors and Senior Management" for details of our management team.

We believe that the work experience of our senior management evidences their dedication and commitment in forging a trusted dairy brand. Furthermore, members of our management team possess diverse experiences and expertise that complement each other. We also focus on advancing the skills and knowledge of our employees as well as exploring new potentials from our workforce. Our human resources department provides regular training for various department heads, designs training programmes for our staff and offers targeted training to certain of our key employees. We believe the ample training opportunities help foster a collaborative and loyal culture within our Group.

OUR STRATEGIES

Our goal is to further strengthen our regional market leading position and brand recognition in Gansu and Qinghai. To achieve this goal, we plan to implement the following strategies:

Pursue our branding strategies to strengthen our branding positions under our different brands, increase our market shares and enhance consumer loyalty

We will continue to maintain the regional brand position for Zhuangyuan Ranch (莊園牧場) brand in Gansu and our Shenghu (聖湖) brand in Qinghai and reinforce their recognition as leading regional brands in these markets, while at the same time position our Yongdaobu (永道布) brand as a national brand by promoting our Yongdaobu (永道布) branded Qinghai-Tibet Plateau dairy products beyond Gansu and Qinghai to the national markets.

As our Zhuangyuan Ranch (莊園牧場) and Shenghu (聖湖) brands have strong regional recognition, we plan to capitalise on the reputation and strength of the brands we have built over the years to further strengthen our market leader position in Gansu and Qinghai. We aim to reinforce the core values of our Zhuangyuan Ranch (莊園牧場) and Shenghu (聖湖) brands, which are freshness, safety and high quality, so that we can maintain consumer's confidence in our products. We intend to continue to promote our Zhuangyuan Ranch (莊園牧場) and Shenghu (聖湖) brands in Gansu and Qinghai to strengthen our well-recognised brand position in northwestern China.

We strive to promote our Yongdaobu (永道布) brand as a national brand, featuring our Qinghai-Tibet Plateau dairy products with yak milk ingredient, which is generally of higher nutritive value than raw milk. Given the geographical location of our Qinghai operations, we plan to build the brand image associating with the originality, pureness and uniqueness of our Qinghai-Tibet Plateau specialty dairy products. We believe these characteristics will differentiate our Yongdaobu (永道布) brand from other dairy brands in the market, making it well-positioned to develop into a national brand.

We believe our branding strategies will allow us to build three different brands, each of which will offer differentiated products to different groups of customers, thus further strengthening our overall competitive position, increasing our market share and enhancing consumer loyalty. We intend to carry out the following initiatives:

- undertaking large scale branding and advertising campaign via traditional media such as televisions, radio channels, magazines, outdoor billboards as well as the internet and other mobile internet to promote the awareness our brands;
- demonstrating our stringent safety control measures and advanced production processes through open-house events at our dairy farms and milk production plants; and
- sponsoring major regional events such as the Tour of Qinghai Lake International Cycling Race (環青海湖國際公路自行車賽).

Upgrade our cold chain distribution facilities to strengthen our regional market leader position in Gansu and Qinghai and expand our sales and distribution network

We believe our continuous investments in production capacity and quality assurance during the Track Record Period have been sufficient to accommodate our anticipated business expansion and sales level in the near future. Going forward, we plan to consolidate our resource on marketing, sales and distribution network and brand building. We intend to spend considerable efforts on strengthening our market leader position under the Zhuangyuan Ranch (莊園牧場) brand in Gansu and Shenghu (聖湖) brand in Qinghai, and market our Yongdaobu (永道布) branded products nationwide.

We believe the demand for premium Cold Chain Liquid Milk Products will continue to rise along with the increased awareness of the importance of nutritional products to the health and well-being of consumers. According to the Frost & Sullivan Report, in Gansu, the Cold Chain Liquid Milk Product market in terms of retail sales value increased at a CAGR of 12.5% from RMB0.6 billion in 2009 to RMB1.0 billion in 2014, and is expected to grow at a CAGR of 12.8% to RMB1.9 billion by 2019. In Qinghai, the Cold Chain Liquid Milk Product market in terms of retail sales value increased at a CAGR of 11.6% from RMB0.2 billion in 2009 to RMB0.3 billion in 2014, and is expected to grow at a CAGR of 11.6% to RMB0.6 billion by 2019. To capture the increasing demand for Cold Chain Liquid Milk Products, we plan to continue to expand our cold chain distribution network in Gansu and Qinghai and further in northwestern China. We believe that one of the key factors to a successful cold chain distribution network is the strategic location of cold warehouses outside of our production plants as it allows our products to reach local markets within 300 kilometers radius of our cold warehouses and also allows us to have better control over the quality of the Cold Chain Liquid Milk Products during the distribution process. We currently have two cold warehouses located in Lanzhou which enables us to ship some of our Cold Chain Liquid Milk Products from our production plant to these warehouses for further distributions. We plan to increase the number of our cold warehouses to 12 in Gansu and Qinghai to penetrate into local markets to expand our coverage. Furthermore, we intend to increase local penetration in additional end-markets of Cold Chain Liquid Milk Products by constructing approximately 3,000 community milk booths in Gansu and approximately 1,000 in Qinghai by 2017.

We also seek to expand our third party distributors to deepen our regional sales and distribution network and solidify our established position in Gansu and Qinghai, our primary markets. We will also continue to develop the e-commerce sales channels and satisfy the demands and preferences of different consumer groups through the internet direct sales portal to reach a wider customer base and to adapt to consumers' purchase habit.

With respect to our Yongdaobu (永道布) brand, we believe we have accumulated sufficient knowledge and resources over the past 15 years since we started our operations in the dairy industry, and it is the appropriate time to gradually roll out our brand nationwide. To position our Yongdaobu (永道布) brand for national expansion, we have already started to arrange our distribution resource and network in 2014. As a first stage of the network establishment, we plan to adopt distributorship sales model for the sales of our Yongdaobu (永道布) branded products outside of Gansu and Qinghai and focus on major cities in China such as Beijing and Tianjin.

Improve our raw milk production capacity and quality to satisfy the needs of our fast growing business

To secure stable supply of high quality raw milk to satisfy our production needs, we plan to continue to expand the herd size of our self-operated and collectively-operated dairy farms, although we will maintain our strategy to source raw milk from external dairy farms to supplement the supply of our raw milk. As at 31 December 2014, raw milk produced in our self-operated dairy farms and collectively-operated dairy farms accounted for approximately 21.1% and 19.0% of the total volume of raw milk used in our production, respectively. As at 31 March 2015, raw milk produced in our self-operated dairy farms and collectively-operated dairy farms accounted for approximately 24.2% and 21.2% of the total volume of raw milk used in our production, respectively. We plan to expand the herd size of dairy cows in our self-operated dairy farms and collectively-operated dairy farms such that it can satisfy approximately 60% of our total raw milk requirement within the next three to five years.

We plan to grow our existing herd of self-owned cows and contracted farmer-owned cows. We plan to further purchase approximately 5,000 heifers aged between 10 months to 24 months by 2017 from Australia after the Global Offering. We may increase the number of our dairy farms by acquiring established dairy farms or constructing new dairy farms in the future. We may undertake opportunistic pursuance of third party dairy farms located in the region through various means, such as acquisitions, equity investments or joint ventures, when and if opportunities arise. We believe dairy farms with 3,000 to 5,000 herds are the right sized investment targets but we have not identified any specific targets at this stage.

Enrich our product portfolio to address changing consumer preferences and offer new tasting experience to inspire demands for our products through our continuous product development efforts

We constantly evaluate our products and seek to adapt to changing market conditions through updating our existing products to reflect new trends in consumer preferences. Our track record of developing our own formulations and introducing new products to address changing market demand is an important advantage for competing in emerging product categories within our primary market.

We endeavour to enrich our product portfolio to capitalise on the rising demand for premium dairy products as a result of the rapidly developing economy in northwestern China. We believe that the increase in the average disposable income per capita should continue to drive the trend towards increasing willingness to pay for high quality premium dairy products with higher nutritional value.

We also strive to offer new tasting experience that inspires demands for our products which we believe cannot be easily replicated by our competitors. As such, in addition to broadening our Cold Chain Liquid Milk Products, we seek to enhance our product development capabilities and inspire to become a market leader of Qinghai-Tibet Plateau dairy products lines with distinctive local characteristics such as yak milk that distinguish us from our competitors in China. We are in the process of developing more products with yak milk ingredient under our Yongdaobu (永道布) brand. We plan to target our Yongdaobu (永道布) products to consumers between the ages of 25 to 45 years old who possess relatively stronger purchasing power compared with other consumer groups.

To further enhance our product development capability, we plan to establish a new technology centre focusing on new product developments, improvement of existing products, and launch of new products. Please refer to "Business – Product Development" for further details on our product development capability. We also plan to leverage our cooperative experience with local academic institute to explore additional joint research opportunities.

OUR PRODUCTS

We produce and sell a broad range of dairy products primarily in Gansu and Qinghai. Our principal product categories are liquid milk products and milk beverages. As at 31 March 2015, we had over 50 offerings of principal liquid milk and milk beverage products. We offer a broad range of dairy products in varying formulations targeted at different consumer groups. In 2014, we started to market and sell under the Yongdaobu (永道布) brand our specialty dairy products featuring yak milk ingredient, which is richer in protein, fat and other minerals such as calcium and phosphorus compared to normal cow milk, and other specialty products featuring Qinghai-Tibet Plateau characteristics, such as highland barley and black gojiberry which are unique to the Qinghai-Tibet Plateau. Revenue from the sales of dairy products under our Yongdaobu (永道布) brand was RMB0.8 million and RMB1.0 million, respectively, for the year ended 31 December 2014 and the three months ended 31 March 2015. The table below sets out our revenue by product category of our dairy products.

	For the years ended 31 December						For the three months ended 31 March			
	2012		2013		2014		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Liquid milk products										
pasteurised milk	24,570	5.8	25,895	5.6	25,877	4.7	5,393	4.6	4,738	3.3
UHT milk	215,597	51.3	174,335	37.6	127,904	23.5	36,832	31.2	24,706	17.0
modified milk	97,547	23.2	141,951	30.6	203,504	37.3	44,483	37.7	53,274	36.6
yogurt	50,679	12.1	72,773	15.7	153,240	28.1	19,123	16.2	59,038	40.6
Subtotal	388,393	92.4	414,954	89.5	510,525	93.6	105,831	89.7	141,756	97.5
Milk beverages	25,004	5.9	19,600	4.2	23,686	4.3	6,320	5.4	2,824	1.9
Others	7,020	1.7	28,970	6.3	11,028	2.1	5,807	4.9	831	0.6
Total	**420,417**	**100.0**	**463,524**	**100.0**	**545,239**	**100.0**	**117,958**	**100.0**	**145,411**	**100.0**

Liquid Milk Products

We offer a variety of liquid milk products under four sub-categories including (i) pasteurised milk (i.e. fresh milk); (ii) UHT milk; (iii) modified milk; and (iv) yogurt. The table below sets out certain basic information about our typical liquid milk products:

Product category	Nutrition Facts	Number of principal product offerings as at 31 March 2015	Shelf life
Pasteurised milk (per 100 ml)	• Energy: ≥ 249kJ • Protein: ≥ 2.9g • Fat: ≥ 3.1g • Non-fat milk solids: ≥ 8.1g	7	Three to six days at low temperature (2˚C– 6˚C)
UHT milk (per 100 ml)	• Energy: ≥ 249kJ • Protein: ≥ 2.9g • Fat: ≥ 3.1g • Non-fat milk solids: ≥8.1g	10	60 days at room temperature
Modified milk (per 100 ml)	• Energy: ≥ 249kJ • Protein: ≥ 2.9g • Fat: ≥ 3.1g • Non-fat milk solids: ≥8.1g	10	60–180 days at room temperature
Yogurt (per 100g)	• Energy: ≥ 132kJ • Protein: ≥ 2.3g • Fat: ≥ 2.5g	22	15–21 days at low temperature (2˚C– 6˚C)

Pasteurised milk

Pasteurised milk is commonly referred to as fresh milk. Pasteurisation is a process generally adopted in the modern dairy industry to heat up raw milk to approximately 70°C–90°C to reduce the risks of bacterial disease from microbial growth. Pasteurised milk is generally regarded as more nutritional and better for health given that it is able to maintain nutrition contents from raw milk to the largest extent and keeps a better taste than UHT milk. The table below sets out certain basic information about our pasteurised milk products that are, or are expected to be, our top selling pasteurised milk products under our Zhuangyuan Ranch (莊園牧場) brand and Shenghu (聖湖) brand:

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
Zhuangyuan Ranch (莊園牧場)			
1. 	1.6	• Protein: 2.9g • Fat: 3.1g • Milk	Glass bottle
2. 	1.2	• Protein: 3.0g • Fat: 3.1g • Milk	Roof-top type carton
3. 	1.4	• Protein: 2.9g • Fat: 3.1g • Milk	Ecolean
Shenghu (聖湖)			
4. 	1.75	• Protein: 2.9g • Fat: 3.1g • Milk	Ecolean

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
5. 	1.66	• Protein: 2.9g • Fat: 3.1g • Milk	Glass bottle

UHT milk

UHT milk refers to milk processed using ultra-high sterilisation method whereby raw milk or reconstituted milk is heated to a high temperature of approximately 135°C to 150°C to eliminate bacteria and microbial. Compared with pasteurised milk products, UHT milk products have a much longer shelf life. The table below sets out certain basic information about our UHT milk products that are, or are expected to be, our top selling UHT milk products under each of our three brands:

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
Zhuangyuan Ranch (莊園牧場)			
1. 	2.0	• Protein: 2.9g • Fat: 3.1g • Milk	Tetra Prisma Aseptic Package
2. 	1.0	• Protein: 3.0g • Fat: 3.1g • Milk	Tetra Fino Aseptic Package
Shenghu (聖湖)			
3. 	1.0	• Protein: 2.9g • Fat: 3.1g • Milk	Tetra Fino Aseptic Package

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
4. 	2.2	• Protein: 2.9g • Fat: 3.1g • Milk	Tetra Prisma Aseptic Package
Yongdaobu (永道布)			
5. 	2.4	• Protein: 3.1g • Fat: 3.1g • Milk	Tetra Prisma Aseptic Package

Modified milk

Our modified milk products are processed from not less than 80% of raw milk or reconstituted milk as major ingredient using UHT sterilisation method. In addition to raw milk, we add other ingredients such as nutritional supplements to enhance nutritive value and to improve the taste of our products. The table below sets out certain basic information about our modified milk products that are, or are expected to be, our top selling modified milk products under each of our three brands:

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
Zhuangyuan Ranch (莊園牧場)			
1. 	1.1	• Protein: 2.9g • Fat: 3.1g • Milk and nutritional supplements	Tetra Fino Aseptic Package
2. 	1.7	• Protein: 2.9g • Fat: 3.1g • Milk and nutritional supplements	Tetra Brik Aseptic Package

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
3. 	2.4	• Protein: 2.9g • Fat: 3.1g • Milk and nutritional supplements	Easy-to-open can
Shenghu (聖湖)			
4. 	1.1	• Protein: 2.9g • Fat: 3.1g • Milk and nutritional supplements	Tetra Fino Aseptic Package
5. 	2.1	• Protein: 2.9g • Fat: 3.1g • Milk and nutritional supplements	Tetra Prisma Aseptic Package
Yongdaobu (永道布)			
6. 	4.2	• Protein: 3.4g • Fat: 4.0g • Reconstituted yak milk	Easy-to-open can
7. 	4.0	• Protein: 2.3g • Fat: 2.5g • Milk • Fruit juice	Easy-to-open can

Yogurt

Our yogurt products are made by cultivating lactic acid and lactic acid bacteria in our premium raw milk. In addition to plain yogurt, we offer flavoured yogurt by blending plain yogurt with fruit juice or pulps. The table below sets out certain basic information about our yogurt products that are, or are expected to be, our top selling yogurt products under our Zhuangyuan Ranch (莊園牧場) brand and Shenghu (聖湖) brand:

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
Zhuangyuan Ranch (莊園牧場)			
1. 	1.6	• Protein: 2.3g • Fat: 2.5g • Milk and yogurt bacteria	Glass bottle
2. 	1.9	• Protein: 3.0g • Fat: 2.5g • Milk and yogurt bacteria • Fruit juice	Ecolean
3. 	1.4	• Protein: 2.3g • Fat: 2.5g • Milk and yogurt bacteria • Fruit pulps	Plastic cup
4. 	1.8	• Protein: 3.0g • Fat: 3.1g • Milk and yogurt bacteria	Roof-top type carton

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
Shenghu (聖湖)			
5. 	1.66	• Protein: 2.3g • Fat: 2.5g • Milk and yogurt bacteria	Glass bottle
6. 	1.94	• Protein: 3.0g • Fat: 2.5g • Milk and yogurt bacteria	Ecolean
7. 	2.5	• Protein: 3.0g • Fat: 2.5g • Milk and yogurt bacteria • Fruit juice	Ecolean

Milk Beverages

Our milk beverages are made by blending raw milk or reconstituted milk with water, food additive and other ingredients. Our emphasis on offering a broad range of products has led to introduction of new flavours such as red date, walnut and peanut. The table below sets out certain basic information about our representative milk beverages products:

Selected Products	Suggested retail price (in RMB per 100 ml)	Major nutritive value and ingredients	Packaging
Zhuangyuan Ranch (莊園牧場)			
1. 	0.7	• Protein: 0.3g • Fat: 0.3g	Tetra Brik Aseptic Package

Others

Our other products primarily include milk tea powder, raw milk and milk powder. We sometimes sell raw milk and milk powder externally, but they are not our regular products. We typically utilise all of the raw milk produced at our self-operated and collectively-operated dairy farms for production of our regular dairy products. Milk powder is used as a form of raw milk reserve for the production of our dairy products. Occasionally where our raw milk supply by our self-operated and collectively-operated dairy farms is slightly in excess of our production requirement in accordance with our production plan at a certain point, we then sell the excessive raw milk externally in response to demand from customers instead of processing such raw milk into milk powder. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, revenue generated from sales of raw milk was RMB1.4 million, RMB0.2 million, RMB0.9 million and nil, representing approximately 0.33%, 0.04%, 0.16% and nil of our total revenue, respectively.

SALES AND DISTRIBUTION

We adopt three different sales channels to sell and distribute our dairy products, namely, distributors, sales agents and direct sales. In selecting the appropriate sales models, we take into account many factors such as our leading brand position in the relevant markets, the principal markets we intend to focus on, the resources needed to promote our brand awareness in the relevant targeted markets, our internal resources, customer needs and the costs of serving our consumers. We generally use sales agent and direct sales models for sales of our Zhuangyuan Ranch (莊園牧場) branded dairy products in Lanzhou and Shenghu (聖湖) branded dairy products in Xining. We generally use distributorship model for sales outside of these two cities. The table below sets out our revenue by sales channel.

	For the years ended 31 December						Three months ended 31 March			
	2012		2013		2014		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Distributors	229,777	54.7	218,508	47.1	298,435	54.7	74,040	62.8	75,427	51.9
Sales agents	94,653	22.5	141,524	30.6	176,843	32.4	33,083	28.0	56,338	38.7
Direct sales	95,987	22.8	103,492	22.3	69,961	12.9	10,835	9.2	13,646	9.4
Total	**420,417**	**100.0**	**463,524**	**100.0**	**545,239**	**100.0**	**117,958**	**100.0**	**145,411**	**100.0**

Under the distributorship model, we allow certain level of flexibility to our distributors in fixing the selling prices of our products that they onsell in the relevant local markets, taking into account the differences and need of those markets. Under the sales agent model, generally our sales agents purchase our products at a uniform purchase price from us, and they are required to adhere to a uniform selling price when they sell the products to their points of sales. These sales agents are also responsible for the logistic arrangement and distribution of our products to their sales points or customers. Under the direct sales model, we sell and distribute our products primarily to supermarkets in Lanzhou and Xining and also a large number of local schools in Gansu and Qinghai.

We adopt sales agent and direct sales models primarily within Lanzhou and Xining because we believe we are one of the market leaders in Lanzhou and Xining and thus can have more influence and control over the selling price in these markets; while we adopt the distributorship model primarily for markets outside of Lanzhou and Xining because we believe this model will enable us to reach a broader scope of different local markets in Gansu and Qinghai with less resources required from us, thus freeing up our internal resources to focus on brand building and product development.

Distributors

For our targeted markets outside of Lanzhou and Xining, we generally sell our dairy products through third-party distributors (經銷商). As at 31 March 2015, we primarily worked directly with approximately 154 distributors. By adopting this distribution model, we are able to expand our business quickly by saving additional management resources and attention, including administrative, selling, and marketing expenses. Moreover, it generally takes less time to explore market opportunities and build local sales and marketing teams in new regions under the distributorship model when compared with the sales agent or direct sales model. We believe that the use of distributors is generally in line with the industry practice in China.

Our distributors are primarily self-employed individuals and trading companies. We select our third party distributors based on a number of criteria, including but not limited to delivery capabilities, distribution network coverage, relationship with sales channels, possession of relevant licences and their resource deployment for target markets. For example, we generally require new distributors to have a stable place of business, a wide network of sales points and more than two years' working relationship with targeted sales channels. We require our distributors to possess qualifications and licences required for their operation under our distribution agreement. However, our distributors may not comply with our requirement. Please see "Risk Factors – Risks Relating to Our Business – Failure to manage our distribution network may materially and adversely affect our business" for further information.

We generally enter into written agreements with our distributors. The key aspects of our typical arrangements are set forth below:

- *Term*. Our agreements with distributors generally have a term of one year, renewable subject to satisfactory performance in the previous year.

- *Deposit.* We typically require our distributors to pay us a specified amount of deposit upon the signing of the distributorship agreements. Such deposit is refundable upon the termination of the agreements if certain conditions are satisfied.

- *Designated sales channels and areas and competition*. The agreements specify the designated sales areas for each of our distributors. We do not permit our distributors to sell or distribute our products outside their designated sales areas. We are entitled to terminate the agreements for non-compliance with this term. We do not allow our distributors to carry competing products without our written consent.

- *Pricing mechanism*. We generally price our products based on a number of factors including the prices of competing products as well as our cost of production. Our distributors has the right to mark up the selling price when they onsell to their points of sales. Our distributors sell our products to various types of points of sales such as supermarkets, convenience stores and sub-distributors. We have no contractual relationship with these points of sale.

- *Sales targets and management*. Typically, our distributors will place purchase orders in accordance with their sales and inventory level. We generally have pre-set monthly sales targets for our distributors. We seek to manage our distributors through an evaluation system that monitors and grade each distributor on a monthly basis with respect to performance criteria such as monthly sales targets. We may terminate our relationship with any distributor who fails to meet our sales targets over the course of three months. We seek to incentivize well-performing distributors by providing various types of promotional support.

- *Retail and promotional campaigns*. We may provide region-wide advertisement or large-scale regional promotional campaigns. We will also provide product logos and shop-front designs for promotional purposes.

- *Payment terms*. We generally require our distributors to pay full purchase price for our products when they place orders. We generally do not extend credit to our distributors. However, we may grant credit to distributors on a case by case basis, taking into consideration their credit record.

- *Delivery and revenue recognition*. For distributors located in our delivery area, we are generally responsible for arranging delivery of products from our warehousing facilities to the locations designated by these distributors. We employ third party logistic service providers for the delivery of our dairy products. Our logistic service providers are generally responsible for damages to products caused in transit. We recognise revenue when the goods are delivered to these distributors. For distributors located outside our delivery zone, they are responsible for arranging delivery on their own and damages to products caused in transit. In this case, we recognise revenue when distributors collect goods from our warehouses. Our distributors are purchasers of our products.

The following table sets forth the changes in the number of distributors as at the dates indicated.

	As at 31 December			As at 31 March
	2012	2013	2014	2015
Distributors at the beginning of the period	112	118	131	154
Addition of new distributors	35	59	43	0
Termination of distributors	29	46	20	0
Net increase in distributors	6	13	23	0
Distributors at the end of the period	118	131	154	154

The termination of distributors during the Track Record Period was either because (i) such distributors failed to meet our sales targets or other performance requirements, or (ii) they voluntarily terminated the cooperation with us due to personal reasons.

Home-Delivery Distribution System (送奶到戶). We provide home-delivery service for our pasteurised milk and yogurt products to customers in Gansu. The target customers for our home-delivery service are urban residents in Lanzhou. We engaged exclusive third-party distributors to facilitate the operation of our home-delivery distribution service and we consider these third-party distributors part of our distributorship network as they have their own marketing team, distribution system and marketing channels. They are required to use our logo and our uniform design for the milk booths and transportation vehicles for our dairy products and their staff need to wear uniform clothes with our logo. The key terms and arrangements with these home-delivery distributors are different to those in our standard distribution agreement mentioned above. The main differences are (i) the home-delivery distributors are required to strictly follow the prices listed in the agreement, which are in line with our suggested retail prices, when they onsell our products to the consumers; (ii) they are required to prepay for our products monthly based on their purchase amount of the previous month; (iii) they are not required to pay us deposit upon signing of the agreements; (iv) they are responsible for promotional campaigns; (v) the term of the agreement may vary and is subject to the need of our home-delivery distribution system development. During the Track Record Period, our agreements with home-delivery distributors are either with a term of three years or one year, and may be renewed by mutual consent; and (vi) we generally have pre-set monthly and annual sales targets as well as pre-set selling prices for our home-delivery distributors. We had entered into home-delivery distribution agreements with one distributor for the year ended 31 December 2012 and with two distributors for each of the years ended 31 December 2013 and 2014 and the three months ended 31 March 2015. All the risks, rewards and ownership of the products are transferred when the goods are delivered to the home delivery service distributors, and we recognise revenue at that point. Our revenue generated from home-delivery service was RMB8.5 million, RMB23.3 million, RMB21.4 million and RMB4.1 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively, accounting for 2.0%, 5.0%, 3.9 % and 2.8% of our total turnover for the same period.

To the knowledge of our Directors, all of our distributors were Independent Third Parties as at 31 March 2015.

Sales Agents

Sales agent model is primarily adopted for our sales in Lanzhou and Xining. As at 31 March 2015, we worked with approximately 126 sales agents in Gansu and Qinghai. Most of our sales agents are self-employed individuals (個體戶).

We select our third party sales agents based on a number of criteria, the most important being its working capital resource, the size of its delivery team and delivery vehicles, the number of points of sales it can cover, its ability in developing new sales channels, its experience in managing the sales network, and its capability in consumer management.

The following table sets forth the changes in the number of sales agents as at the dates indicated.

	As at 31 December			As at 31 March
	2012	2013	2014	2015
Sales agents at the beginning of the period	70	86	91	126
Addition of new sales agents	27	22	46	0
Termination of sales agents	11	17	11	0
Net increase in sales agents	16	5	35	0
Sales agents at the end of the period	86	91	126	126

The termination of sales agents during the Track Record Period was either because (i) such sales agents failed to meet our sales targets or other performance requirements, or (ii) they voluntarily terminated the cooperation with us due to personal reasons.

We generally enter into written agreements with our sales agents. The key terms of our agreements and arrangements with sales agents are very similar to those with our distributors. The main differences are (i) sales agents do not have the right to mark up the selling price when they onsell their points of sales, but rather they are required to adhere to a uniform selling price set by us. Sales agents receive certain percentage of the selling price and a transportation fee as their fees; (ii) sales agents are responsible for arranging delivery of our products from our warehousing facilities to their points of sales; (iii) sales agents are required to pay full purchase price for our products when they pick them up at our warehousing facilities. All the risks and rewards of ownership are transferred when sales agents collect goods from our warehouses and we recognise revenue at this point. Our sales agents are purchasers of our products.

Franchised Community Milk Booths. In addition to the above arrangement, we adopt a franchised community milk booth (社區新鮮奶亭) model to sell our Zhuangyuan Ranch (莊園牧場) branded dairy products in Lanzhou, which we categorise as part of our sales agent model primarily because our franchisees are also required to adhere to the uniform retail price we set for the market and do not have any right to adjust the selling price of products sold through the community milk booths.

We commenced our community milk booths franchise operation in 2011 and we aimed to develop new sales channels to supplement our sales agent network with the goal to provide end-customers with direct supply of our quality Cold Chain Liquid Milk Products. As a pilot plan, the development of franchised community milk booth operation was in a relatively small scale during the Track Record Period. We have also been trying to synchronise the launch of new community milk booths with our overall sales strategy and the resources available to us. As at 31 March 2015, we had 179 franchised community milk booths in Lanzhou.

Under the franchised community milk booth model, community milk booths are installed in the designated locations we lease. We have the ownership of these community milk booths and are responsible for their maintenance. We select suitable locations for the community milk booths which are preferably at large or high-end residential complexes. We then negotiate and enter into lease agreements with property owners of the selected premises. The lease agreements usually have a term of one year and are renewable by mutual consent. Under the lease agreements, we are responsible for the rental payments to the landlords. However, by way of arrangements with our franchisees, we generally require our franchisees to settle the rental payments with the landlords first, and then we reimburse our franchisees in the form of rental subsidies for up to a maximum amount which is determined by us after taking into account of the actual rental costs as well as the incentives we paid to our franchisees. To the extent the rental subsidies are less than the total actual rental payments, our franchisees are responsible for such difference. We also engage contractors to construct customised community milk booths which are made in accordance with the specification and standardised design we furnish. The exterior walls of the community milk booths are also designed to function as advertising space of our products. As each of the community milk booths itself has served as an important and effective way of direct advertising channel which penetrates into the local markets with close proximity to our end-customers, we do not expect to incur material marketing costs in relation to our community milk booths.

Each community milk booth is typically equipped with a double-door refrigerator to store our Cold Chain Liquid Milk Products, several storage racks, bar tables, and an electric meter. Under our arrangement with the franchisees, electricity fees are paid by our franchisees. However, as an incentive to encourage and ensure our franchisees to use refrigerators to properly store our Cold Chain Liquid Milk Products, we generally provide our franchisees with monthly electricity subsidies up to a maximum amount which is determined by us after taking into account of the average monthly electricity costs of a community milk booth.

Our franchisees are authorised to operate under our Zhuangyuan Ranch (莊園牧場) brand. They purchase dairy products from us, with a focus on our Cold Chain Liquid Milk Products, and sell these products in the community milk booths. Community milk booths are an important composition of our Cold Chain Liquid Milk Product distribution network as they allow us to penetrate into the end-market, increase our points of sale and extend our customer reach. We believe that our community milk booths provide our customers with convenient access to our Cold Chain Liquid Milk Products and serve as an effective way of direct advertising, which we believe will drive our product sales. We also believe that our community milk booths which form part of our sales agent model with a primary focus on Cold Chain Liquid Milk Products will complement our other existing distribution channels which generally provide a comprehensive product offering and thus will not compete directly with our other existing distribution channels.

The key terms of the arrangements with our community milk booth franchisees, as well as the main differences between these terms and those of our sales agents, are set out below:

- *Term.* We enter into written agreements with our franchisees typically with a term of three years.

- *Designated area and competition.* Each franchise agreement specifies the geographic coverage of the community milk booth, use of our logo, fees and charges, consumer service requirements, intellectual property rights and liabilities of breach. Generally, the geographical coverage of each community milk booth is limited to one residential complex, except for large residential complex consisting different phases of development. When selecting the location for our community milk booths, we generally ensure each community milk booth will serve and maintain a minimum customer base of approximately 500 households within a residential complex. Hence, our franchisees are subject to the exclusive geographic coverage specified in each franchise agreement and do not directly compete with each other. Furthermore, as our franchisees are required to adhere to the uniform retail prices we set for the local market, we believe the pricing competition among community milk booths is minimal.

- *Fees.* We are entitled under the franchise agreements to charge our franchisees a non-refundable franchise fee for each term of the franchise agreement. We have the right to require such fee paid upon entering into the franchise agreement. The franchise agreements also typically provide for electricity and rental subsidies to our franchisees.

- *Sales targets and management.* There is no requirement on minimum sales targets for the franchisees in the agreements. The franchisees are required to place orders with us two days in advance and pay us the purchase price in full when they collect our dairy products at our warehousing facilities on a daily basis. We generally do not extend credit to our franchisees. We require our franchisees to comply with our standards in respect of decoration, displays, marketing activities, pricing and daily operations as prescribed by us from time to time. We provide informal training to our franchisees. The franchisees are required to submit to us a monthly business report which usually sets forth a breakdown of the franchisee's income, sales turnover, product pricing and subsidies received from us. We review and monitor their sales performance against our pre-set benchmarks, including, among others, conformity with the terms of respective franchisee agreements, adherence to our uniform retail prices and our targeted sales volume and financial targets, so that we can keep track of our profitability, the profitability of our franchisees and the sustainable development of each community milk booth.

- *Termination.* If a franchisee fails to comply with the material clauses of the franchise agreement, we have the right to terminate the agreement. During the Track Record Period, none of the contracts with franchisees were terminated due to their failure to comply with material clauses of the agreement.

- *Revenue recognition.* All the significant risks, rewards and ownership of the products are transferred when the franchisees collect goods at our warehouse and we recognise revenue at that point. Therefore, we regard these franchisees as our customers. Revenue from sales to our community milk booth franchisees was RMB4.3 million, RMB12.2 million, RMB16.1 million and RMB3.7 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively, accounting for 1.0%, 2.6%, 3.0% and 2.5% of our total turnover for the same period.

- *Product return and exchange.* During the Track Record Period, as an interim measure to maintain our relationships with community milk booth franchisees and support their operations of our community milk booths, we agreed to unconditionally accept product returns or exchanges pursuant to the agreements with our existing community milk booth franchisees. We believe such arrangement served as a specific incentive to our community milk booth franchisees during the developing stage of our franchised community milk booth operation. According to the Frost & Sullivan Report, the arrangement for allowing milk products to be returned or exchanged unconditionally is only adopted by a small number of regional brands and thus we believe it is not an industry norm in the PRC. We recorded revenue at the point when the franchisees collected goods at our warehouses and recorded the estimated product returns and exchanges, based on our historical experiences, as reduction to the revenue. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, product returns and exchanges from our community milk booth franchisees were approximately RMB2,000, RMB6,000, RMB72,000 and RMB11,000, respectively, representing approximately 0.05%, 0.05%, 0.45% and 0.30% of the total sales to community milk booth franchisees. During the Track Record Period, all product returns or exchanges were due to quality defects or spoilage. Given the short shelf life of Cold Chain Liquid Milk Products, which is normally three to six days for pasteurised milk, and 15 to 21 days for yogurt, we require each franchisee to provide us with daily order two days in advance and delivery is arranged on a daily basis. As the customer base of each community milk booth is mainly from the residents of a relevant residential complex, daily sales of our Cold Chain Liquid Milk Products are relatively stable, which provides a reasonable basis to our estimated daily supply of Cold Chain Liquid Milk Products to each community milk booth. In the event that the franchisees had frequent product returns or exchanges, we would adjust our dairy product supply to those franchisees. As a result, we are able to closely monitor the purchase and sales volume and inventory level of each franchisee and compare it against such franchisee's historical sales performance as well as the size of its customer base. In addition, we despatch our staff to conduct on-site inspections at each of our community milk booths to check the respective sales records on a regular basis. We also provide training on sales skills to franchisees to avoid any unnecessary product returns resulting from passing the shelf life. Returned products were disposed of by us regardless of the reason of the return.

Going forward, we intend to abolish the terms with respect to unconditional product returns or exchanges in the new agreements we will renew or enter into with community milk booth franchisees, and plan to only allow product returns or exchanges for substandard or spoiled products due to our faults. Since the amounts of product returns and exchanges recorded during the Track Record Period were limited compared with our sales to community milk booth franchisees and as we are committed to quality control, we do not expect significant product returns or exchanges in connection with our franchised community milk booth operations before all of the existing franchisee agreements are amended, renewed or terminated. For the risks associated with product returns or exchanges during our operations of community milk booths, please see "Risk Factors – Risks Relating to Our Business – We are obligated to unconditionally accept product returns or exchanges pursuant to the agreements with our existing community milk booth franchisees during the Track Record Period, which may have an adverse impact on our sales, results of operations and financial condition" in this prospectus for further information.

The average initial investments of each of our existing community milk booths were approximately RMB29,000, including the expenditures on constructing the community milk booth and purchasing refrigerators. The total expenditures we had incurred on our existing community milk booths were approximately RMB5.2 million since the commencement of our community milk booth operation and up to 31 March 2015.

The ownership of community milk booths and the equipment therein belong to us and the relevant assets were accounted for as part of our property, plant and equipment in our consolidated financial statements during the Track Record Period and amortise over the estimated useful life of five years. The total net carrying value of our existing community milk booths was approximately RMB2.3 million, or 0.4%, of the total carrying value of the our property, plant and equipment as at 31 March 2015. During the Track Record Period, the average annual operating costs of each community milk booth borne by us were approximately RMB10,000, which mainly represented the average subsidies on electricity expenses and rental payments we granted to each of the community milk booths during the Track Record Period. As our business operation of community milk booth only commenced in 2011, we have provided subsidies to franchisees primarily in the forms of electricity expenses, rental payment, waiver of franchisee fees and customer rebate as incentives to promote the community milk booth business model. We adjusted the form and amount of these subsidies from time to time along the development progress of the operations of the community milk booths. Based on (i) the operating results of the existing community milk booths during the Track Record Period, (ii) the estimated initial investment expenditure for each existing community milk booth, (iii) the approximate average cash inflow from our existing community milk booths per year during the Track Record Period which primarily comprised of cash inflow from product sales, and (iv) the approximate average operating costs for each community milk booth, the payback periods of our existing community milk booths are in the range of approximately 0.9 to 2.1 years.

We plan to continue to evaluate and adjust our strategy towards our franchisees by taking into account of the actual development and operational status of our franchisees and we may continue to vary the terms and arrangements with our franchisees through adjusting the amount of subsidies to be granted to our franchisees in the future. Based on the historical financial performance of our existing community milk booths, we estimate the payback periods of our to-be-built community milk booths will be at the same range of our existing community milk booths.

During the Track Record Period, our sales to community milk booth franchisees have experienced an increasing trend. Our turnover of Cold Chain Liquid Milk Products has increased at a CAGR of approximately 54.3% from 2012 to 2014. In addition, we expect a continuous increase in the market demand for liquid milk products, particularly Cold Chain Liquid Milk Products, in Gansu and Qinghai. According to Frost & Sullivan, the liquid milk product market in Gansu and Qinghai in terms of retail sales value grew at a CAGR of 11.0% from RMB2.1 billion in 2009 to RMB3.6 billion in 2014, and is expected to further grow at a CAGR of 10.7% to RMB6.0 billion by 2019. In addition, in Gansu, the Cold Chain Liquid Milk Product market in terms of retail sales value increased at a CAGR of 12.5% from RMB0.6 billion in 2009 to RMB1.0 billion in 2014, and is expected to grow at a CAGR of 12.8% to RMB1.9 billion by 2019. In Qinghai, the Cold Chain Liquid Milk Product market in terms of retail sales value increased at a CAGR of 11.6% from RMB0.2 billion in 2009 to RMB0.3 billion in 2014, and is expected to grow at a CAGR of 11.6% to RMB0.6 billion by 2019. Based on the abovementioned historical research and prediction, and taking into account of the growth of sales of our Cold Chain Liquid Milk Products and our sales to community milk booth franchisees during the Track Record Period, we believe there are significant opportunities for capturing the demand for Cold Chain Liquid Milk Products and growing our business through development of our community milk booths. We will continue to invest and expand our franchised community milk booth business and increase our sales to community milk booth franchisees through expanding the market coverage of community milk booths as part of our strategy and efforts to expand the sale of our Cold Chain Liquid Milk Products.

By leveraging our experience in operating the existing 179 community milk booths with a focus on our Cold Chain Liquid Milk Products in Lanzhou, we intend to strategically further build approximately 3,000 community milk booths in 11 regionally significant cities in Gansu and approximately 1,000 community milk booths in Qinghai by 2017 as part of our effort to expand our Cold Chain Liquid Milk Products distribution network and to further capture the market demand. In identifying the relevant cities, we not only take into account of the significance of the cities in terms of their geographic location and our regional sales network, but also the locations of our cold warehouses and logistics access to deliver our Cold Chain Liquid Milk Products. We formulate the expansion plan of the business of our community milk booths based on the following major factors:

- local awareness and recognition of our brands;
- population of the relevant city;
- the number of large or high-end residential complexes in the relevant city;
- expected market demand for our Cold Chain Liquid Milk Products in the relevant city;
- our available capital, overall business operation and financial condition;
- availability of raw milk and our production capacity; and
- market risks and uncertainties.

We believe that our plan to build approximately 3,000 community milk booths in Gansu and approximately 1,000 in Qinghai by 2017 represents our moderate outlook for the overall Cold Chain Liquid Milk Product market as well as our ability to manage the operations of community milk booths. We intend to use a portion of the net proceeds from the Global Offering to build the approximately 3,000 community milk booths in Gansu by 2017. For more details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Overall, we intend to continuously enhance our brand name through advertising campaign in order to attract new customers. We aim to control our operating costs at current level to maintain our gross profit margin. In addition, given that the direct competition among our community milk booths is minimal and the fact that our community milk booths will complement our other existing distribution channels in the sales of Cold Chain Liquid Milk Products, we expect that we will be able to maintain our profitability.

To the knowledge of our Directors, all of our sales agents and franchisees were Independent Third Parties as at 31 March 2015.

Direct Sales

We directly sell our dairy products primarily to supermarkets in Lanzhou and Xining and also a large number of local schools in Gansu and Qinghai. Our sales to local schools are usually through collective purchases by local educational bureaus or their purchase agents.

We have entered into written agreements with our direct sales customers. The key aspects of our direct sales agreement are set forth below.

- *Term*. Our agreements with supermarkets generally have a term of one year, whereas the term of our agreements with local schools and education bureau varies. Typically, our supermarket customers will place purchase orders in accordance with their sales and inventory level, whereas local schools and education bureau will specify the volume of products in the agreements.

- *Pricing mechanism*. We generally price products based on a number of factors including the prices of competing products as well as our cost of production.

- *Promotional campaigns*. We are required to pay certain fees to supermarkets for stationing our promoters at supermarkets to promote our brands and products.

- *Payment terms*. We issue a monthly invoice to supermarkets for settlement, whereas local schools and education bureau generally settle the contract price in installments.

- *Delivery and revenue recognition*. We are generally responsible for arranging delivery of products from our warehousing facilities to the locations designated by our direct sales customers. Our logistic service providers are generally responsible for damages to products caused in transit. We recognise revenue when the goods are delivered to our direct sales customers.

E-Commerce Sales Channels. In addition to our traditional direct sales platform, we started to sell our products through e-commerce sales channels in 2014. The e-commerce sales channels include third-party online marketplace platforms and mobile internet platforms such as WeChat. In our view, e-commerce sales channels can help us to build a much broader consumer base with reduced costs as a result of the absence of a sales personnel and a physical storefront. While e-commerce has experienced rapid growth in recent years in China, we believe that the penetration rate of online purchase in the overall dairy industry in China remains low and we expect that the potential volume of sales and revenue through e-commerce sales platforms will increase, in particular from the young generation of consumers.

Although revenue from e-commerce sales represented only an insignificant proportion of our revenue at the moment, we believe there are significant opportunities for our continuous growth through e-commerce sales and we plan to increase our investment on this sales channel.

Product Return and Recall Policy

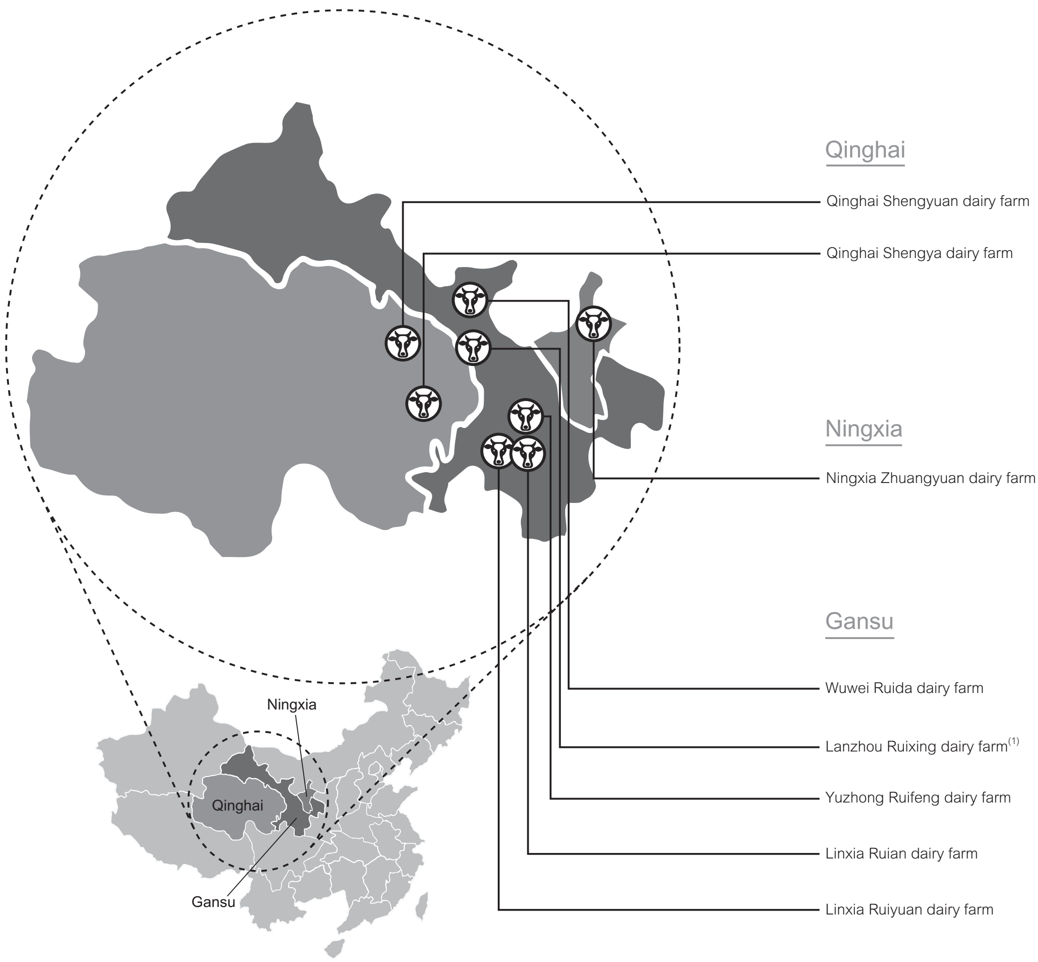
We generally do not allow product returns or exchanges in the sales and distribution of our products except for quality defects or spoilage, other than in the case of sales to community milk booth franchisees under the existing franchise agreements during the Track Record Period, pursuant to which we are obligated to unconditionally allow product returns or exchanges as a way to support the operation of our community milk booths particularly during its developing stage. See also "– Sales and Distribution – Sales agents – Franchised community milk booths" in this section. During the Track Record Period and up to the Latest Practicable Date, we did not experience any product returns or exchanges from our customers that had a material impact on our operations, or any product recall or product liability claim due to product quality defects.

DAIRY FARMING AND MANAGEMENT

Dairy Farms

As at 31 March 2015, we operate a total of eight dairy farms, five of which were in Gansu, two in Qinghai and one in Ningxia, with an aggregate area of approximately 1,300 mu and a collective capacity of housing up to approximately 15,800 dairy cows. Five of these dairy farms are self-operated dairy farms where self-owned dairy cows are bred and three are collectively-operated dairy farms where farmer-owned dairy cows are bred. In the self-operated dairy farms, we breed our own cows and are fully responsible for the management of the farms in every aspect. With respect to the collectively-operated dairy farms, we own the dairy farms and facilities and are responsible for the general management of the farms, while local dairy farmers own the cows, attend to the day-to-day caring of the dairy cows following our farm practices and provide raw milk produced in our collectively-operated dairy farms to us exclusively at a contracted price. As at 31 March 2015, we had entered into cooperation agreements with over 30 contracted farmers. Please refer to the section headed "Business – Dairy Farming and Management – Dairy Cows" for further details.

The following map sets forth the locations of our dairy farms as at the Latest Practicable Date:



(1) The construction of the main structure and facilities of Lanzhou Ruixing diary farm was completed in July 2015 and its ancillary structures are expected to be completed by the end of 2015. The dairy farm has commenced trial operation in July 2015.

The table below sets forth details of our dairy farms as at 31 March 2015:

	Land size (mu)	Designed capacity (number of dairy cows)[(2)]	Actual herd size (number of dairy cows)	Number of calves and heifers	Number of milkable cows
Gansu					
Yuzhong Ruifeng	303.5	3,000	1,082	450	632
Linxia Ruiyuan	126.0	1,200	772	342	430
Linxia Ruian[(1)]	122.0	1,100	548	246	302
Wuwei Ruida[(1)]	140.0	1,500	887	470	417
Lanzhou Ruixing[(3)]	150.0	2,000	993	993	–
Qinghai					
Qinghai Shengya	248.0	3,000	1,196	554	642
Qinghai Shengyuan	160.0	1,500	693	317	376
Ningxia Autonomous Region					
Ningxia Zhuangyuan[(1)]	200.0	2,500	1,044	492	552
Total	1,449.5	15,800	7,215	3,864	3,351

Notes:

(1) These are collectively-operated dairy farms.

(2) The designed capacity is based on our farm design feasibility study report.

(3) The main structure and facilities of Lanzhou Ruixing dairy farm was completed in July 2015 while the ancillary structures are expected to be completed by the end of 2015. The dairy farm has commenced trial operation in July 2015.

During the Track Record Period, we received government grants for our dairy cow breeding and dairy farm construction and our production plant construction, as well as for compensation of expenses incurred. The total net cash received from government grants amounted to approximately RMB17.0 million, RMB29.0 million, RMB8.9 million and RMB3.9 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. Such respective amounts were recognised (i) in the statements of financial position initially as deferred income when there is reasonable assurance that we will be able to comply with the conditions associated with the grants; (ii) as other net income in the statements of profit or loss, which represents either (a) amortisation of deferred income recognised as other income on a systematic basis over the useful life of the assets or (b) the government grants that compensate us for expenses incurred, which were recognised as other income on a systematic basis in the same periods in which the expenses were incurred; or (iii) accrued expenses and other payables which represent conditional government grants for which the Group has not yet complied with the conditions imposed by the government associated with the grants.

The following table sets forth a breakdown of our net cash received from government grants for the periods indicated.

	Year ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Government grants for					
Dairy cow breeding and dairy farm construction					
— recognised as deferred income	5,100	12,330	2,720	750	2,100
— recognised as other net income	50	52	68	37	50
— recognised as accrued expenses and other payables	150	1,280	1,925	–	–
Construction of production plants and compensation of expenses incurred					
— recognised as deferred income	4,550	3,690	1,250	600	600
— recognised as other net income	7,660	8,588	6,078	35	1,186
— recognised as accrued expenses and other payables	–	3,100	359	–	–
—less cash outflow in connection with return of certain conditional government grants previously received and recognised as accrued expenses and other payables[1]	(480)	–	(3,480)	–	–
Total	17,030	29,040	8,920	1,422	3,936

Note:

(1) During the Track Record Period, we have returned certain amount of conditional government grants which has been previously recognised as accrued expenses and other payables. Such conditional government grants previously received were returned to the relevant regulatory authority primarily because we had not met certain terms and requirements on which the government grants were conditional. As at 31 December 2012, 2013, 2014 and 31 March 2015, the total amount of conditional government grants that we received but on conditional or returnable nature was approximately RMB3.7 million, RMB8.0 million, RMB6.8 million and RMB6.8 million, respectively.

We received government grants for our dairy cow breeding and dairy farm construction which were recognised as deferred income in the amount of RMB5.1 million, RMB12.3 million, RMB2.7 million and RMB2.1 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, accounted for approximately 6.3%, 35.1%, 5.4% and 20.9% of the total capital expenditure for our dairy farms (consisting of the total capital expenditure of our property, plant and equipment and biological assets) for the same periods, respectively. The government grants which are specifically for our dairy cow breeding and dairy farm construction and recognised in the statements of financial position initially as deferred income for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 accounted for approximately 29.9%, 42.5%, 30.5% and 53.4% of the total net cash received from government grants and approximately 9.4%, 35.6%, 4.2% and 12.6% of the total net profit of the respective period, and approximately 19.2%, 28.7%, 3.3% and (21.8)% of the net increase/decrease in cash and cash equivalents as at the end of the respective period, respectively. Due to a relatively higher amount of cash received from government grants for dairy cow breeding and dairy farm construction recognised as deferred income in 2013, we recorded higher percentages of such amount over each of the following denominators: (i) the total capital expenditure for our dairy farms in 2013, (ii) the net profit in 2013, and (iii) the net increase in cash and cash equivalents as at 31 December 2013. Normally, we apply for such government grants in advance during the initial stage of our dairy farm construction projects. However, most of such government grants were received after completion of the construction of the relevant dairy farms due to the fact that it usually takes time for the government to disburse the funds to us after the capital expenditure in connection with the construction of our dairy farm projects was incurred. In addition, the actual amount of such government grants we receive also depends on the schedule of our dairy farm construction projects. We applied for government grants in connection with the construction of the relevant dairy farms and incurred capital expenditure thereunder in 2012. However, the government disbursed most of such government grants to us in 2013. Therefore, the amount of our government grants in 2013 was relatively high. Our Directors believe that the higher level of cash received from government grants during 2013 was primarily due to the aforementioned reason and does not indicate our reliance on government grants for the expansion of our dairy farms. In addition, during the Track Record Period, the total government grants for our dairy cow breeding and dairy farm construction which were recognised as deferred income amounted to RMB22.2 million, accounted for approximately 4.7% of the ending balance of the costs of property, plant and equipment and biological assets of our dairy farms as at 31 March 2015. Furthermore, without taking into account the government grants we received for dairy cow breeding and dairy farm construction, we were able to satisfy the funding in connection with our dairy farm expansion through a combination of cash generated from our operating activities and internal resources available to us during the Track Record Period. Based on the above reasons, our Directors are of the view that government grants we received for our dairy cow breeding and dairy farms construction were not crucial to the expansion of our dairy farms.

As at the Latest Practicable Date, we are in the process of constructing our Lanzhou Ruixing dairy farm. We have completed the construction of cow barns and started breeding dairy cows in this farm in September 2014. The construction of the main structure and facilities of this farm was then completed in July 2015 while the ancillary structures are expected to be completed by the end of 2015. We commenced our trial operation at our Lanzhou Ruixing dairy farm and it began to produce raw milk in July 2015. As at 31 July 2015, we housed a total of 1,060 dairy cows in our Lanzhou Ruixing dairy farm and we had incurred approximately RMB50.2 million for the construction of this farm. We expect to further incur approximately RMB27.6 million for its construction. The construction and operation of our dairy farms are not in full compliance with the applicable PRC laws. For details on non-compliance incidents in connection with the land title, construction and operation of our dairy farms, please see the section headed "Business – Historical Non-Compliance Incidents" in this prospectus.

Farm Management

As at the Latest Practicable Date, we had five self-operated dairy farms and three collectively-operated dairy farms. We apply our best practices and management techniques to each of our dairy farms to the extent practicable. As each dairy farm is situated in different geographic locations across provinces with different breeding conditions, we allow adjustments to reflect local characteristics. Our Directors confirm that during the Track Record Period, no major deviations from our best practices had been observed in our dairy farms. Following the best practices, we are able to effectively set examples and give instructions to contracted farmers in various aspects of farm management in order to uphold the quality of raw milk. During Track Record Period, all our dairy farms possessed relevant permits, licences, and approvals necessary for operating dairy farming business as required by the relevant PRC laws and regulations, save as disclosed in the section headed "Business – Historical Non-Compliance Incidents".

To promote herd health, our dairy farms are designed to provide adequate space for dairy cows. Facilities are designed to allow easy access to feedstuff and drinkable water. In addition, we generally breed the dairy cows in separated zones primarily depending on their age, health conditions, and lactation periods. For instance, new borns are kept at separated areas to prevent contraction of disease, dry cows are kept at special barns due to their different nutritive needs, and unwell cows are transferred to sick barns to avoid widespread contamination.

In our collectively-operated farms, the contracted farmers are allowed to use our facilities and services free of charge but are responsible to pay for the medicines for their cows, forage cost, breeding fees and utility expenses.

Dairy Cows

All dairy cows in our farms are Holsteins. Holsteins are usually valued at premium prices due to higher milk yield over other breeds, according to the Frost & Sullivan Report. Depending on the development stage, we categorise the dairy cows into (i) calves, (ii) heifers and (iii) milkable cows. Calves refer to dairy cows of up to six months old. Heifers refer to dairy cows aged between seven months old and when before they give birth to the first calf. Milkable cows refer to mature dairy cows that have given birth to calf. Milkable cows typically can live up to seven to eight years old and have five to six pregnancies. As at 31 March 2015, we had a herd of 7,215 dairy cows in our dairy farms, including self-owned dairy cows and farmer-owned dairy cows.

Self-owned dairy cows

As at 31 March 2015, we had 4,736 self-owned dairy cows being bred at our self-operated dairy farms. We purchased high quality heifers and milkable cows locally and started from 2014, also from Australia. We conduct on-site visits and select dairy cows based on a number of factors such as physical attributes and pedigree. The newly purchased dairy cows will be transported to our dairy farms using disinfected trucks. Upon arrival, we carry out health examination of the dairy cows against tuberculosis and Brucellosis and they will be vaccinated against foot and mouth disease. The dairy cows are subject to strict quarantine procedures for 20 days under close observation of signs of sickness prior to entering our dairy farms.

The numbers of dairy cows in our self-owned dairy farms are summarised as follows:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	(heads)	(heads)	(heads)	(heads)
Dairy cows				
Milkable cows	1,541	2,398	2,180	2,080
Heifers	1,551	1,191	2,137	2,040
Calves	449	423	505	616
Total	**3,541**	**4,012**	**4,822**	**4,736**

The age profile of dairy cows in our self-owned dairy farms are summarised as follows:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	(heads)	(heads)	(heads)	(heads)
Calves & Heifers				
0-2 Months	170	149	219	265
3–6 Months	279	274	286	351
7–14 Months	898	407	699	354
15–24+ Months	653	784	1,438	1,686
Subtotal	2,000	1,614	2,642	2,656
Milkable Cows				
1st Lactation Period	1,183	1,868	1,279	1,042
2nd Lactation Period	358	360	614	685
3rd Lactation Period	0	170	187	195
4th Lactation Period	0	0	94	110
5th Lactation Period	0	0	6	42
6th Lactation Period	0	0	0	6
Subtotal	1,541	2,398	2,180	2,080
Total	**3,541**	**4,012**	**4,822**	**4,736**

We plan to use approximately HK$55.7 million of the proceeds from this Global Offering to purchase 5,000 dairy cows, all of which will be heifers between eight to 16 months old, from Australia or New Zealand in 2016 and 2017. We plan to import from Australia 3,000 heifers in 2016, of which 2,000 will be housed in Yuzhong Ruifeng dairy farm and 1,000 will be housed in Linxia Ruian dairy farm, and 2,000 heifers in 2017, of which 1,000 will be housed in Yuzhong Ruifeng dairy farm and 1,000 will be housed in Linxia Ruiyuan dairy farm. We endeavour to select cows that can produce large quantities of premium quality milk for a sustained period of time. According to Frost & Sullivan, the physical appearance of a dairy cow is a key indicator of its milk yield, and a cow with certain physical appearance of its legs, withers, neck and skin usually produce more milk for a longer period of time. Meanwhile, we will continue to inseminate the mature heifers to grow our herd of milkable cows.

Farmer-owned dairy cows

As at 31 March 2015, we had 2,479 farmer-owned dairy cows being bred at our collectively-operated dairy farms. We generally enter into cooperation agreements with contracted farmers for the breeding of farmer-owned cows at our collectively-operated dairy farms. According to Frost & Sullivan, it is a common practice to adopt the collectively-operated dairy farm operation model in China in view of the expanding operation scale of dairy farms in China to satisfy the quality and quantity requirements on raw milk by dairy companies. Set forth below are the key terms of our typical cooperation agreements:

Duration: the cooperation agreements generally have a duration of three to five years.

Dairy cows: contracted farmers will breed a specified minimum number of farmer-owned dairy cows at our collectively-operated dairy farms.

Quarantine period: farmer-owned dairy cows must be quarantined for approximately five days and receive vaccination against foot-and-mouth disease prior to entering our collectively-operated dairy farms.

Breeding: contracted farmers are required to hire personnel for breeding the farmer-owned dairy cows at our collectively-operated dairy farms.

Feeds: we are responsible for the overall management of feeds procurement and storage. Contracted farmers will be responsible for the costs of feeds for their farmer-owned dairy cows which will be deducted from the monthly purchase amount payable by us for the raw milk produced by the farmer-owned dairy cows.

Use of dairy sheds: we generally allow contracted farmers to use the dairy sheds for a specified rent-free period.

Milking: we are responsible for the overall management of milking, milk storage and transportation.

Purchase price of raw milk: we procure raw milk produced by farmer-owned dairy cows from the contracted farmers at a set price, adjustable according to market conditions but subject to a minimum purchase price payable on a monthly basis.

Reproduction: we are responsible for the overall reproduction management of the farmer-owned dairy cows, including the procurement of frozen semen. Contracted farmers are responsible for the costs of frozen semen used for the reproduction of the farmer-owned dairy cows and the calves bred in the collectively-operated dairy farms belong to them.

Epidemic prevention: we are responsible for the overall management of epidemic prevention and the costs of the internal epidemic prevention management system, while contracted farmers will be responsible for the costs of the epidemic prevention programme required to be undertaken by the relevant government authority.

Veterinary services: we provide general veterinary services. Contracted farmers are responsible for the costs of the actual veterinary drugs administered, large-scale surgical operation or any other non-ordinary veterinary services required by the farmer-owned dairy cows. In addition, contracted farmers must comply with our antibiotic treatment practices and residue control methods.

Sales of dung: the revenue derived from the sales of dung (if any) belongs to our Company.

Termination: the cooperation agreement may be terminated by us if contracted farmers fail to comply with our dairy farm and herd management systems. On the other hand, contracted farmers are entitled to terminate the cooperation agreement if we fail to pay for the purchase price of raw milk. During the Track Record Period, none of the cooperation agreement with the contracted farmer was terminated.

To attract quality and experienced dairy farmers to cooperate with us, we granted advances to some of these farmers on a case by case basis for them to purchase dairy cows. We required these contracted farmers to pledge to us the dairy cows purchased using advances provided by us. Under the agreements, the term of the advances was typically one year, but in practice the contracted farmers usually took longer than one year to repay the advances. According to the Official Reply of the Supreme People's Court on How to Determine the Validity of Lending between Citizens and Business Enterprises (最高人民法院關於如何確認公民與企業之間借貸行為效力問題的批復), lending between natural persons and non-financial enterprises shall be deemed to be "private lending" ("民間借貸") and such lending shall be valid as long as it is based on the true intention of the parties concerned. Such private lending differs from a loan between PRC financial institutions engaged in loan services and borrowers which can be a legal person, an economic organisation, an individual industrial and/or commercial household or a natural person. As confirmed by our Directors, the advances were between our Company and third party individual farmers and thus fell within the category of private lending. There was no fraud, coercion or other circumstances against the parties' true intentions as confirmed by our Company and third party individual farmers. As advised by our PRC legal adviser, such advances by us to third-party dairy farmers were in compliance with the relevant PRC laws and regulations.

Herd Management

We implement vigorous measures to maintain a healthy dairy herd. We believe that the well-being of the dairy cows is our responsibility and is essential to sustaining our milk yield.

Breeding

To expand the herd size, we apply artificial insemination breeding technique, and in some cases sex-controlled semen breeding technology, to the cows in our dairy farms. The calves given birth by dairy cows inseminated with frozen semen treated by sex-controlled technology have no major difference with other calves. As advised by our PRC legal adviser, the use of sex-controlled semen to breed dairy cows does not violate any applicable PRC laws and regulations and no relevant regulatory approval is required.

Heifers will normally give birth to calves approximately nine months following a successful insemination. The heifers will then become milkable cows. Our artificial insemination breeding programme significantly improves the birth rate of calves compared to normal insemination and natural breeding. It also allows us to reduce the risks of transmission of venereal diseases as it eliminates the need to keep and care for a breeding male on the premises.

Feeding

Feeding is one of the most important aspects of dairy farming as the daily intake of dairy cows directly affects the nutrient level of our dairy products as well as the health and well-being of our consumers. We customise the ration formulae based on the nutrient requirements of various groups of dairy cows based on their age and development stage.

Pursuant to our feeding programme, we feed our dairy cows on a regular basis with concentrated feeds of corn silage, and alfalfa which respectively accounts for a specified percentage of the total daily intake of various groups of dairy cows. Furthermore, we have adopted the total mixed ration, feeding method, by which we can weigh and blend feed ingredients, primarily corn silage, alfalfa, concentrated feeds, lees, and oat hay, into an optimal mixed ration. This ensures that our dairy cows receive adequate nourishment to maximise animal performance tailored for its different physiological stages and nutritional needs based on the cow's development stage, lactation stage and milk yield.

Our procurement department coordinates with our quality control personnel to ensure that the delivered feeds meets our specifications and requirements. Under the supply agreements we entered into with feeds suppliers, we usually specify the content requirement of the types of feeds we procure. We require that all feeds should be processed in compliance with the Feedstuff Sanitation Standard GB13078-2001 issued by the State Feedstuff Supervision and Quality Inspection Centre (國家飼料質量監督檢驗中心). We inspect the quality of the feeds upon delivery to our dairy farms. We may appoint independent third party to carry out laboratory analysis of the feedstuff as required. Prior to feeding, we perform sensory analysis of the feedstuff to evaluate its visual and physical properties.

Milking

Careful management of the milking procedure and proper function of milking machine are essential to the welfare of the dairy cows. We administer milking techniques to minimise the risks of discomfort or injury to the dairy cows and the development and/or transmission of disease. We milk our milkable cows two to three times a day in accordance with the cows' natural milking needs. We milk the dairy cows in our milking parlour using the automatic rotary milking system or the automatic parallel milking system. We adopt strict hygiene standards at all of our milking facilities as well as during the milking process. We continuously monitor the milking process and carry out inspections at regular intervals to ensure consistency in the quality of our raw milk and compliance with applicable milk safety standards. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, we produced a total of 8,365 tonnes, 11,468 tonnes, 13,528 tonnes and 3,084 tonnes of milk at our self-operated dairy farms, and the average annual milk yield per dairy cow was 7.5 tonnes, 6.4 tonnes, 5.6 tonnes and 5.9 tonnes, respectively. The decrease in the average annual milk yield per dairy cow during the Track Record Period was primarily due to the change in the number of milkable cows at different lactation stages, which affect the overall milk yield in the relevant period, and the fact that a large portion of our dairy cows are sourced domestically, which have lower milk yield than imported milkable cows. We have taken measures to increase the average annual milk yield per dairy cow. For example, in September 2014 we imported high quality dairy cows from Australia, which generally have relatively high milk yield, and we increased the culling rate of milkable cows with low milk yield in the fourth quarter of 2014.

Wellness of Dairy Cows

We develop wellness policies with the aim to maintain herd health as there is a positive correlation between milk yield, cow health, and improved well-being. Our workers ensure that dairy cows have a continuous supply of drinkable water at all times and the feeding passages are cleaned on a daily basis prior to feeding. We ensure sufficient air circulation of the barn by adopting design that facilitates ventilation in the construction of barns. Our workers typically collect and remove manure at least two to three times per day to prevent manure accumulations and ensure sanitation of the barns. With respect to the sea transportation of dairy cows imported from Australia, local authorities inspected all dairy cows before transporting them into the ships and the end supplier of the dairy cows would ensure that experienced stockmen and/or veterinarian will accompany the shipment with a full complement of hay and concentrated feed for the dairy cows during the sea voyage. The end supplier of the dairy cows and its sales agent are responsible for the health and well-being of the dairy cows during sea voyage. We will only take the possession of those dairy cows that have passed the quarantine inspection by the relevant PRC Administration of Quality Supervision, Inspection and Quarantine and have been delivered to the designated dairy farm without any material physical deficiency. The end supplier bears the loss due to the death or illnesses of the dairy cows during the sea transportation.

Disease Control

We had allocated significant resources to prevent disease among the dairy cows, such as mastitis and FMD. Our barns, walkways, vehicles and workers are subject to regular thorough cleaning and disinfection. We actively monitor the health condition of the dairy cows by our experienced veterinarians. All dairy cows are subject to detailed health examinations against bovine tuberculosis and brucellosis at least once a year. We administer vaccinations to and quarantine new herd additions for at least 20 days before allowing contact with the rest of the herd. We also vaccinate our cows to improve their immunity. Our workers will immediately isolate and transfer a dairy cow showing signs of illness to the quarantine facility for diagnosis and treatment by licensed veterinarian and to reduce possible transmission of any infectious disease from the diseased individual to its herd-mates. Our veterinarians will also identify the cause of illness carefully to prevent reoccurrence. We may treat our dairy cows with antibiotics or hormone in strict compliance with Regulations on Administration of Veterinary Drugs (《獸藥管理條例》) for sub-therapeutic or therapeutic purposes when it is medically necessary and it usually does not have any material negative impacts on the health of the dairy cows. Raw milk is strictly tested by our quality control personnel to make sure there is no antibiotics or hormone residue before it is used for production. Where medical treatment is neither cost-effective nor feasible, the diseased dairy cows will be culled or disposed after innocuous treatment their bodies will be sterilised and disposed (in the case of culling).

Herd Management System

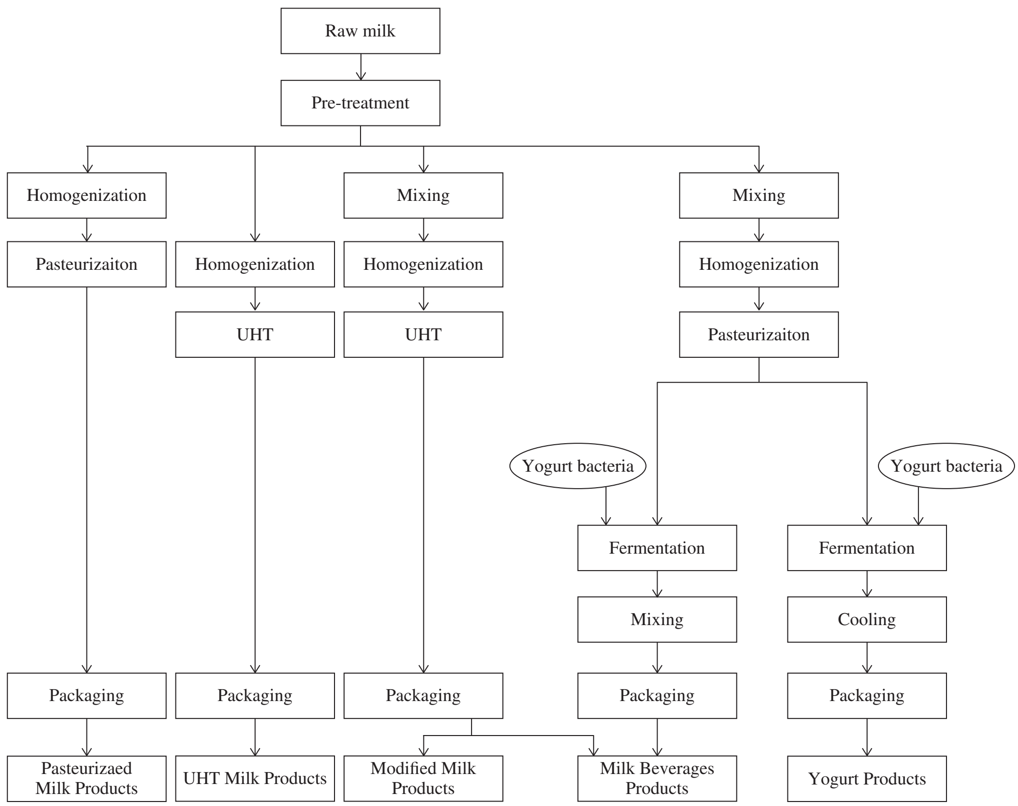
We adopt herd management systems and policies to improve the quality of our herd management, through which we collect essential data such as health condition and fertility schedule of the dairy cows on an individual basis for further analyses. With such data, we can provide solutions and gain better control of the herd.

PRODUCTION OPERATIONS AND FACILITIES

Production Process

We operate two liquid milk production plants, one in Gansu and one in Qinghai. Due to the various requirements in packaging processes, packaging materials and packaging sizes, different types of packages require different packaging equipment. We plan and design our production facilities based on the long-term outlook of the dairy products market and install packaging equipment accordingly.

The flowchart below illustrates how raw materials including raw milk are processed into different liquid milk products and milk beverages:



- Homogenization: raw milk is treated to prevent separation of fat and liquid and to improve texture and taste.

- Pasteurisation: raw milk is heated to approximately 70˚C–90˚C for approximately 15 seconds to eliminate bacteria and reduce microbial. For the production of yogurt, raw milk is heated to approximately 95˚C for approximately five minutes.

- UHT: raw milk is heated to a temperature of approximately 135°C to 150°C for approximately 4 to 15 seconds. UHT eliminates microbial from the raw milk and significantly extend the shelf life of liquid milk.

- Fermentation: bacteria known as “yogurt culture” is added in the milk at a temperature of approximately 40˚C to 45˚C for a period of time to allow fermentation.

We perform all these processes in our liquid milk production plants, and we closely monitor each production step to ensure the safety and quality of our liquid milk products. We also perform sampling tests of our liquid milk products before delivery.

Our Production Facilities

We endeavour to equip our production facilities with modern equipment, which we believe is essential to ensure the quality of our food products and efficiency of our operations. We use equipment and machinery purchased from leading manufacturers who provide integrated system solution including processing and packaging, such as Tetra Pak and Ecolean. For example, we use Tetra Pak equipment for the filling in the production of most of our mid to high-end UHT milk, modified milk and milk beverage products, including Tetra Brik (rectangular cuboid shape), Tetra Prisma (octagonal shape) and Tetra Fino (pillow shape) aseptic packages. We own or lease through finance leasing these facilities from Tetra Pak.

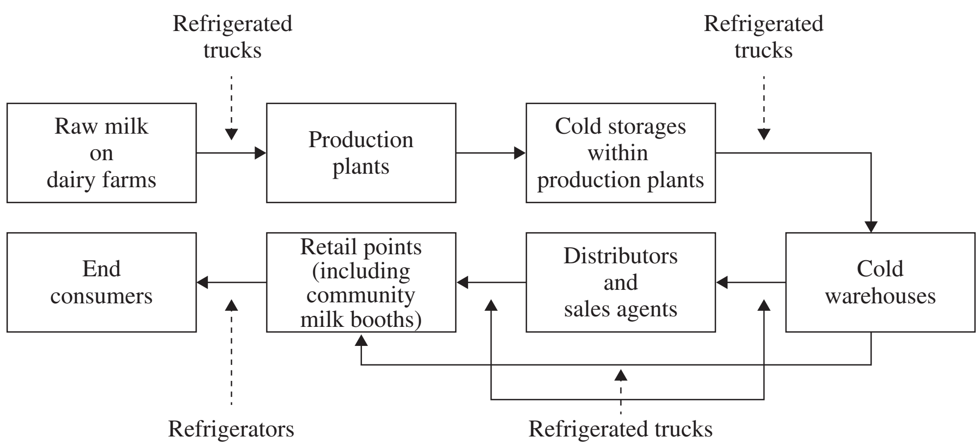
Cold chain liquid milk product facilities

We believe the demand for premium Cold Chain Liquid Milk Products will continue to rise along with the increased awareness of the importance of nutritional products to the health and well-being of consumers. To capture the increasing demand for Cold Chain Liquid Milk Products, we made the strategic decision in 2012 to enhance our efforts in product development and sales of Cold Chain Liquid Milk Products. Since then, we have gradually expanded our production facilities and distribution network in connection with the production and sales of Cold Chain Liquid Milk Products. We altered our production plants to meet the stringent requirements for the production of Cold Chain Liquid Milk Products and installed additional production lines to improve our production capability for Cold Chain Liquid Milk Products. We installed five additional Ecolean packaging production lines in 2013 and 2014 to increase the total number of Ecolean packaging production lines to six and we also installed one additional glass bottle production line in 2012 to increase the total number of glass bottle production lines to two. Ecolean is a Sweden packaging technology supplier that highlights a lightweight packaging approach. We use Ecolean and glass bottle packaging technologies primarily for our mid to high-end Cold Chain Liquid Milk Products. We have recently installed in January 2015 one roof-top type carton production line for the production of our high-end Cold Chain Liquid Milk Products.

We have also expanded our cold storage and warehouse capacity to facilitate the distribution of our Cold Chain Liquid Milk Products. We have improved our storage capacity within our production plants for our finished Cold Chain Liquid Milk Products before their further distribution. In addition, we believe that one of the key factors to a successful cold chain distribution network is the strategic location of cold warehouses that are outside of our production plants as it allows our products to reach local markets within 300 kilometers radius of our cold warehouses and also allows us to have better control over the quality of the Cold Chain Liquid Milk Products during the distribution process. We currently have two cold warehouses located in our Lanzhou office base, which enables us to transport some of our Cold Chain Liquid Milk Products from our production plant to these warehouses for further distributions. We plan to increase the number of our total cold warehouses to 12 in Gansu and Qinghai to penetrate into local markets to expand our coverage. We engage third party professional logistic service providers for the distribution of Cold Chain Liquid Milk Products from our cold storages in our production plants to cold warehouses using refrigerated trucks. Our distributors and sales agents are responsible for transporting the products from cold storages or cold warehouses to their points of sales using refrigerated vehicles.

To penetrate into the end-market and extend our customer reach, we commenced our community milk booths franchise operation in 2011. Community milk booths are an important composition of our Cold Chain Liquid Milk Product distribution network. As at 31 March 2015, we had 179 franchised community milk booths in Lanzhou. As part of our effort to expand our Cold Chain Liquid Milk Product distribution network, we intend to further build approximately 3,000 community milk booths in Gansu and approximately 1,000 in Qinghai by 2017.

The flowchart below sets forth the important steps in the distribution of our Cold Chain Liquid Milk Products and facilities involved:



Maintenance of production facilities

We believe that our production facilities are well maintained, in good operating condition and suitable for their current purposes. We have implemented a number of rules, procedures and guidelines for the operation, management and maintenance, according to different specifications, of the production facilities. We carry out regular inspections to assess their conditions and conduct regular repair and maintenance. During the Track Record Period, we did not experience any unexpected stoppage of operations as a result of failure of our production facilities.

Production capacity

The table below sets forth our actual production volume, annual production capacity and utilisation rate for our production facilities at our two production plants for liquid milk processing and other dairy products processing in Gansu and Qinghai.

	For the year ended 31 December									For the three months ended 31 March 2015		
	2012			2013			2014					
	Actual production volume	Annual production capacity(1)	Utilisation rate (%)	Actual production volume	Annual production capacity(1)	Utilisation rate (%)	Actual production volume	Annual production capacity(1)	Utilisation rate (%)	Actual production volume(2)	Annual production capacity(1)	Utilisation rate (%)(3)
	(Tonnes, except for percentages)											
Liquid milk and milk beverages	65,396	79,800	81.9	63,427	117,300	54.1	61,357	125,200	49.0	14,465	129,017	44.8
Milk powder products	731	2,100	34.8	714	2,100	34.0	864	2,100	41.1	0	2,100	0
Total	**66,127**	**81,900**	**80.7**	**64,141**	**119,400**	**53.7**	**62,221**	**127,300**	**48.9**	**14,465**	**131,117**	**44.1**

Note:

(1) Annual production capacity relates to the designed annual production capacity of our production facilities in operation calculated on a 365-day basis.

(2) We did not have production output of milk powder products for the three months ended 31 March 2015 as a form of raw milk reserve because our raw milk supply is able to meet the production requirement of our dairy products during the same period.

(3) Utilisation rate for the three months ended 31 March 2015 was calculated as to the actual production volume for the same period divided by one fourth of the annual production capacity.

During the Track Record Period, utilisation rate for our liquid milk and milk beverage production facilities was 81.9%, 54.1%, 49.0% and 44.8% for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015. The decrease in the utilisation rate for liquid milk and milk beverage production facilities was primarily due to the purchase of additional facilities as a result our strategic decision to increase the production capacity and sales of Cold Chain Liquid Milk Products.

Transportation

We implement stringent food safety management and quality control measures throughout the whole transportation and delivery process of our feeds, raw milk and dairy products. See "Business – Product Safety and Quality Control – Quality Control Measures" for details of our quality control procedures. In addition, to monitor the whole transportation process in order to ensure full compliance with our internal quality control procedures, we have established a logistics department comprising of over 20 members. We typically engage third-party logistic companies to transport and deliver our dairy products using disinfected and temperature-controlled trucks, except when our customers are responsible for transportation. Suppliers are generally responsible for the transportation of raw materials.

Inventory Management

Our inventory comprises of raw materials we produce and procure, packaging materials and finished products. According to our inventory policy, we typically keep approximately two to three months of raw materials except for certain perishable raw materials such as raw milk, which is consumed or delivered on the day of milking. With respect to feeds, we typically keep 12 months' stock of silage, six months of alfalfa and three months of concentrated feed. We also normally increase our inventory of packing materials and finished products before Chinese New Year in anticipation of the seasonal increase in sales and the difficulties to procure raw materials during the Chinese New Year period. Our procurement team will also coordinate with our production department to avoid excessive inventory. We also adopt an electronic record system to facilitate us in keeping track of the materials stored in the warehouses.

PRODUCT SAFETY AND QUALITY CONTROL

Quality Control Centre

Product safety management and quality control are our core values and of paramount importance to our business. We implement stringent quality control and production safety management measures throughout our production process from the procurement of feeds, dairy farming, raw milk sourcing and processing to production, packaging, storage and delivery of our products.

Our quality control centre comprises of 24 quality control personnel subdivided into four units, namely, (i) inspection unit for finished goods; (ii) inspection unit for Cold Chain Liquid Milk Products; (iii) inspection unit for auxiliary raw materials; and (iv) technology centre lab for inspecting the level of microorganism, heavy metals, and melamine in our dairy products. The quality control centre is headed by Ms. Niu Shuli, who obtained the certificate of high quality control manager issued by the national examination and assessment committee of professionals of the PRC (全國專業人才考評專家委員會) in 2009, certificate of achievement for successful completion of Agilent GC/LC Analytical Solution Training for Milk Product Enterprise issued by Agilent University in 2011, the certificate of attendance of training course of QC/QAII issued by Tetra Pak in 2011, and the certificate of attendance of senior director of operations training course issued by the National Computer Integrated Manufacturing Systems Engineering Research Centre in Tsinghua University in 2012.

The responsibilities of our quality control centre include:

- devising and enforcing the quality handbook, HACCP plan, SSOP and other quality control policies;
- conducting internal control audit at least once a year to ensure that all quality control policies and measures are strictly observed and report any irregularities;
- performing laboratory testing of our dairy products under controlled temperature;
- providing training to new recruits on our Company's quality control policies and measures; and
- inspecting and evaluating the production plants on a random basis.

Quality Control Measures

Our quality control system is designed based on the Good Manufacturing Practices (GMPs), the Hazard Analysis and Critical Control Points (HACCPs) and the Sanitation Standard Operating Procedures (SSOPs).

GMPs are the foundation for our milk safety and milk quality programme. GMPs are implemented in four main areas of our dairy processing, specifying control measures in respect of (i) personnel hygiene; (ii) building and facilities; (iii) equipment and utensils; and (iv) production and process control.

In addition, we have also applied the principles of HACCP in the management of our milk safety. Our HACCP plan focuses on areas where problems potentially may occur and requires that production facilities be prepared to deal with problems immediately if they occur. Under our HACCP plan, we conducted a hazard analysis in order to identify any hazardous biological, chemical or physical properties in raw materials and processing steps. Based on the analysis, we identified the critical control points and establish monitoring procedures and use the monitoring results to streamline processes on a continuous basis. As a testament of our efforts in complying with HACCP, our production plants in Gansu and Qinghai received the HACCP Certification issued by the China Quality Certification Centre and Beijing Continental Hengtong Certification Co. Ltd., respectively.

Furthermore, we have also implemented the SSOPs specifying step-by-step procedures needed for processes related to sanitation. Following the SSOPs, we focus on key sanitation conditions and requirements, such as the safety of water that comes into contact with dairy products, condition and cleanliness of contact surfaces, prevention of cross-contamination from insanitary objects to dairy product, protection of dairy products and packaging materials, labelling, storage, and use of cleaning solutions and pesticides, control of employee health conditions, and exclusion of pests from the production plant.

Our quality control system is divided into six stages: (i) control over the quality of feeds, (ii) control over the quality of dairy cows, (iii) control over sourcing and processing of raw milk, (iv) control over raw materials and suppliers, (v) control over production process, and (vi) control over storage and delivery of finished products.

Control over the quality of feeds

Our procurement department is responsible for selecting suitable feed suppliers, purchasing feed, and coordinating with our quality control personnel to ensure that the delivered feeds meets our specifications and requirements. Under the supply agreements we entered into with feeds suppliers, we usually specify the content requirement of the types of feeds we procure. We require that all feeds should be processed in compliance with the Feedstuff Sanitation Standard GB13078-2001 issued by the State Feedstuff Supervision and Quality Inspection Centre (國家飼料質量監督檢驗中心). We inspect the quality of the feeds upon delivery to our dairy farms. We may appoint independent third party to carry out laboratory analysis of the feedstuff as required. Prior to feeding, we perform sensory analysis of the feedstuff to evaluate its visual and physical properties, including the moisture content, presence of foreign material, condition, odour, colour and texture.

Control over the quality of dairy cows

We source approximately half of our raw milk demand from our self-operated and collectively-operated dairy farms. Therefore, it is important that we standardise the practices of our employees as well as contracted farmers in all of our dairy farms, including the feeding standards, epidemic prevention, disease treatment, pedigree improvement and automated milking, to ensure the high quality of dairy cows bred and raised in our dairy farms. Please see “Business – Dairy Farming and Management” for further information.

Control over sourcing and processing of raw milk

We milk our dairy cows in our milk parlour equipped with advanced cooling, cleaning, disinfection, storage, and other equipment functioned by qualified milking personnel. We use the automatic rotary milking system or the automatic parallel milking systems, most of which were purchased from DeLaval, a leading manufacturer of milking machine. The milking system empowers us to apply strict hygiene standards during the milking process to avoid secondary contamination. Upon completion of the milking process, the raw milk will be promptly cooled to 0°C to 4°C and flowed to a temperature-controlled milk tank before delivery to our production plants. Raw milk is generally delivered to our production plants within 24 hours of milking to guarantee the freshness. From the dairy cows' teats to the milk processing machines, the raw milk is completely kept in a closed conduit to ensure the safety and quality of raw milk. Our milk tank is cleaned and sanitised after discharging each load of raw milk for the next round of raw milk collection. All milk tankers must carry a valid raw milk transportation permit and raw milk purchase permit.

When assessing the quality of raw milk produced at our dairy farms or sourced from external dairy farms, we adhere to the National Food Safety Standard of Raw Milk (食品安全國家標準 – 生乳) (GB19301-2010), the Measures for the Production and Acquisition of Raw Milk (生鮮乳生產收購管理辦法) issued by the MOA, and our internal raw milk inspection standards. The National Food Safety Standard of Raw Milk stipulates that milk that contains antibiotics or veterinary medicine, or deteriorated milk should not be used as raw milk for processing. It also specifies the maximum level of contaminants, mycotoxins, microorganisms, pesticides, and veterinary drugs in the raw milk. Before entering into the production plant, our raw milk is subject to inspection. Our quality control personnel tested the raw milk collected based on its physical appearance such as colour and smell, its fat content, protein content, density, acidity, freezing point, presence of impurities, antibiotics, melamine, and other foreign objects.

Control over raw materials and suppliers

We implement stringent quality control standards with respect to the raw materials such as white sugar and packaging materials we source from external suppliers and stringent evaluation and engagement policies for new suppliers. Before engaging a new supplier, our production department will specify the demand for the quantity and quality of the raw materials. Our procurement department will then select suitable suppliers upon examining their relevant licences, permits and certificates and carry out on-site investigations if required. A supplier will only be qualified if it passes the qualifications review and on-site inspections (if applicable). Both the qualified suppliers and our current suppliers remain subject to routine review and evaluation, at least once per year, covering the quality of the raw materials we procured, the timeliness of delivery, compliance to our quality control protocols and their production facilities.

We conduct inspection on raw materials upon delivery in compliance with the raw material inspection and acceptance standards set forth by our quality control centre and record the testing results in a raw materials acceptance report before transferring the raw materials to our warehouse. We maintain separate warehouses for raw materials and finished products to avoid cross contamination. Our warehouse keeper will carry out receipt and dispatch procedures in respect of raw materials received and dispatched to ensure traceability of raw materials.

Control over production process

We designate a special unit of our production department to manage the production equipment at our production plants. The food production equipment that we use include Tetra Pak bacterial-free production equipment and other advanced production technology to ensure product safety and quality.

Control over storage and delivery finished products

We perform quality inspection on our products by batch before delivery to ensure compliance with national food safety standards. We implement quality standards for the delivery of the product in accordance with the guidelines for product transportation.

We have comprehensive guidelines with respect to the management of our cold storages and other facilities used for the storage and transportation of our Cold Chain Liquid Milk Products to ensure the quality of our dairy products.

As our products are sold to distributors, sales agents and end-consumers through various channels, we keep sample for each batch of dairy products delivered to facilitate us in tracing the products for responding and verifying feedbacks from consumers. In accordance with the requirements under the Circular of the General Administration of Quality Supervision, Inspection and Quarantine of the PRC on Further Reinforcing the Construction of Electronic Information Recording System by Dairy Enterprises (Zhi Jian Ban Shi Jian[2011] No.833) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家品質監督檢驗檢疫總局下發的質檢辦食監[2011]833號《國家質檢總局關於進一步加強乳製品企業電子資訊記錄系統建設工作的通知》), we have also established an electronic information records system to assist us in tracing and identifying the suppliers of raw materials and quality control personnel, and reproducing information recorded from each production phase. To ensure only fresh products are provided to end-customers, our quality inspection team conduct inspections of our products available at retail shops from time to time and may impose fines on our distributors and sales agents if we discover expired products.

CUSTOMERS

Our major customers include distributors, sales agents, retail chains, supermarkets and local schools.

Our largest customer contributed 2.0%, 4.4%, 3.7% and 2.5% of our total turnover for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. Our five largest customers contributed in aggregate 9.0%, 12.8%, 10.7% and 9.6% of our total turnover for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. Xi'an Dongfang, an affiliate of us, was one of our five largest customers in 2013, accounting for 2.2% of our total turnover for the year ended 31 December 2013. During the Track Record Period and up to the Latest Practicable Date, none of our suppliers were our major customers.

Our Directors confirm that, except as disclosed above, as at the Latest Practicable Date, all of the other major customers were Independent Third Parties and none of our Directors or their associates or our existing Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest customers.

MARKETING AND PROMOTION

We advertise through various media, including television, print media, the Internet and mobile internet platform such as Wechat. We also conduct advertising through sponsoring major events, such as the Tour of Qinghai Lake International Cycling Race (環青海湖國際公路自行車賽). Additionally, we conduct promotional activities with supermarket chains in order to reach our target market. As part of our sales and marketing approach, our sales force works with schools in Gansu and Qinghai to supply dairy products to students through the nutrition and health education programmes. We provide displays, posters and other promotional prints to our sales agents and distributors at points of sale. We periodically collect customer information through surveys together with customer feedback for marketing and promotion purposes.

RAW MATERIALS AND SUPPLIERS

The principal raw material that we use in our production is raw milk. Other raw materials which we use include packaging and ancillary materials such as white sugar. We also need to procure feeds for our dairy farms, which include silage, alfalfa, corn, beans and oats. During the Track Record Period, we did not encounter any shortage of supply of our raw materials. Our suppliers are generally liable for defects in raw materials supplied to us.

For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, our largest supplier accounted for 6.2%, 7.1%, 7.4% and 5.6% of our total purchase, respectively; and our five largest suppliers together accounted for 15.8%, 19.9%, 20.0% and 25.1% of our total purchase, respectively. Our Directors confirm that, as at the Latest Practicable Date, the five largest suppliers were Independent Third Parties and none of our Directors or their associates or their existing Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest suppliers.

Raw Milk Procurement

We source our raw milk from our self-operated dairy farms, collectively-operated dairy farms and third-party suppliers. Although we have gradually increased our herd size and therefore the raw milk production in our self-operated and collectively-operated dairy farms over the years, the raw milk supply from our self-operated and collectively-operated dairy farms alone is insufficient to meet our production requirement of our dairy products. Therefore, raw milk sourced from third-party suppliers still represents a significant portion of the total raw milk used for our production.

The table below sets forth raw milk procured from three different sources for the periods indicated.

	For the year ended 31 December						For the three months ended 31 March			
	2012		2013		2014		2014		2015	
	Tonnes	% of total raw milk used	Tonnes	% of total raw milk used	Tonnes	% of total raw milk used	Tonnes	% of total raw milk used	Tonnes	% of total raw milk used
Raw milk supply from self-operated dairy farms	7,767	12.1	10,419	16.2	12,687	21.1	2,849	19.6	2,915	24.2
Raw milk supply from collectively-operated dairy farms	10,051	15.6	9,131	14.1	11,409	19.0	2,521	17.4	2,563	21.2
Subtotal	17,818	27.7	19,550	30.3	24,096	40.1	5,370	37.0	5,478	45.4
Raw milk purchased externally	46,598	72.3	44,892	69.7	36,041	59.9	9,129	63.0	6,586	54.6
TOTAL	64,416	100.0	64,442	100.0	60,137	100.0	14,499	100.0	12,064	100.0

We observe national quality standards and implement stringent quality control procedures on the raw milk sourced from our dairy farms and external third party suppliers. For more detail on our product safety and quality control measures, please refer to "– Product Safety and Quality Control" of this section. Please also see "– Business Model" of this section for the reasons we adopt the model of having our self-operated dairy farms and collectively-operated dairy farms to source our raw milk requirements.

Purchase from Our Dairy Farms

We source raw milk produced by our self-owned dairy cows in self-operated daily farms and raw milk produced by farmer-owned dairy cows in collectively-operated dairy farms. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, we purchased approximately 17,818 tonnes, 19,550 tonnes, 24,096 tonnes and 5,478 tonnes of raw milk from both self-operated dairy farms and collectively-operated dairy farms, respectively, representing approximately 27.7%, 30.3%, 40.1% and 45.4% of our total purchase of raw milk for the corresponding years, respectively.

For raw milk produced in our collectively-operated dairy farms, we enter into purchase agreements with contracted farmers under which we purchase raw milk at a set price, adjustable according to market conditions but subject to a minimum purchase price during the contract period with a view to maintaining sustainable business relationships with those contracted farmers. Such protective pricing not only enables us to enhance the loyalty of our contracted farmers and reduce the volatility of our purchase price of raw milk, but also allows us to be in a better position to negotiate with our contracted farmers. During the Track Record Period, our costs of raw milk procured from these collectively-operated dairy farms were relatively stable despite of the fluctuation in raw milk market price during the same periods. As a result, we believe that we will be able to manage our costs of raw milk procured from collectively-operated dairy farms within a reasonable and relatively stable range in light of the expected increase in raw milk price in the next three to five years.

Purchase from Third Party Suppliers

Raw milk purchased from third party suppliers mainly comes from dairy farms in Gansu and Qinghai, which are two of the six traditional pastoral areas in China with plenty supply of raw milk. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, we purchased approximately 46,598 tonnes, 44,892 tonnes, 36,041 tonnes and 6,586 tonnes of raw milk from third party suppliers, respectively, representing approximately 72.3%, 69.7%, 59.9% and 54.6% of our total purchase of raw milk for the corresponding years.

We select our suppliers based on their production environment, number of milkable cows, quality as well as price. We generally source raw milk from dairy farms that have more than 250 dairy cows to ensure quality and safety. Before we make our selection, we also engage in verification of the suppliers' information including area of the dairy farms, milk tank capacity, inspection certificate of the fresh raw milk and business licence. We conduct regular inspection on our suppliers' dairy farms and facilities and we regularly monitor the conditions of our suppliers' facilities, hygiene conditions, quality of raw milk and storage and transportation equipment.

Our Company has established long-standing relationships with many dairy farms in Gansu and Qinghai, which allows us to secure steady supply of fresh raw milk at reasonable price. As at 31 March 2015, we had entered into raw milk supply agreements with 12 external raw milk suppliers. Under our arrangements with the dairy farms, we do not substantially reduce the purchase price when raw milk is low in demand and in return, the dairy farms do not substantially raise the purchase price when raw milk is high in demand, nor do they reduce the amount of their supply. To address potential fluctuations of raw milk price, the purchase price of raw milk is usually set under the terms of the purchase agreements with our suppliers, which can be adjusted as agreed between both parties with regard to the prevailing market conditions. There is no requirement on minimum purchase amount of raw milk in our purchase agreements. We typically settle payments for raw milk with our suppliers monthly, although in some cases we may be required to make prepayments. Our purchase agreements usually have a term of one year.

Feed and Ancillary Materials Procurement

Our main feed is a feed mixture, mainly consisting silage, alfalfa, corn, bean and oats. We purchase our silage from growers and the other feed mixture ingredients from growers or processors.

We use other ancillary raw materials such as packaging materials and white sugar. We source such materials according to the production plan of our Company, demand and conditions of the market. We mainly purchase our ancillary materials through bidding. As our scale of operation increased, we are able to negotiate better arrangement on the procurement and delivery of these ancillary materials with our suppliers. For example, we are able to purchase large bulk of materials in one order, but request the suppliers to make multi-batch deliveries of small bulk to our designated production facilities, thereby benefiting from reduced inventory, better maintenance on quality as well as the ability to purchase as and when our ancillary materials are in demand. In selecting our suppliers, we consider factors including their product quality, delivery timing, pricing, service suitability as well as credit period. Under the arrangements with our suppliers, our purchase contracts are normally for short term, and we may agree with the suppliers a pre-fixed purchase price during the term of the relevant contract, and such price can be adjusted if the market price of such raw material fluctuates by more than the range specified in the agreement. The price of the ancillary raw materials required in our productions are relatively transparent and available on the internet. We regularly check the market price to monitor price trend and to decide on opportunistic purchases by taking advantage of favourable market price should the opportunities arise.

PRODUCT DEVELOPMENT

We believe product development is crucial to our Company for maintaining our competitive edge. In recent years, we have devoted much effort in developing new tastes and flavours to meet consumers' evolving demand. As at 31 March 2015, we maintained a product development team consisting of five personnel headed by Mr. Tao Shengjian.

We strive to introduce new product offerings by in-house product development. As at the Latest Practicable Date, we had established two technology centres, which perform the product development function, one in Gansu and one in Qinghai. We entered into a technology cooperation agreement with Gansu University of Agriculture (甘肅農業大學) in 2012 to jointly develop certain yogurt bacteria used for yogurt production. Under the agreement, we are entitled to retain all intellectual property rights arising out of the cooperation project. The term of the agreement expired on 31 December 2014.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had 130 registered trademarks under various classes, including “”, “” and “永道布®”. Among these trademarks, 113 are owned by our Company and 17 of which are owned by our subsidiary, Qinghaihu Dairy. We also had five registered patents with respect to design on the package of our dairy product. As our brand name is of material importance to our business, we are working to increase, maintain and enforce our rights in our intellectual property portfolio.

While we believe that certain know-how in our production and business operation may not be covered by our existing intellectual property rights, we have taken security measures to protect such know-how. All our product development personnel have entered into confidentiality and proprietary information agreements with us. Our production line staff as well as business partners have also entered into confidentiality agreements regarding our business operations and technology.

We were involved in a patent infringement claim against us in relation to our use of certain package for one of our yogurt products and we were ordered by the court to pay damages of RMB20,000 to the plaintiff. We have subsequently ceased to use such package for our products. As at the Latest Practicable Date, we were not involved in any material disputes or litigation relating to the infringement of intellectual property rights, and we were not aware of any such claims, either pending or threatened. Please see “Risk Factors – We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could subject us to significant liabilities and other costs” for further information.

COMPETITION

The liquid milk product industry in China, including Gansu and Qinghai, our major markets, is highly concentrated. The competitive landscape of the dairy product industry in China can be split into three categories: (1) national brands; (2) regional brands and (3) foreign brands. As a regional brand, we are located near to the market with shorter transportation time that guarantees better freshness. Our products are also more tailored to the taste and spending habits of end consumers. Compared with our competitors, we benefited from a stable supply of raw milk from our suppliers with whom we have developed good relationship over the years. Leveraged on our sales and distribution network through different sales channels, we have established strong brand recognition for our Zhuangyuan Ranch (莊園牧場) brand in Gansu and Shenghu (聖湖) brand in Qinghai. For more information on the competition we face, please see the section “Industry Overview” in this prospectus.

HUMAN RESOURCES

We had 505 full-time employees as at 31 March 2015. The following table sets forth a breakdown of our employees by function as at 31 March 2015:

Post	Number of employee	% of total employees
Administrative staff	52	10.3
Management	26	5.2
Sales	118	23.4
Finance	38	7.5
Production	194	38.4
Merchandising	42	8.3
Quality control	30	5.9
Product development	5	1.0
Total	**505**	**100.0**

According to the PRC Labour Law (中華人民共和國勞動法) and the Labour Contract Law of PRC (中華人民共和國勞動合同法), we are required to enter into labour contracts with individual workers we hired. The wages we paid to our employees and workers cannot be lower than the local minimum wage standards specified by the government from time to time. We are also required to make severance payments to an employee when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the existing contract. To secure the need for production operations and increase management efficiency, we have entered into a labour outsourcing service agreement with a local human resources company.

Furthermore, in accordance with relevant national and local social welfare laws and regulations in the PRC, we are required to pay in respect of our employees in the PRC various social security funds including basic pension insurance, unemployment insurance, occupational injury insurance, medical insurance, maternity insurance and housing provident fund. Our PRC legal adviser has advised us that contributions to these social security funds have been made as required by applicable PRC laws and regulations during the Track Record Period, other than the non-compliance incidents disclosed in the "– Historical Non-Compliance Incidents" below.

In order to advance the skills and knowledge of our employees as well as to explore new potentials from our workforce, we provide regular training for various department heads, design training programmes for our staff and offer targeted training to certain of our key employees.

During the Track Record Period, we did not experience any material labour dispute with our employees, received any relevant complaints, notice or orders from relevant government authorities or third parties. We believe that our senior management, labour union and employees will continue to maintain good relationships with each other.

INSURANCE

Generally, insurance companies in the PRC only provide insurance policies for dairy cows that are aged at or over 12 months. We have in place insurance policies for some of our self-owned dairy cows eligible for insurance against death caused by certain diseases, illnesses, accidents and natural disasters. The maximum compensation under our insurance policies can generally cover the replacement cost for the insured cows. The insurance policies are renewable on an annual basis. During the Track Record Period and up to the Latest Practicable Date, we had not made any significant claims under these insurance policies.

We also maintain insurance coverage for the buildings in some of our dairy farms and for our production facilities and equipment in our Xining production plant. On 12 February 2013, a fire accident occurred in our Xining production plant and damaged our warehousing facilities and inventories, for which we did not have insurance coverage because the insurance policy was not effective at that time. No death or personal injuries had been resulted but certain property structure, facilities and raw materials had been damaged. We conducted an accident investigation with the fire services department and relevant experts on site and it was determined that the accident was likely to be caused by circuit-related factors. Subsequent to the fire accident, we had installed additional fire-extinguishing apparatus and emergency rescue equipment. We require our employees to participate in safety training to familiarise themselves with the relevant safety rules and procedures to reduce risks associated with potential fire accidents. Additionally, we appointed qualified consulting firms to conduct on-site safety assessment and hazard identification, which help us enhance our overall health and safety management effectiveness. As a result of the fire accident, we incurred a direct loss of fixed assets and inventories of approximately RMB4.6 million in 2013.

Our Directors believe that our insurance coverage currently in place is adequate and is in line with customary industry practice.

AWARDS AND RECOGNITION

As a result of our stringent quality control measures, we achieved brand recognition, trust and confidence from customers. During the Track Record Period, our brands and products have never been associated with any food safety incidents. In addition, we have received various certifications from government authorities or other organisations. As at 31 March 2015, we have obtained the following certifications which attest to our high production standards:

Certification	Issuing Authority	Valid period/issuing date
HACCP Certification – for our production of liquid milk and milk powder at our Gansu production facility	China Quality Certification Centre (中國質量認證中心)	6 January 2015 to 5 January 2017
HACCP Certification – for our production of milk beverages at our Gansu production facility	China Quality Certification Centre (中國質量認證中心)	5 August 2015 to 4 August 2018
HACCP Certification – for our production of beverage at our Qinghai production facility	Beijing Continental Hengtong Certification Co., Ltd. (北京五洲恒通認證有限公司)	18 August 2014 to 17 August 2017

Certification	Issuing Authority	Valid period/issuing date
Dairy HACCP Certification – for our production of liquid milk at our Qinghai production facility	Beijing Continental Hengtong Certification Co., Ltd. (北京五洲恒通認證有限公司)	18 August 2014 to 17 August 2016
ISO9001:2008 Quality Management System Certificate (質量管理體系認證證書) – for our development and production of pasteurised milk, UHT milk, yogurt, other milk beverages and milk powder	China Quality Certification Centre (中國質量認證中心)	20 July 2015 to 19 July 2018
Green Food Certificate (綠色食品證書)	China Green Food Development Centre (中國綠色食品發展中心)	April 2013 to April 2016
Integrity Management System Certificate (誠信管理體系證書)	China Certification & Accreditation Institute of Certification and Accreditation Administration of the PRC (國家認證認可監督管理委員會認證認可技術研究所)	8 February 2013 to 7 February 2016

The following table sets out a summary of the awards and recognition we have received:

Year of grant	Awards/Recognition	Awarding authority
Since 2008	• National Leading Enterprises for Agricultural Industrialization (農業產業化國家重點龍頭企業)	Ministry of Agriculture, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, People's Bank of China, State Administration of Taxation, China Securities Regulatory Commission and All China Federation of Supply and Marketing Cooperatives (農業部、國家發展和改革委員會、財政部、商務部、中國人民銀行、國家税務總局、中國證券監督管理委員會、中華全國供銷合作總社)

Year of grant	Awards/Recognition	Awarding authority
2010	• First Runner Up of Qinghai Tibet Milk Processing Technology Research and Product Development – National Science and Technology Award (青藏高原牦牛乳深加工技術研究與產品開發 — 國家科學技術進步二等獎)	The Central People's Government of the People's Republic of China (中華人民共和國國務院)
	• Renowned Trademark in Gansu (Zhuangyuan Ranch (莊園牧場) trademark) (甘肅省著名商標(「莊園牧場」商標))	Administration for Industry and Commerce of Gansu Province (甘肅省工商行政管理局)
	• Distinguished Brand in Gansu (Zhuangyuan Ranch (莊園牧場) pure milk) (甘肅名牌產品(「莊園牧場」牌純牛奶))	Brand Promotion Committee of Gansu Province (甘肅省名牌戰略推進委員會)
2011	Provincial Leading Enterprise for Agricultural and Pastoral Industrialization (農牧業產業化省級重點龍頭企業)	Qinghai Province Agricultural and Pastoral Office, Qinghai Province Development and Reform Committee, Qinghai Province Finance Office, Qinghai Province Business Office, Qinghai Province State Administration of Taxation, Qinghai Province Local Administration of Taxation, Qinghai Province Supply and Sales Cooperation; Xining Central Branch of the People's Bank of China (青海省農牧廳、青海省發展和改革委員會、青海省財政廳、青海省商務廳、 青海省國家稅務局、省地方稅務局、青海省供銷合作社聯合社、中國人民銀行西寧中心支行)

Year of grant	Awards/Recognition	Awarding authority
2012	• Model Green Food Enterprise of the Province (全省綠色食品示範企業)	Gansu Province Agricultural and Pastoral Office (甘肅省農牧廳)
	• Model Enterprises for Integration of Information and Industrialization in Lanzhou (蘭州市兩化融合示範企業)	The People's Government of Lanzhou Municipality (蘭州市人民政府)
	• Renowned Trademark in Qinghai (Shenghu trademark) 青海省著名商標(「聖湖」)品牌商標	The People's Government of Qinghai (青海省人民政府)
	• Top 10 Leading Enterprise for Agricultural and Pastoral Industrialization in Xining Municipality (西寧市十佳農牧業產業化龍頭企業)	The People's Government of Xining Municipality (西寧市人民政府)
	• National Light Industry Pioneer Enterprise with Outstanding Performance Management Model Implemented (全國輕工業實施卓越績效先進企業 2010–2011年度)	China Light Industry Association (中國輕工業聯合會)
2013	• Gansu Product Quality Credit Rating AA Grade (甘肅省企業質量信用等級評價AA級)	Gansu Province Enterprise Quality Credit Rating Provincial Committee (甘肅省企業質量信用等級評價委員會)
	• Gold Medal Award Product in Qinghai Province (Shenghu pure milk) (青海省名優商品金獎(「聖湖」)品牌純牛奶)	Renowned Brand Evaluation Committee of Qinghai Province (青海省商業名牌評選委員會) and Business Association of Qinghai Province (青海商業聯合會)
2014	• National Top 100 Enterprises for Trade and Production of Special Necessities of the Ethnic Minorities (全國民族貿易和民族特需商品生產百強企業)	State Ethnic Affairs Commission of the People's Republic of China (中華人民共和國國家民族事務委員會)
	• Advanced Enterprise for Integrity and Social Responsibility in Qinghai (青海省信用與社會責任先進單位)	Qinghai Province Enterprise Integrity Association (青海省企業信用協會), and Qinghai Province Enterprise Social Responsibility Work Promotion Committee (青海省企業社會責任建設工作促進委員會)

PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Hong Kong Listing Rules. They mainly include premises for our dairy farms, offices, warehouses, production plants as well as employee dormitories and common areas.

As at 31 March 2015, each of our properties had a carrying amount below 15% of our consolidated total assets. On this basis, no property valuation report in respect of our Group's property interests is required in reliance upon the exemption provided by Rule 5.01A of the Listing Rules and Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Therefore, this prospectus is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

Owned Properties

As at the Latest Practicable Date, we had land use rights with respect to four parcels of land in China, two located in Lanzhou and two located in Xining, with a total area of approximately 58,519 sq.m. or approximately 87.7785 mu. We have obtained the land use rights certificates for all of these four parcels of land.

Our production plants in Lanzhou and Xining are located on three of these four parcels of land and have a total gross floor area of approximately 21,131.7 sq.m. or approximately 31.698 mu. We have obtained 20 building ownership certificates for all of buildings in these two production plants. The remaining parcel of land with a total area of approximately 23,451 mu and the buildings erected thereon have not been put in use, pending further business planning of our Group.

Our PRC legal adviser has confirmed that we have complied with relevant PRC laws with respect to such owned properties in all material respects and obtained the proper land use rights certificates and building ownership certificates for the aforementioned land and buildings and we are entitled to use all parcels of land mentioned above and we legally own all of our buildings.

We also use two parcels of land with a total area of approximately 122.3115 mu for our Lanzhou Ruixing dairy farm, consisting of 69.5415 mu state-owned land and 52.77 mu collectively-owned land. With respect to the parcel of state-owned land, we have obtained the state-owned land use right certificate on 28 June 2015. However, we have not yet obtained the land use right certificate for the collectively-owned land. For more details, please see "– Historical Non-Compliance Incidents" in this section.

Leased Properties

Dairy farms

As at the Latest Practicable Date, we leased nine parcels of collectively-owned land and one parcel of state-owned land in China with a total area of approximately 1,445.6 mu, mainly used for construction of our dairy farms. Lessors of such land are entitled to lease them to us.

The following table sets out a summary of the 10 parcels of land leased by us for dairy farm operations as at the Latest Practicable Date:

No.	Lessor	Use of Property	Area (mu)	Duration of lease
1	Villagers' Committee of Sanjiaocheng Village, Sanjiaocheng Town, Yuzhong County, Gansu (甘肅榆中縣三角城鄉三角城村村民委員會)	Dairy farm	16	1 January 2003 to 31 December 2032
2	Villagers' Committee of Sanjiaocheng Village, Sanjiaocheng Town, Yuzhong County, Gansu (甘肅榆中縣三角城鄉三角城村村民委員會)	Dairy farm	134.389	1 January 2012 to 31 December 2027
3	Villagers' Committee of Shuangdianzi Village, Sanjiaocheng Town, Yuzhong County, Gansu (甘肅榆中縣三角城鄉雙店子村村民委員會)	Dairy farm	303.46	16 March 2010 to 15 March 2040
4	Villagers' Committee of Zhupan Village, Beiyuan Town, Linxia County, Gansu (甘肅臨夏縣北塬鄉朱潘村村民委員會)	Dairy farm	50.174	1 January 2010 to 31 December 2040
5	Villagers' Committee of Puzi Village, Beiyuan Town, Linxia County, Gansu (甘肅臨夏縣北塬鄉堡子村村民委員會)	Dairy farm	72.155	1 January 2010 to 31 December 2040
6	Villagers' Committee of Shilou Village, Anjiapuo Dongxiangzu Town, Linxia County, Gansu (甘肅臨夏縣安家坡鄉史婁村村民委員會)	Dairy farm	122.04	January 2010 to 31 December 2040
7	Villagers' Committee of Zhongzhuang Village, Heping Town, Liangzhou District, Wuwei City, Gansu (甘肅武威市涼州區和平鎮中莊村村民委員會)	Dairy farm	140.25	26 October 2009 to 25 October 2039

No.	Lessor	Use of Property	Area (mu)	Duration of lease
8	Villagers' Committee of Tianjiazhai New Village, Huangzhong County, Qinghai (青海湟中縣田家寨鎮新村村民委員會)	Dairy farm	247.105	4 May 2009 to 3 May 2039
9	Bureau of Animal Husbandry of Huangyuan County Qinghai Province (青海省湟源縣畜牧局)	Dairy farm	160	1 March 2010 to 28 February 2040
10	Wuzhong City Litong District JinYin Tan Government (吳忠市利通區金銀灘鎮政府)	Dairy farm	200	1 March 2010 to 28 February 2040
	Total		**1,445.573**	

Office

As at the Latest Practicable Date, we leased one piece of land in Lanzhou with a total area of approximately 10.8 mu and buildings and structures erected thereon with a total gross floor area of 3,626.72 sq.m. from Lanzhou City Jin Dong Hui Commercial Company Limited (蘭州市城關區金東輝商貿有限公司). We use these properties for office and warehouse uses. The term of the lease is 10 years commencing from 9 April 2011. The PRC Land Administration Law (中華人民共和國土地管理法) provides that the rights to the use of collectively-owned land shall not be assigned, transferred or leased to non-rural collective economic organisations (非農村集體經濟組織) for non-agricultural use. Please see the non-compliance incidents disclosed in "– Historical Non-Compliance Incidents" in this section for further information.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

Environmental Matters

We are subject to extensive PRC national and local environmental laws and regulations concerning, among others, emissions to the air, discharges to land, sewage disposal, solid waste, the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and the remediation of environmental pollution relating to our properties and operations. Such environmental laws and regulations levy fees for the discharge of waste substances above prescribed levels and impose fines for serious violations. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage.

We have implemented various measures in respect of our production plants and dairy farms to eliminate damage to the environment caused by waste water, waste gas, biowaste, solid wastes and noise from our production. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, our annual cost of compliance with environmental protection rules and regulation was approximately RMB10.2 million, RMB0.6 million, RMB0.2 million and RMB60,000, respectively. Our PRC legal adviser has confirmed that we have obtained all necessary environmental permits and that our operations are currently conducted in accordance with the PRC environmental protection laws and regulations in all material respects, except for those disclosed in the table in "– Historical Non-compliance Incidents" of this section.

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

Health and Safety Matters

We are also subject to PRC laws and regulations regarding labour, safety and work related incidents. To maintain a safe working environment and increase awareness in occupational health and safety, we have implemented production safety management policies supplemented by a production safety responsibility assessment system, which identifies applicable occupational safety laws and regulations for self-evaluation by different personnel.

As at the Latest Practicable Date, we complied with all applicable PRC workplace safety regulatory requirements in all material aspects and were not subject to any penalties or disputes relating to health and safety matters that have a material and adverse effect on our financial conditions or business operations, other than those disclosed in "– Historical Non-compliance Incidents" in this section.

LEGAL PROCEEDINGS

During the Track Record Period, we were not involved in legal or other disputes with consumers, or subject to any material claims, damages, losses or product returns. As at the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations. To the best of our knowledge, no such material litigation, arbitration or administrative proceedings have been threatened against our Company or any of our subsidiaries.

PERMITS, LICENCES AND APPROVALS

The dairy industry is regulated in China, and dairy products manufacturers are required to obtain requisite permits, licences, and approvals from the relevant government authorities. For details about the permits, licences and approvals required for our operations, see the section headed "Regulatory Overview".

Our Directors, as advised by our PRC legal adviser, confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied with relevant PRC laws and regulations in all material respects and had obtained all material permits, licences and approvals from the relevant PRC authorities for all of our operations in China and all of such permits, licences and approvals are within their respective effective periods, other than the non-compliance incidents disclosed in "– Historical Non-Compliance Incidents" of this section below. We did not experience any material difficulty in renewing the permits, licences, and approvals during the Track Record Period, and we currently do not expect to have any material difficulty in renewing them when they expire.

The following table sets forth certain information in relation to our material permits, licences and approvals.

Type of permit/use	Group company	Issuing Authority	Valid Period/ Issuing Date	Renewal Requirement
Production Licence for Industrial Products (dairy products) (工業產品生產許可證) (乳製品)	Our Company	Gansu Province Food and Medicine Supervision and Management Bureau (甘肅省食品藥品監督管理局)	8 May 2014 to 30 March 2017	Six months prior to the expiration date
	Qinghaihu Dairy	Qinghai Province Quality and Technology Supervision Bureau (青海省質量技術監督局)	3 March 2014 to 2 March 2017	Six months prior to the expiration date
Production Licence for Industrial Products (beverage) (工業產品生產許可證) (飲料)	Our Company	Gansu Province Food and Medicine Supervision and Management Bureau (甘肅省食品藥品監督管理局)	8 May 2014 to 30 March 2017	Six months prior to the expiration date
	Qinghaihu Dairy	Qinghai Province Quality and Technology Supervision Bureau (青海省質量技術監督局)	3 March 2014 to 13 June 2016	Six months prior to the expiration date
Grain Purchase Licence (糧食收購許可證)	Our Company	Yuzhong County Food Bureau (榆中縣糧食局)	13 May 2015 to 12 May 2016	N/A
	Qinghai Shengya	Huangzhong County Development and Reform Bureau (湟中縣發展和改革局)	23 May 2012	N/A
Raw Milk Purchase Permit (生鮮乳收購許可證)	Our Company	Yuzhong County Agricultural Bureau (榆中縣農業局)	30 January 2015 to 29 January 2017	30 days prior to the expiration date
	Qinghaihu Dairy	Xining Municipality Agricultural and Farming Bureau (西寧市農牧局)	2 June 2015 to 1 June 2017	30 days prior to the expiration date
	Yuzhong Ruifeng	Yuzhong County Agricultural Bureau (榆中縣農業局)	10 June 2014 to 9 June 2016	30 days prior to the expiration date

Type of permit/use	Group company	Issuing Authority	Valid Period/ Issuing Date	Renewal Requirement
	Wuwei Ruida	Liangzhou District Farming and Veterinarian Bureau (涼州區畜牧獸醫局)	21 April 2015 to 20 April 2017	30 days prior to the expiration date
	Ningxia Zhuangyuan	Wuzhong Municipality Litong District Agricultural and Farming Bureau (吳忠市利通區農牧局)	14 March 2014 to 13 March 2016	30 days prior to the expiration date
	Linxia Ruiyuan	Linxia County Veterinarian Bureau (臨夏縣畜牧局)	1 December 2013 to 30 November 2015	30 days prior to the expiration date
	Linxia Ruian	Linxia County Farming Bureau (臨夏縣畜牧局)	7 November 2014 to 6 November 2016	30 days prior to the expiration date
	Qinghai Shengya	Huangzhong County Agricultural, Farming, and Poverty Alleviation Bureau (湟中縣農牧和扶貧開發局)	23 July 2014 to 22 July 2016	30 days prior to the expiration date
	Qinghai Shengyuan	Huangyuan County Agricultural, Farming, and Poverty Alleviation Bureau (湟源縣農牧和扶貧開發局)	30 March 2015 to 30 March 2017	30 days prior to the expiration date
Animal Epidemic Disease Prevention Compliance Certificate (動物防疫條件合格證)	Yuzhong Ruifeng	Yuzhong County Veterinarian Bureau (榆中縣獸醫局)	11 September 2015 to 10 September 2018	N/A
	Wuwei Ruida	Liangzhou District Farming and Veterinarian Bureau (涼州區畜牧獸醫局)	20 April 2013	N/A
	Linxia Ruiyuan	Linxia County Veterinarian Bureau (臨夏縣獸醫局)	19 May 2015 to 18 May 2018	N/A
	Linxia Ruian	Linxia County Veterinarian Bureau (臨夏縣獸醫局)	19 May 2015 to 18 May 2018	N/A
	Qinghai Shengyuan	Huangyuan County Agricultural, Farming, and Poverty Alleviation Bureau (湟源縣農牧和扶貧開發局)	27 April 2015	N/A

Type of permit/use	Group company	Issuing Authority	Valid Period/ Issuing Date	Renewal Requirement
	Qinghai Shengya	Huangzhong County Farming Bureau (湟中縣畜牧局)	23 May 2012 to 22 May 2017	N/A
	Ningxia Zhuangyuan	Wuzhong Municipality Litong District Agricultural and Farming Bureau (吳忠市利通區農牧局)	24 December 2014 to 23 December 2015	N/A
	Lanzhou Ruixing	Yongdeng County Farming and Veterinarian Bureau (永登縣畜牧獸醫局)	24 November 2014 to 23 November 2015	N/A
Halal Food Permit (清真食品許可證)	Our Company	Lanzhou Muncipality Civil Affairs Committee (榆中縣民族宗教事務局)	1 December 2014 to 30 November 2015	N/A
	Qinghaihu Dairy	西寧市城東區民族宗教事務局	20 January 2015	N/A
Sewage Discharge Permit (排污許可證)	Our Company	Yuzhong County Environmental Protection Bureau (榆中縣環境保護局)	19 May 2015 to 16 May 2016	30 days prior to the expiration date
	Qinghaihu Dairy	Xining Municipality Environmental Protection Bureau (西寧市環境保護局)	11 June 2015 to 11 June 2018	N/A
	Yuzhong Ruifeng	Yuzhong County Environmental Protection Bureau (榆中縣環境保護局)	19 May 2015 to 19 May 2018	30 days prior to the expiration date
	Wuwei Ruida	Liangzhou District Environmental Protection Bureau 涼州區環境保護局	5 December 2013 to 4 December 2016	30 days prior to the expiration date upon application
	Linxia Ruiyuan	Linxia County Environmental Protection Bureau 臨夏縣環境保護局	1 November 2013 to 31 October 2016	30 days prior to the expiration date
	Linxia Ruian	Linxia County Environmental Protection Bureau 臨夏縣環境保護局	October 2014 to October 2017	30 days prior to the expiration date
	Qinghai Shengyuan	Huangyuan County Environmental Protection Bureau 湟源縣環境保護局	2 February 2015 to 2 February 2016	N/A

Type of permit/use	Group company	Issuing Authority	Valid Period/ Issuing Date	Renewal Requirement
	Qinghai Shengya	Huangzhong County Environmental Protection Bureau 湟中縣環境保護局	2 February 2015 to 2 February 2018	N/A
	Ningxia Zhuangyuan	Wuzhong City Environmental Protection Bureau (吳忠市環境保護局)	18 May 2015 to 18 May 2016	N/A
Water Procurement Permit (取水證)	Qinghai Shengya	Huangzhong Water Suppliers Bureau (湟中縣水務局)	1 January 2014 to 31 December 2017	45 days prior to the expiration date
Raw Milk Transportation Permit (生鮮乳准運證明)	Yuzhong Ruifeng	Yuzhong County Agricultural Bureau (榆中縣農業局)	13 March 2015 to 12 March 2016	N/A
	Wuwei Ruida	Wuwei Municipality Liangzhou District Farming and Veterinarian Bureau (武威市涼州區畜牧獸醫局)	25 May 2015 to 24 May 2016	N/A
	Ningxia Zhuangyuan	Wuzhong Municipality Litong District Agricultural and Science and Technology Bureau (吳忠市利通區農牧和科學技術局)	5 August 2015 to 4 August 2016	N/A
	Linxia Ruiyuan	Linxia County Farming Bureau (臨夏縣畜牧局)	31 December 2014 to 30 December 2015	N/A
	Linxia Ruian	Linxia County Farming Bureau (臨夏縣畜牧局)	1 June 2015 to 31 May 2016	N/A
	Qinghai Shengya	Huangzhong County Agricultural, Farming, and Poverty Alleviation Bureau (湟中縣農牧和扶貧開發局)	3 August 2015 to 3 August 2016	N/A
	Qinghai Shengyuan	Xining Municipality Agricultural, Farming, and Poverty Alleviation Bureau (西寧市農牧和扶貧開發局)	10 August 2015 to 9 August 2016	N/A

HISTORICAL NON-COMPLIANCE INCIDENTS

Set out below is a summary of certain incidents of our non-compliance with applicable regulations during the Track Record Period.

No.	Non-compliance Incident	Reasons	Legal Consequences and Impacts	Remedial Measures	Enhanced Internal Control Measures to Prevent Recurrence of Non-compliance
1.	**Lease of collectively-owned land for non-agricultural use** We entered into a lease agreement with Lanzhou City Chengguan District Jin Dong Hui Commercial Co., Ltd. (蘭州市城關區金東輝商貿有限公司) on 9 April 2011 to lease one piece of land in Lanzhou with a total area of approximately 10.8 mu and buildings and structures erected thereon with a total gross floor area of 3,626.7 sq.m. for 10 years from 9 April 2011. Approximately 230 sq.m. gross floor area of buildings and structures are used for our two existing cold warehouses which are able to store approximately 15.0 tonnes of our Cold Chain Liquid Milk Products, representing 25% of our daily production volume of our Cold Chain Liquid Milk Products as at 31 March 2015. The remaining lease area is used for our office. The cold warehouses and office are auxiliary facilities to our production and thus do not have direct contribution to our revenue. However, the PRC Land Administration Law (中華人民共和國土地管理法) provides that the rights to the use of collectively-owned land shall not be assigned, transferred or leased to non-rural collective economic organisations (非農村集體經濟組織) for non-agricultural use.	The land is located in the intersection between the urban and rural districts in Lanzhou City and it is not uncommon for companies to lease lands and properties in this area for non-agricultural purpose due to the rapid urban development. We were not familiar with the relevant rules and regulations and rented the land and properties without seeking legal advice before leasing the land.	Our PRC legal adviser has advised us that, (i) the lease agreement may be deemed to be null and void under PRC laws due to the violation of the PRC Land Administration Law (中華人民共和國土地管理法) and we will not be able to enforce the lease agreement if the lessor does not perform its obligations under the lease agreement, (ii) the PRC laws do not provide for any penalties on a lessee of the properties for such non-compliance. However, we may be ordered to relocate from the land buildings. We do not believe that the potential relocation of office will cause material interruption to our business operation.	We plan to relocate our office and cold warehouses to our Lanzhou production plant, which is approximately 30 km from our current office, in the case that we are required to relocate from the current location. We plan to provide shuttle bus service for our staff to commute between the Lanzhou production plant and the urban district of Lanzhou. We expect to incur a total cost of RMB20,000 due to the relocation. As we have sufficient office space and existing cold warehouses with a total cold storage capacity of approximately 97.8 tonnes in our Lanzhou production plant and with the plan to construct additional cold warehouses on our Lanzhou production plant by the second half of 2015 with an expected total cold storage capacity of approximately 68.4 tonnes, we do not believe such relocation will have any material impact on our operation.	We have adopted the relevant procedures to ensure all properties leased is in compliance with applicable laws and regulations. Before entering into future lease agreements, we will investigate any restriction imposed on the purpose of use through review of title certificates, necessary land search and on-site investigation. We will engage legal adviser to review our lease agreements and advise us on potential legal issues. In addition, our legal department, under the supervision of Mr. Yan Bin, our executive Director and manager of our legal department, will also ensure that the designated usage of all properties leased is consistent with the purpose of our use. Immediate reporting to the Board should be made in the event that the lease properties are used beyond the designated usage.

No.	Non-compliance Incident	Reasons	Legal Consequences and Impacts	Remedial Measures	Enhanced Internal Control Measures to Prevent Recurrence of Non-compliance
2.	**Failure to obtain land title certificates and certain construction related permits for Lanzhou Ruixing dairy farm** We have not obtained the State-owned Land Use Right Certificates for the two parcels of lands where our Lanzhou Ruixing dairy farm is located. One parcel of the land is state-owned land with a total area of 69.5415 mu, and the other parcel is collectively-owned land with a total area of 52.77 mu. We started construction of the dairy farm on 20 April 2014 and breeding cows before obtaining land title certificates. In addition, we did not obtain certain construction related permits, including the planning permit for construction land (建設用地規劃許可證), the planning permit for construction project (建設工程規劃許可證) and the construction permit (施工許可證), for the constructions of Lanzhou Ruixing dairy farm before commencement of construction on 20 April 2014.	Such non-compliance was primarily because we were not familiar with the procedures of acquiring state-owned land, as the land used for all our other dairy farms is leased land.	With respect to the failure to obtain land title certificates for the two parcels of land, our PRC legal adviser has advised us that (i) we may be ordered by the land administration departments of the PRC government to vacate from the land and demolish structures and ancillary facilities on the land, and (ii) we may be subject to a fine of not more than approximately RMB2.4 million in total. With respect to the failure to obtain construction related permits, our PRC legal adviser has advised us that (i) we may be ordered to cease the construction work on the land, and (ii) we may be subject to a fine not exceeding approximately RMB3.2 million in total. Given the remedial measures that have been undertaken, our PRC legal adviser is of the view the likelihood that we will be subject to the aforementioned legal consequences, penalties or fines is remote.	We have obtained the planning permit for construction land and the planning permit for construction project on 15 June 2015. With respect to the parcel of state-owned land, we have obtained state-owned land use right certificate on 28 June 2015. With respect to the parcel of collectively-owned land, the land resources departments are in the process of expropriating the land and plans to convert it into state-owned land. After the expropriation is approved by the provincial land resource department, the bidding, auction and listing procedure will be conducted and we will apply for the state-owned land use right, the process of which is estimated to take around six months. The total land premium is expected to be about RMB6 million.	We have maintained a list of certificates, licenses and permits that are required in order for us to commence operation of a dairy farm and production plant and will update this list from time to time based on requirements of the local authorities and also advice given to us by our PRC legal adviser. We, under the supervision of Mr. Yan Bin, our executive Director and manager of our legal department, will monitor the obtainment of certificates, licenses and permits against the list referred to above and ensure that all relevant certificates, licenses and permits are obtained prior to the commencement of the formal operation of any dairy farm or production plant. In addition, we will engage legal adviser to advise us on future land acquisition procedures and the requirements involved.

No.	Non-compliance Incident	Reasons	Legal Consequences and Impacts	Remedial Measures	Enhanced Internal Control Measures to Prevent Recurrence of Non-compliance
				We have obtained written confirmation from Yongdeng County Land Resources Bureau (永登縣國土資源局), being the competent authority for issuing such confirmation, which states (i) we could continue to use these two parcels of land, (ii) we are not in violation of any applicable PRC land related laws and regulations, and we will not be subject to any penalties, orders or injunctions, and (iii) the likelihood that we would be able to obtain the state-owned land use right for the parcel of collectively-owned land is high. With respect to the failure to obtain construction related permits during the Track Record Period, we have obtained written confirmation from the Yongdeng County Housing and Urban and Rural Planning Construction Bureau (永登縣住房和城鄉規劃建設局), being the competent authority for issuing such confirmation, which states that our construction activities on these two parcels of land comply with the requirements of applicable PRC laws and regulations, and such authority will not take any actions against us or impose any penalties or fines on us.	

No.	Non-compliance Incident	Reasons	Legal Consequences and Impacts	Remedial Measures	Enhanced Internal Control Measures to Prevent Recurrence of Non-compliance
3.	**Failure to complete certain completion inspection procedures for dairy farms and production plants before commencement of operation or use** Under relevant PRC laws and regulations, we are required to complete the completion inspection procedures and certain evaluation procedures for our dairy farms and production plants before commencing operations or use. These procedures primarily include (i) environment completion inspection, (ii) fire safety completion inspection, (iii) production safety completion inspection, and (iv) occupational disease evaluation. We did not finish the relevant completion inspection procedures for our dairy farms and production plants before commencement of operation or use. Please refer to the summary of procedures table below for further details.	Such non-compliance was primarily because we were not able to complete such procedures before commencement of our operation or use due to the procedures and time required to complete such procedures by the relevant local government authorities, or in the case of Lanzhou Ruixing dairy farm, due to the fact that the construction of the dairy farm has not been completed and the inspection procedures can only be commenced after the construction is completed and the dairy farm starts to supply raw milk.	Under the relevant PRC laws, the government authorities may order us to cease the operation of dairy farms and production plants and impose fines of up to approximately RMB1.0 million in total for these non-compliance incidents, In addition, if we are ordered by the relevant authorities to rectify such non-compliances within the prescribed time period and we fail to do so, we may be subject to a fine of up to approximately RMB6.0 million. However, we have obtained some of the relevant permits and licenses for the dairy farms and production plants. Moreover, other than Lanzhou Ruixing dairy farm, we have received confirmations from the relevant authorities that they will not take any actions against us for these non-compliance incidents and we would not be subject to any administrative penalties or legal consequence for these non-compliance incidents. In addition, there does not exist any investigation, pursuance of liability or penalty against us due to violation of relevant laws, regulations and rules. Based on the above, our PRC legal adviser has advised us that the likelihood that we will be subject to the aforementioned legal consequences, fines or penalties is remote.	As at the Latest Practicable Date, we finished the completion inspection procedures for all of our dairy farms and production plants (other than Lanzhou Ruixing dairy farm).	We have maintained a list of certificates, licenses and permits that are required in order for us to commence operation of a dairy farm and production plant and will update this list from time to time based on requirements of the local authorities and also advice given to us by our PRC legal adviser. We, under the supervision of Mr. Yan Bin, our executive Director, deputy general manager and manager of our legal department, will monitor the obtainment of certificates, licenses and permits against the list referred to above and ensure that all relevant licenses are obtained prior to the commencement of the formal operation of any dairy farm or production plant.

No.	Non-compliance Incident	Reasons	Legal Consequences and Impacts	Remedial Measures	Enhanced Internal Control Measures to Prevent Recurrence of Non-compliance
4.	**Failure to obtain sewage discharge permits for the operation of dairy farms** We did not obtain the sewage discharge permits before the commencement of operation of Yuzhong Ruifeng dairy farm in September 2011, Qinghai Shengya dairy farm in December 2010, Qinghai Shengyuan dairy farm in September 2011, and Linxia Ruian dairy farm in September 2011.	Such non-compliance was primarily because we were not able to obtain such permits before commencement of our operation due to the procedures and time required for the issuance of such permits by the relevant local government authorities.	According to the relevant local laws of Gansu and Qinghai, the relevant authorities may (i) require us to obtain sewage discharge permits within the prescribed time period and may order us to stop production if we fail to obtain the permits within the prescribed time period, (ii) give warning to us, (iii) order us to cease discharging pollutants, and (iv) impose fines in the range of RMB10,000 to RMB100,000. As advised by our PRC legal adviser, the likelihood that we will be subject to any penalty is remote as we have now obtained the relevant permits.	We obtained the required sewage discharge permits for Yuzhong Ruifeng, Qinghai Shengya and Qinghai Shengyuan dairy farms on 19 May 2015, 2 February 2015 and 2 February 2015, respectively. In respect of the sewage discharge permit for Linxia Ruian dairy farm, we have received a letter from the Environment Protection Department in Linxia County, confirming the grant of the sewage discharge permit to us in October 2014.	We have maintained a list of certificates, licenses and permits that are required in order for us to commence operation of a dairy farm and production plant and will update this list from time to time based on requirements of the local authorities and also advice given to us by our PRC legal adviser. We, under the supervision of Mr. Yan Bin, our executive Director, deputy general manager and manager of our legal department, will monitor the obtainment of certificates, licenses and permits against the list referred to above and ensure that all relevant licenses are obtained prior to the commencement of the formal operation of any dairy farm or production plant.

No.	Non-compliance Incident	Reasons	Legal Consequences and Impacts	Remedial Measures	Enhanced Internal Control Measures to Prevent Recurrence of Non-compliance
5.	**Social insurance issue** We did not fully comply with the relevant laws to register with the Social Insurance Administration Departments in Lanzhou City, Wuzhong City, Liangzhou District Wuwei City, Huangzhong County Xining City, Huangyuan County Xining City, Linxia County in a timely manner and make social insurance contribution on a basis that is required under the relevant laws since the commencement of our operation in 2000.	Such non-compliance was primarily because we failed to give clear guidance to our human resources personnel to carry out the social insurance registration and contribution.	According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), the relevant PRC authorities may demand us to pay the difference in social insurance contribution based on the actual wages of employees within a stipulated deadline. The late payment fee is at the daily rate of 0.2% of the total amount of the difference for payment due prior to 1 July 2011 and thereafter, at the rate of 0.05% of the total amount of the difference. If we fail to make such payments in arrears, we may be subject to a fine of one to three times of the total amount of the difference.	We have completed all the registrations with the competent social insurance authorities as of April 2015 and have made social insurance for all employees at an amount specified by the competent local authorities. For the past non-compliance, we have obtained confirmations from the relevant social insurance authorities, which are the competent governmental authorities, that we have duly contributed the social insurance funds in accordance with the standards recognised by the local social insurance authorities as of the date of the confirmation letters issued and there is no incidence that we shall be penalised by the competent social insurance authorities due to any non-compliance with laws, regulations or rules. We have made provisions of RMB1.3 million for the potential differences in social insurance contributions and the outstanding balance as at 31 March 2015.	We would enforce compliance with existing policies and procedures relating to the contribution to social insurance in accordance with applicable regulations (員工保險管理辦法). Our human resource department is responsible for the staff salary calculation and making monthly social insurance contributions. The finance department is in charge of monitoring the monthly social insurance contributions.

No.	Non-compliance Incident	Reasons	Legal Consequences and Impacts	Remedial Measures	Enhanced Internal Control Measures to Prevent Recurrence of Non-compliance
6.	**Housing provident fund issue** We did not fully comply with the relevant laws to register and establish an account for housing provident fund with the relevant housing provident fund authorities in a timely manner and make housing provident fund contribution on a basis that is required under the relevant laws since the commencement of our operation in 2000.	Such non-compliance was primarily because we failed to give clear guidance to our humans resources personnel to carry out the housing provident fund registration and contribution. Our failure to register and establish accounts for housing provident fund for Linxia Ruiyuan, Linxia Ruian and Ningxia Zhuangyuan dairy farms was because we do not have employees in the case of Linxia Ruiyuan and Linxia Ruian dairy farms, or the required minimum number of employees in the case of Ningxia Zhuangyuan dairy farm and the local housing provident fund authorities do not think registration is necessary.	According to the Regulation on the Administration of Housing Provident Fund (住房公積金管理條例), the relevant housing provident fund authorities may order us to register and establish an account for housing provident fund within the prescribed time period. If we fail to do so, they may impose a fine in the range of RMB10,000 to RMB50,000 on each non-complied company. The relevant housing provident fund authorities may also order us to pay the outstanding amounts of the housing provident fund within the prescribed time period. If we fail to do so, the relevant housing provident fund authorities may apply to the relevant PRC court for the enforcement of the unpaid amounts. Other than the outstanding amounts of the housing provident fund, there are no additional late charges as provided in the Regulation on the Administration of Housing Provident Fund (住房公積金管理條例).	We have registered and made housing provident fund contribution for all employees an amount specified by the competent local authorities as of April 2015, other than Linxia Ruiyuan, Linxia Ruian and Ningxia Zhuangyuan dairy farms. For the employees with Ningxia Zhuangyuan dairy farm, we have been making housing provident contribution with the relevant authority in Lanzhou in accordance with applicable laws. For the past non-compliance, we have obtained confirmations from the relevant housing provident fund authorities, which are the competent governmental authorities, that no penalty will be imposed on us for the past non-compliance.	We have introduced policies and procedures (員工保險管理辦法) relating to the contribution to housing provident funds in accordance with applicable regulations. Our human resource department is responsible for the staff salary calculation and making monthly housing fund contributions. The finance department is in charge of monitoring the monthly housing fund contributions.

Set out below is a summary of details of completion inspection procedures required for our production plants and dairy farms and the status of the outstanding procedures:

	Environmental completion inspection procedures		Fire safety completion inspection procedures		Production safety completion inspection procedures		Occupational disease evaluation procedures	
	Historical non-compliance	Latest status	Historical non-compliance	Latest status	Historical non-compliance	Latest status	Historical non-compliance	Latest status
Production plant in Lanzhou (Construction was completed in around August 2005.)	No	–	No	–	Yes	It was completed on 26 May 2015.	Yes	It was completed on 3 July 2015.
Production plant in Xining (Construction was completed in around November 2011.)	No	–	No	–	No	–	Yes	It was completed on 3 August 2015.
Yuzhong Ruifeng Dairy Farm (Construction was completed in around September 2011.)	No	–	N/A*	–	Yes	It was completed on 26 May 2015.	Yes	It was completed on 3 July 2015.
Wuwei Ruida Dairy Farm (Construction was completed in around December 2010.)	Yes	It was completed on 29 July 2015.	N/A*	–	Yes	It was completed on 19 May 2015.	Yes	It was completed on 25 June 2015.

	Environmental completion inspection procedures		Fire safety completion inspection procedures		Production safety completion inspection procedures		Occupational disease evaluation procedures	
	Historical non-compliance	Latest status	Historical non-compliance	Latest status	Historical non-compliance	Latest status	Historical non-compliance	Latest status
Ningxia Zhuangyuan Dairy Farm (Construction was completed in around December 2010.)	Yes	It was completed on 15 May 2015.	N/A*	–	Yes	It was completed on 29 May 2015.	Yes	It was completed on 7 July 2015.
Linxia Ruiyuan Dairy Farm (Construction was completed in around December 2010.)	Yes	It was completed on 28 July 2015.	N/A*	–	Yes	It was completed on 18 May 2015.	Yes	It was completed on 1 July 2015.
Linxia Ruian Dairy Farm (Construction was completed in around September 2011.)	Yes	It was completed on 28 July 2015.	N/A*	–	Yes	It was completed on 18 May 2015.	Yes	It was completed on 1 July 2015.
Qinghai Shengya Dairy Farm (Construction was completed in around December 2010.)	Yes	It was completed on 10 February 2015.	N/A*	–	Yes	It was completed on 27 May 2015.	Yes	It was completed on 3 August 2015.
Qinghai Shengyuan Dairy Farm (Construction was completed in around September 2011.)	Yes	It was completed on 13 January 2015.	N/A*	–	Yes	It was completed on 27 May 2015.	Yes	It was completed on 3 August 2015.

Notes:

* Based on the confirmation letters received from the relevant fire protection departments of public security authorities, we are not required to complete fire safety completion inspection procedures for buildings on the dairy farm as the land we lease is used for agricultural purpose and buildings thereon are temporary.

Based on the advice of our PRC legal adviser, our Directors and the Sole Sponsor consider that none of the non-compliance matters as mentioned above will have any material operational or financial impact on our business. Having considered the facts and circumstances leading to the non-compliance incidents as disclosed in this section, our Directors' integrity, our Group's internal control measures to avoid recurrence of the non-compliance incidents, and the preventive measures mentioned below, our Directors and the Sole Sponsor are of the view that we have adequate and effective internal control procedures in place in accordance with the requirements under the Hong Kong Listing Rules, and the past non-compliance incidents will not affect the suitability of the Directors to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Hong Kong Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Hong Kong Listing Rules. All the buildings/structures which have not obtained building ownership certificates nor undertaken the completion inspection of construction work as required under the relevant local rules and regulations as mentioned above are in safe condition. In addition, our Controlling Shareholders have jointly and severally agreed to indemnify us against any penalties or liabilities arising out of these non-compliance incidents.

INTERNAL CONTROL MEASURES TO PREVENT RECURRENCE OF NON-COMPLIANCE INCIDENTS

The Directors are responsible for monitoring our internal control system and for reviewing its effectiveness. In accordance with the applicable PRC and Hong Kong laws and regulations, we have implemented internal procedures. Particularly, in view of the above issues in respect of the licenses and filings of our dairy farms and production sites, we will implement the following internal control procedures to reduce our exposure to risk of penalties from the PRC regulatory authorities in respect of dairy farms and production plants that we operate in the future:

- We have maintained a list of certificates, licenses and filings that are required in order for us to commence operation of a dairy farm and production plant and will update this list from time to time based on our experience with local authorities and advice from our external advisers;

- As an internal control measure, we will monitor the attainment of licenses and filings against the list referred to above and ensure that all relevant licenses and filings are obtained prior to the formal operation of any dairy farm or production plant;

- We have engaged a qualified PRC law firm as our external legal adviser to assist our Board to identify and manage the legal risks associated with our daily operations and advise us on relevant regulatory matters to ensure due compliance with PRC laws, rules and regulations applicable to our Group;

- We have designated Mr. Yan Bin, our executive Director, deputy general manager and manager of legal department to assist our Board to perform internal review of our operations, and identify, assess and manage the risks associated with our operations from time to time to ensure due compliance with laws, rules and regulations in the PRC. Please refer to the paragraph headed "Executive directors" in the "Directors, Supervisors and Senior Management" section of this prospectus for the details of Mr. Yan Bin's experience;

- We have established an audit committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code and Corporate Governance Report as set forth in Appendix 14 to the Listing Rules, led by Mr. Bai Yongzhi. The audit committee and one of our executive Directors will supervise the implementation of our internal control measures in order to better monitor our daily operations from the perspective of compliance with applicable rules and regulations;

- We have established a set of policies and procedures for operational processes, including production, investment and financial management;

- We have established a corporate governance policy and will, from time to time, review the internal guidelines and policies by taking into account of related laws and regulations and make any amendment and implement them as necessary;

- We will continue to conduct regular internal training to our employees and management on our compliance policy and engage external professionals, including our Hong Kong legal advisers and PRC legal advisers, to conduct training on our ongoing compliance and obligations under the Listing Rules and all other Hong Kong and PRC regulations annually to ensure awareness and compliance of the policies; and

- We have assigned our internal audit department to review and monitor our major business activities on a regular basis, conduct random checking and report its findings to our audit committee.

In light of the nature of, and reasons for, the historical non-compliance incidents, and on the basis of the rectification measures taken, the Directors believe, and the Sole Sponsor have no reason to doubt, that the enhanced internal control measures are not adequate and effective to address the incidents of non-compliance as set out above.

RISK MANAGEMENT

We are exposed to various risks during our operation. For more details, see the section headed "Risk Factors." We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, fund management, compliance with applicable laws and regulations on environmental protection, production safety and product safety. Our Board oversees and manages the overall risks associated with our operations. We have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. Please refer to "Directors, Supervisors and Senior Management – Board Committees – Audit Committee" for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee.

CONTINUING CONNECTED TRANSACTION

We do not carry on any continuing connected transactions (as defined in the Hong Kong Listing Rules) after Listing which are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), each of Mr. Ma Hongfu, Zhuangyuan Investment and Lucky Cow will be interested in approximately 22.92%, 21.99% and 10.68%, respectively of the issued share capital of our Company. Mr. Ma Hongfu holds approximately 97.38% interest in Zhuangyuan Investment and approximately 39.44% interest in Lucky Cow. As Mr. Ma Hongfu, Zhuangyuan Investment and Lucky Cow are, directly or indirectly, individually or together with the others, entitled to exercise, or control the exercise of, 30% or more of the voting power at our Company's general meeting, each of Mr. Ma Hongfu, Zhuangyuan Investment and Lucky Cow is regarded as a Controlling Shareholder of our Company under the Hong Kong Listing Rules. Please refer to the section headed "Directors, Supervisors and Senior Mangement" in this prospectus for further information of Mr. Ma Hongfu.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered all relevant factors, our Company is satisfied that it can conduct the business independently of our Controlling Shareholders and their respective close associates after the Global Offering for the following reasons:

(i) Management Independence and Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, the Board has full authority to make all decisions regarding, and to carry out, its own business operations independently. Our Company (through its subsidiaries or pursuant to certain contractual arrangements) holds or enjoys the benefit of all relevant licences necessary to carry out the businesses, and has sufficient capital, equipment and employees to operate the business independently from our Controlling Shareholders.

The Board consists of a total of nine Directors, comprising four executive Directors, two non-executive Directors, and three independent non-executive Directors, Mr. Ma Hongfu is one of the executive Directors and chairman of the Board.

The management and operational decisions are made by the Board in a collective manner. The decisions are carried out by the executive Directors and senior management of our Company, most of whom have served our Company for a long time and have substantial experience in the industry in which our Company is engaged. Moreover, each of the Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interests.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company, shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested. Pursuant to the Articles, a Director shall not be entitled to vote (nor be counted in the quorum) on a resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, except in certain prescribed circumstances, details of which are set out in the section headed "Appendix IV – Summary of Articles of Association" of this prospectus.

The provisions in the Articles ensure that matters involving a conflict of interests which may arise from time to time will be managed in line with generally accepted corporate governance practice so as to ensure that the best interests of our Company and the Shareholders as a whole are preserved. Following the Listing, the Board is required to comply with the provisions of the Hong Kong Listing Rules.

Further, our Company believes the three independent non-executive Directors bring independent judgement to the decision-making process of the Board.

Mr. Ma Hongfu has undertaken to abstain from voting on any future connected transactions relating to him and/or his associates. On the basis of the foregoing, the Directors are of the view that our Company is independent from our Controlling Shareholders including Mr. Ma Hongfu and his associates in terms of its management and business operations.

(ii) Administrative Independence

Our Company has its own capabilities and personnel to perform all essential administrative functions including financial and accounting management, human resources management and product development. The joint company secretaries are independent of our Controlling Shareholders.

(iii) Financial Independence

During the Track Record Period, Mr. Ma Hongfu, our Controlling Shareholder, guaranteed certain of our bank loans. Some of these guaranteed loans have been fully repaid and the remaining outstanding guarantees provided by Mr. Ma Hongfu will be fully released before or upon the Listing. For further information about these guarantees, please refer to the section headed "Financial Information – Indebtedness – Bank Loans". Our Company has its own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. The Directors believe that our Company is capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

RULES 8.10 AND 19A.14 OF THE HONG KONG LISTING RULES

None of our Controlling Shareholders and the Directors has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rules 8.10 and 19A.14 of the Hong Kong Listing Rules.

NON-COMPETITION UNDERTAKING

On 23 September 2015, each of our Controlling Shareholders executed the Non-Competition Undertaking Letter in favour of our Company pursuant to which each of our Controlling Shareholders has undertaken to our Company that he/it will not, and will procure that his/its close associates (other than our Company and its subsidiaries) will not, directly or indirectly, as a principal or agent, either on their own accounts or in conjunction with or on behalf of any individual, firm, company, enterprise or organisation, during the Restricted Period (as defined below):

(a) carry on, develop, be engaged in, operate, participate in, acquire or hold any right or interest in or render any services to or otherwise be involved in (in each case whether as a shareholder, agent, partner, employee or otherwise and whether for profit, reward or otherwise) any business which is or may be in competition with the business of our Group ("Restricted Business"); and

(b) take any action which interferes with or disrupts or may interfere with or disrupt the business of our Group including, but not limited to, solicitation of any of the customers, suppliers or employees of any member of our Group.

Each of our Controlling Shareholders has warranted and undertaken to our Company, that he/it shall not, and shall procure that his/its close associates (except any members of our Group) shall not: (a) induce or solicit any person, organisation or company to induce any competition or suspension of the business of our Group; (b) induce or solicit any of the employee to leave our Company and/or its subsidiaries, or employ, or provide service to, or in any other forms employ the then employee; (c) engage in any business or activity or jointly with any person, organisation or company engage in business or activity, that uses any name or trademark (registered or non-registered) of our Group, or any name of our Group that is used in association with our Group's business or activity at intervals, or include all or any of the above material terms or any fraudulent imitations (except for circumstances, in which our Group is involved).

In addition, each of our Controlling Shareholders has confirmed that as of the Latest Practicable Date, he/it does not, and to the best knowledge and belief that his/its close associates do not, directly or indirectly, own, operate, participate, invest in or carry on any Restricted Business, or participate or hold any equity interests or is otherwise interested in any company or entity or firm which is principally engaged in the Restricted Business.

Such non-compete undertaking does not apply to our Controlling Shareholders or their respective close associates in respect of:

(a) their interests in the shares of any member of our Group; or

(b) their interests in the shares of a company other than our Group which shares are listed on the Stock Exchange or a recognised stock exchange provided that the total number of the shares held by each of our Controlling Shareholders (including his/its close associates) does not exceed 5% of the issued shares or securities of our company in question and he/it and his/its close associates, whether acting individually or jointly, are not entitled to appoint a majority of the board of directors of that company.

The "Restricted Period" refers to the period expiring on the earlier of (i) the date on which our H Shares cease to be listed and traded on the Hong Kong Stock Exchange; or (ii) in respect of his/its capacity as a controlling shareholder, the date on which our Controlling Shareholders (including their respective close associates and parties acting in concert, jointly or severally), cease to be entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company.

The Non-Competition Undertaking Letter also includes the following provisions:

- Each of our Controlling Shareholders has undertaken to and covenanted with our Company that during the Restricted Period, to procure any New Opportunity (as defined below) that he/it or any of his/its close associates identify or propose or that is offered or presented to him/it or any of their close associates by a third party, shall be first referred to our Company and handled in the following manner:

(i) The Controlling Shareholder shall as soon as reasonably practicable notify our Company in writing and refer such New Opportunity to our Company for consideration and provide such information as reasonably required by our Company in order to come to an informed assessment of such business opportunity (including details of any investment or acquisition costs and the contact details of the third party offering, proposing or presenting the New Opportunity) to him/it and/or his/its associates (the "Offer Notice"); and

(ii) Our Company shall within 25 days from the receipt of the Offer Notice notify the relevant Controlling Shareholder and/or his/its associates in writing of any decision taken to pursue or decline the New Opportunity. If the relevant Controlling Shareholder and/or his/its associate has not received any written notice from our Company within 25 days from receipt by our Company of the Offer Notice, in which case our Company shall be deemed to have declined the New Opportunity.

- Our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Non-Competition Undertaking Letter by our Controlling Shareholders and their respective close associates.

- Our Controlling Shareholders have undertaken to us that they will, and will procure their respective close associates to, use their best endeavours to provide all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Non-Competition Undertaking Letter.

- We will disclose the review by the independent non-executive Directors on the compliance with, and the enforcement of, the Non-Competition Undertaking Letter in our annual report or by way of announcement to the public in compliance with the requirements of the Hong Kong Listing Rules.

- Our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Non-Competition Undertaking Letter in accordance with the principle of voluntary disclosure in the corporate governance report.

- Our Controlling Shareholders have undertaken, to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Group arising out of or in connection with any breach of their undertakings and/or obligations under the Non-Competition Undertaking Letter, including any costs and expenses incurred as a result of such breach provided that such indemnity shall be without prejudice to any other rights and remedies our Group is entitled to in relation to any such breach, including specific performance.

The "New Opportunity" refers to any investment or commercial opportunity identified by or offered to any of our Controlling Shareholders or any of their respective close associates to engage in, assist or support a third party in the operation of, participate or have any interest in, a Restricted Business, other than through our Group, which our Controlling Shareholders or any of their respective close associates would not be permitted to do pursuant to the Non-Competition Undertaking Letter.

BOARD OF DIRECTORS

Our Board consists of nine members, of whom four are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The table below sets forth certain information of our Directors:

Name	Age	Position/Title	Date of joining our Company	Date of appointment to our Board	Principal responsibilities
Ma Hongfu (馬紅富)	49	Chairman, executive Director, general manager	April 2000	6 April 2011	Chairman of the Strategy Committee, member of the Nomination Committee
Wang Guofu (王國福)	46	Deputy Chairman, executive Director, deputy general manager, financial controller	August 2001	6 April 2011	Member of the Remuneration and Appraisal Committee, responsible for the overall financial management and control
Chen Yuhai (陳玉海)	41	Executive Director, deputy general manager	April 2008	6 April 2011	Responsible for the overall work of the project development department
Yan Bin (閻彬)	53	Executive Director, deputy general manager, joint company secretary	March 2004	6 April 2011	Responsible for the internal legal matters, public relations, relationship with regulatory authority, media propaganda and press releases
Song Xiaopeng (宋曉鵬)	37	Non-executive Director	N/A	2 March 2015	Participating in formulating significant strategies of the Company through the Board; member of the Strategy Committee
Yap Kean Chong (葉健聰)	49	Non-executive Director	N/A	6 April 2011	Participating in formulating significant strategies of the Company through the Board
Bai Yongzhi (白勇志)	62	Independent non-executive Director	N/A	6 April 2011	Chairman of the Remuneration and Appraisal Committee and the Audit Committee
Xin Shihua (信世華)	58	Independent non-executive Director	N/A	6 April 2011	Chairman of the Nomination Committee, member of the Remuneration and Appraisal Committee, Audit Committee and Strategy Committee
Wong Cho Hang Stanley (黃楚恒)	40	Independent non-executive Director	N/A	2 March 2015	Member of Audit Committee and Nomination Committee

Executive Directors

Mr. Ma Hongfu (馬紅富), aged 49, the founder of our Group, is our chairman and general manager. He was appointed to the Board on 6 April 2011. He is responsible for the overall management of our Company. Mr. Ma Hongfu worked as the general manager of Minqinxian Hongchang Agriculture and Trading Co., Ltd. (民勤縣宏昌農貿有限責任公司) from 1988 to 1999 and has more than 10 years of experience in the dairy industry. Mr. Ma Hongfu obtained a degree of Executive Master of Business Administration (EMBA) from Tsinghua University (清華大學) in July 2005. He is the legal representative of Qinghaihu Dairy, Lanzhou Ruixing, Wuwei Ruida, Qinghai Shengya and Qinghai Shengyuan.

Mr. Ma Hongfu currently is the president of the Dairy Association of Gansu Province (甘肅省奶業協會) and deputy president of the Food Industry Association of Gansu Province (甘肅省食品工業協會). In addition, he was honoured as "2004 Excellent Operator in Industrial Economic Field" (2004年度工業經濟工作優秀經營者) by Lanzhou People's Government (蘭州市人民政府) in January 2005, and "Rural Entrepreneur of Lanzhou (蘭州市鄉鎮企業家)" by Lanzhou People's Government in February 2005. He was also awarded the "Labour Model of Lanzhou (蘭州市勞動模範)" by Lanzhou Communist Party Committee (中共蘭州市委) and Lanzhou People's Government in January 2005.

Mr. Ma was the committee member of 6th Yuzhong County of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議榆中縣第六屆委員會委員) from November 2002 to December 2007.

Mr. Wang Guofu (王國福), aged 46, is our executive Director, deputy chairman, deputy general manager and financial controller of our Company. He was appointed to the Board on 6 April 2011 and was appointed as the financial controller of the Company on the same day. Mr. Wang has more than 20 years of experience in the food industry. Mr. Wang completed his master courses majoring in Business Management in Lanzhou University (蘭州大學) in August 2005 and has accountant qualification (會計師) accredited by Gansu Province Villages and Towns Enterprise Administration Bureau Accounting Intermediate Title Examination and Appraisal Committee (甘肅省鄉鎮企業管理局會計專業中級職務評審委員會) in 2004. Prior to joining our Company, he was an accountant in Gansu Import and Export of Agricultural By-products Company (甘肅省農副產品進出口公司) from August 1990 to August 1994, and he was the financial manager and subsequently the financial controller of Lanzhou Yongtai Food Co., Ltd. (蘭州永泰食品有限公司) from November 1994 to May 2001. Mr. Wang joined our Company in August 2001. He is primarily responsible for the overall financial management of our Company. He is the legal representative of Yuzhong Ruifeng and Linxia Ruian and the supervisor of Qinghaihu Dairy, Qinghai Shenya, Linxia Ruiyuan and Lanzhou Ruixing.

Mr. Chen Yuhai (陳玉海), aged 41, is our executive Director and deputy general manager. He was appointed to the Board on 6 April 2011. After joining our Company in April 2008, Mr. Chen has served as project manager responsible for the overall work of the project development department. Mr. Chen has more than 15 years of experience in the dairy industry. Mr. Chen attended the Business Administration Chief Executive Officer Senior Training Course (工商管理總裁高級研修班) organised by Tsinghua University (清華大學) during 17 March 2011 to 19 May 2012, and the Enterprise Management Senior Research and Study Course (企業管理人員高級研修班) organised by Zhejiang University (浙江大學) in October 2010. Mr. Chen was the branch manager and deputy general manager of the marketing department of Ningxia Xiajin Dairy and Beverage Co., Ltd. (寧夏夏進乳品飲料有限公司) from October 1995 to May 2005 responsible for Henan subsidiary and marketing work in northern China regions. From

June 2005 to August 2007, Mr. Chen served as the deputy general manager in Ningxia Hongguo Dairy Co., Ltd. (寧夏紅果乳業有限公司) responsible for overall marketing work. From September 2007 to April 2008, Mr. Chen worked in Ningxia Xiajin Dairy Group Co. Ltd. (寧夏夏進乳業集團股份有限公司) responsible for overall marketing work. He is the legal representative of Ningxia Zhuangyuan and the supervisor of Wuwei Ruida, Linxia Ruian and Qinghai Shenyuan.

Mr. Yan Bin (閻彬), aged 53, is our executive Director, deputy general manager, joint company secretary, manager of securities division (證券部經理) and manager of legal department (法務部經理) of our Company. He was appointed to the Board on 6 April 2011. Mr. Yan is responsible for overseeing and supervising the internal legal matters, public relations, relationship with regulatory authority, media propaganda and press releases of our Company. Mr. Yan has more than 10 years of experience in the dairy industry. Mr. Yan obtained a bachelor of Law degree from Lanzhou University (蘭州大學) in June 1994 majoring in Administrative Management. He received economist qualification accredited by Gansu Human Resource Bureau (甘肅省人事局) and Gansu Province Title Reform Leading Group Office (甘肅省職稱改革領導小組辦公室) in April 1994. He also obtained the certificate of Human Resources Innovative Practical Senior Research and Study Programme (人力資源創新實戰高級研修班) by Tsinghua University (清華大學) in March 2011. Mr. Yan was honoured as China Annual Excellent Professional Manager (2009中國年度優秀職業經理人) in December 2009 by China SME Association (中國中小企業協會) and National Professional Manager Association (全國職業經理人協會聯盟). He is recognised as an Outstanding Corporate Management Personnel (企業管理優秀人才) on 26 May 2011 by the Committee of the Chinese Communist Party of Yuzhong County (中國共產黨榆中縣委員會) and Yuzhong County Government (榆中縣人民政府). Prior to joining our Company, Mr. Yan has worked as the administrative manager (行政部經理), assistant general manager (總經理助理) and chief administrative officer (行政總監) of Lanzhou Xuedun Biological Dairy Co., Ltd. (蘭州雪頓生物乳業公司) from 1998 to 2004. He joined our Company in March 2004 and acted as administrative manager and executive assistant to general manager.

Non-executive Directors

Mr. Song Xiaopeng (宋曉鵬), aged 37, is our non-executive Director. He was appointed to the Board on 2 March 2015. Since November 2012, Mr. Song has been the Deputy General Manager of Shenzhen Shenshang Richland Xingye Fund Management Co., Ltd. (深圳市深商富坤興業基金管理有限公司) and, since January 2010, the investment manager and subsequently the senior investment manager in Shenzhen Richland Equities Ltd. (深圳市富坤創業投資有限公司). Mr. Song obtained his bachelor degree in Accounting from Shanxi University of Finance & Economics (山西財經大學) in March 2002. He was a qualified Certified Public Accountant of the PRC accredited by Shenzhen Institute of Certified Public Accountants (深圳市註冊會計師協會) in May 2003.

Mr. Yap Kean Chong (葉健聰), aged 49, is our non-executive Director. He was appointed to the Board on 6 April 2011. Mr. Yap obtained his bachelor degree in Business in Curtin University of Technology in February 1988, and his post graduate diploma in Business from Curtin University of Technology in August 1990. He was qualified as the admitted Associate of the Institute of Chartered Secretaries and Administrators in May 1991 and received the Certificate of Membership of the Institute of Chartered Accountant in Australia in February 2002. Mr. Yap has been the director, chief executive officer and founding partner of Rico Harvest Capital (上海財晟股權投資管理有限公司) since September 2009.

Independent Non-executive Directors

Mr. Bai Yongzhi (白勇志), aged 62, is our independent non-executive Director. He was appointed to the Board on 6 April 2011. Mr. Bai received college education from Correspondence School of Central Communist Party of China (中共中央黨校函授學院) majoring in Economics and Management and graduated in June 1993. Mr. Bai received the PRC certificates of certified public accountant accredited by Gansu Institute of Certified Public Accountants (甘肅省註冊會計師協會) on 31 May 2006. Mr. Bai has been a partner and the chief accountant of Lanzhou Xinxin Accounting Firm (蘭州鑫信會計事務所) since April 2003.

Ms. Xin Shihua (信世華), aged 58, is our independent non-executive Director. She was appointed to the Board on 6 April 2011. Ms. Xin received college education in Law at NorthWest University of Politics and Law (西北政法學院) and graduated in June 2001. She received the PRC Lawyer Certificate (律師資格證書) in February 1994 and the PRC Lawyer's Licence (律師執業證) in March 2010 issued by Gansu Department of Justice (甘肅省司法廳). Ms. Xin has been practicing law in Gansu Xicheng Law Firm (甘肅西成律師事務所) as a lawyer since 2007.

Mr. Wong Cho Hang Stanley (黃楚恒), aged 40, is our independent non-executive Director. He was appointed to the Board on 2 March 2015. Mr. Wong is the Deputy Managing Director of Chuan Chiong Co., Ltd. (泉昌有限公司), which was founded in 1931 and is mainly engaged in wholesale and trading of Chinese medicine, food product and tea. He is the president of Hong Kong Chinese Prepared Medicine Traders Association Limited (香港中成藥商會會長) since July 2014. He is awarded the "2014 Excellence in Achievement of World Chinese Youth Entrepreneurs"(世界傑出青年華商) jointly by Yazhou Zhoukan (亞洲週刊) and World Federation of Chinese Entrepreneurs Organisation (世界華商組織聯盟). He is the committee member of 11th Fujian Provincial Committee of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆福建省委員會委員). Mr. Wong obtained his bachelor degree in Economics, in Carleton University in 1998.

DIRECTORS' INTEREST

Save as disclosed in this Prospectus, each of our Directors (i) did not hold any other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders as of the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. Save as disclosed in this Prospectus, as of the Latest Practicable Date, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matters with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules as of the Latest Practicable Date.

SUPERVISORY COMMITTEE

Name	Age	Position/Title	Date of joining our Company	Date of appointment as Supervisor	Principal responsibilities
Supervisors					
Wei Lin (魏琳)	46	Supervisor	March 2015	2 March 2015	Responsible for supervising the operations of the Board
Du Wei (杜魏)	37	Supervisor	March 2008	6 April 2011	Responsible of management of human resource
Pan Jin (潘錦)	47	Supervisor	July 2011	30 July 2011	Responsible for supervising the operations of the Board

Mr. Wei Lin (魏琳), aged 46, was appointed to the Supervisory Committee on 2 March 2015. Mr. Wei has been the managing partner of Gansu Hengrui Asset Valuation Firm (甘肅恒瑞資產評估事務所) since August 2008. Mr. Wei worked in ICBC Gansu Branch Lanzhou Qilihe Sub-branch from August 1987 to June 2005. He has obtained the Finance and Economics Personnel Certificate (金融經濟師證書) accredited by Ministry of Personnel People's Republic of China (中華人民共和國人事部) in October 1996 and the National Certification of Construction Cost Estimator Qualification (全國建設工程造價員資格證書) accredited by China Engineering Cost Association (中國建設工程造價管理協會) in July 2006. He was qualified as a PRC Asset Valuer accredited by the China Appraisal Society (中國資產評估協會) in August 2005. Mr. Wei has completed a three-year Finance programme in Night College of Lanzhou University of Finance and Economics (蘭州商學院) in July 1991.

Ms. Du Wei (杜魏), aged 37, was appointed to the Supervisory Committee on 6 April 2011. Ms. Du has obtained the college diploma majoring in Electronic Technology and Micro-computer Application by Lanzhou University (蘭州大學) in July 2001, and was engaged in a self-learning programme of Lanzhou University majoring in Computer Science Application and graduated in June 2004. Ms. Du is also qualified as Second Level Corporate Human Resource Manager (二級企業人力資源管理師) by the Occupational Skill Testing Centre of Human Resource and Social Security Department (人力資源和社會保障部職業技能鑒定中心) in December 2013. Ms. Du joined our Company in March 2008 and used to serve as the person-in-charge in our human resource department. Ms. Du is currently the manager of our human resource department responsible for management of human resource of our Company.

Mr. Pan Jin (潘錦), aged 47, was appointed to the Supervisory Committee on 30 July 2011. Mr. Pan obtained his master degree in executive Business Administration from Sun Yat-sen University (中山大學) in December 2013. He received the PRC certificates of certified public accountant accredited by Hubei Provincial Institute of Chartered Accountants (湖北省註冊會計師協會) in August 1998 and was qualified as a mid-level supplies economist (中級物資經濟師) accredited by People's Republic of China Ministry of Personnel (中華人民共和國人事部) in April 1994. Mr. Pan has been the deputy president of Shenzhen CDF-Capital Co., Ltd. (深圳市創東方投資有限公司) since March 2010.

SUPERVISORS' INTEREST

Save as disclosed in this Prospectus, each of our Supervisors (i) did not hold any other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders as of the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. Save as disclosed in this Prospectus, as of the Latest Practicable Date, each of our Supervisors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matters with respect to the appointment of our Supervisors that needs to be brought to the attention of the Shareholders and there was no information relating to our Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules as of the Latest Practicable Date.

SENIOR MANAGEMENT

Name	Age	Position/Title	Date of joining our Company	Date of appointment of current position	Principal responsibilities
Ma Hongfu (馬紅富)	49	Chairman, executive Director, general manager	April 2000	6 April 2011	Chairman of the Strategy Committee, member of the Nomination Committee
Wang Guofu (王國福)	46	Executive Director, deputy general manager, financial controller Deputy chairman	August 2001	6 April 2011 26 April 2012	Member of the Remuneration and Appraisal Committee, responsible for the overall financial management and control
Chen Yuhai (陳玉海)	41	Executive Director, deputy general manager	April 2008	6 April 2011	Responsible for the overall work of the project development department
Yan Bin (閻彬)	53	Executive Director, deputy general manager Joint company secretary	March 2004	6 April 2011 30 March 2015	Responsible for the internal legal matters, public relations, relationship with regulatory authority, media propaganda and press releases
Li Siu Bun (李兆彬)	30	Chief financial officer Joint company secretary	March 2015	12 March 2015 18 March 2015	Responsible for the financial matters and the communication with regulatory authority
Li Baozhu (李寶柱)	42	Deputy general manager	August 2007	6 April 2011	Responsible for the production, operation and management of the Yuzhong production plant of our Company
Ma Tianliang (馬添糧)	35	Deputy general manager of our Company General manager of Qinghaihu Dairy	January 2003	12 July 2011 31 December 2014	Responsible for the overall management of Qinghaihu Dairy
Chen Jianlu (陳建錄)	45	Deputy general manager Chief administrative officer	January 2010	18 March 2015 31 December 2014	Responsible for the general management of our administrative affairs, public relations and government relations

Mr. Ma Hongfu is the general manager of our Company. We are of the view that a chief executive officer is a position equivalent to the general manager of a PRC company.

Mr. Wang Guofu is the deputy general manager and financial controller of our Company.

Mr. Chen Yuhai is the deputy general manager of our Company.

Mr. Yan Bin is the deputy general manager and joint company secretary of our Company.

For details of the background of each of Mr. Ma Hongfu, Mr. Wang Guofu, Mr. Chen Yuhai and Mr. Yan Bin, please refer to the sub-section headed "– Executive Directors" in this section.

Mr. Li Siu Bun (李兆彬), aged 30, is the chief financial officer and joint company secretary of our Company since 12 March and 18 March 2015, respectively. He is responsible for our financial matters and the communication with the Hong Kong Stock Exchange. Mr. Li has worked in well-known accounting firm and financial institutions, including Deloitte Touche Tohmatsu from September 2006 to February 2010 as senior auditor, PetroAsian Energy Holdings Limited from June 2010 to September 2012 as project manager, Glory Sky Capital Holdings Limited as Vice President of the Corporate Finance Department from October 2012 to November 2014, and Cinda International Asset Management Limited as Investment Manager from November 2014 to March 2015. Mr. Li is a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Li obtained his bachelor degree in Finance from Lingnan University, Hong Kong in June 2006 and his master of business administration from the University of Hong Kong in November 2013.

Mr. Li Baozhu (李寶柱), aged 42, is the deputy general manager of our Company. Mr. Li has almost 20 years of experience in dairy industry. Mr. Li obtained his bachelor degree from Ninxia University majoring in Food Science in July 2003 and received a diploma in manufacturing and operational officer senior study programme (生產與運營總監高級研修班) from Fudan University (復旦大學) in 2010. Mr. Li served in different positions such as workshop director and production manager of Ningxia Xiajin Dairy and Beverage Co., Ltd. (寧夏夏進乳品飲料有限公司) and deputy general manager of a branch company of Ningxia Xiajin Dairy Group Co. Ltd. (寧夏夏進乳業集團股份有限公司) from August 1994 to June 2005. Subsequently, Mr. Li worked in Ningxia Hongguo Dairy Co. Ltd. (寧夏紅果乳業有限公司) responsible for the quality control of production and technology from July 2005 to October 2006. After joining our Company in August 2007, Mr. Li has been our production officer responsible for the production, operation and management of the Yuzhong production plant of our Company.

Mr. Ma Tianliang (馬添糧), aged 35, is the deputy general manager of our Company since July 2011 and general manager of Qinghaihu Dairy, a subsidiary of our Company, since December 2014. Mr Ma is responsible for the overall management of Qinghaihu Dairy. Mr. Ma participated in Tsinghua University Marketing and Creativity Senior Study Programme (清華大學營銷管理與創新高級研修班) from June 2009 to July 2010. As at the Latest Practicable Date, Mr. Ma is enrolled in a master programme at Lanzhou University (蘭州大學) majoring in Business Management. Mr. Ma joined our Company in January 2003 and has served in different positions within our Company, including serving in marketing and management positions in different regions.

Mr. Chen Jianlu (陳建錄), aged 45, is the deputy general manager and chief administrative officer of our Company. He is responsible for overseeing the general management of our administrative affairs, public relations and government relations. Mr. Chen acted as the general manager of Lanzhou Juchuang Digital Technology Company Limited (蘭州巨創數碼科技有限責任公司) from March 2004 to December 2009. Mr. Chen has received college education from Correspondence School of Central Communist Party of China (中共中央黨校函授學院) majoring in Law and graduated in December 2002. As at the Latest Practicable Date, Mr. Chen has completed all the courses in a master programme in Business Administration in Xi'an Jiaotong University (西安交通大學). It is expected that Mr. Chen will receive an EMBA degree in April 2016. Mr. Chen joined our Company in January 2010. Mr. Chen acted as the deputy manager of our subsidiary Qinghaihu Dairy from January 2010 to December 2014. He served as the deputy general manager of our Company from March 2015. Mr. Chen received the Accounting

Certificate accredited by the Finance Department of General Logistics Department of Lanzhou Military Region of People's Liberation Army (中國人民解放軍蘭州軍區後勤部財務部) on 23 December 1997.

Each of our senior management members did not hold any directorships in other listed public companies in the three years prior to the Latest Practicable Date.

JOINT COMPANY SECRETARIES

Mr. Yan Bin was appointed as the joint company secretary of our Company on 30 March 2015. For details of Mr. Yan Bin's background, please refer to the sub-section headed "– Executive Directors" in this section.

Mr. Li Siu Bun (李兆彬) was appointed as the joint company secretary of our Company on 18 March 2015. For details of Mr. Li's background, please refer to the sub-section headed "– Senior Management" in this section.

REMUNERATION OF OUR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Company reimburses our Directors, our Supervisors and the senior management for expenses which are necessarily and reasonably incurred while providing services to our Company or executing their functions in relation to our operations. The executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and other allowances and benefits in kind.

During the Track Record Period, the aggregate amounts of remuneration (including housing allowances, other allowances and benefits in kind) which were paid to our Directors, Supervisors and the senior management during the year ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 were RMB883,000, RMB1,199,000, RMB1,381,000 and RMB646,000, respectively.

Under the existing arrangements, the aggregate remuneration (including housing allowances, other allowances and benefits in kind) payable to our Directors, Supervisors and the senior management for the year ended 31 December 2015 are estimated to be RMB2.9 million in aggregate.

Further details of the terms of the above service agreements are set out in the section headed "Further Information About Directors, Supervisors and Substantial Shareholders – Particulars of service contracts" in Appendix VI to this prospectus.

BOARD COMMITTEES

The Board delegates certain responsibilities to various committees. In accordance with the relevant PRC laws and regulations and the corporate governance practice prescribed in the Hong Kong Listing Rules, our Company has formed four Board committees, namely the Strategy Committee, the Nomination Committee, the Audit Committee, and the Remuneration and Appraisal Committee.

Strategy Committee

Our Company established a Strategy Committee with written terms of reference. The primary duties of our Strategy Committee are mainly to review and recommend actions on long-term operational strategies and developments as well as major investment decisions. Detailed responsibilities are to: (1) organise and research on our Company's long-term development strategy and offer advice to the Board; (2) organise and research on effects of adjustment of the state's macroeconomic policy and structure on our Company; track actions of major similar companies worldwide; provide advice on our Company's structure organisation and development strategy according to our needs; (3) research and provide advice on significant financing plan that needs to be approved by the Board according to our Company's Articles; (4) research and provide advice on significant projects of capital operation and asset management that needs to be approved by the Board according to our Articles; (5) research and provide advice on other significant issues that may affect the long-term development of our Company; (6) examine and demonstrate long-term plan, significant projects or strategic suggestions provided by our Company's departments before the Board's meeting to provide advice for formal examination in the Boards' meeting; (7) supervise and analyse issues mentioned above and provide advice on adjustments and improvements to the Board; and (8) other issues as authorise by the Board. Our Strategy Committee comprises Mr. Ma Hongfu, our Chairman and executive Director, Mr. Song Xiaopeng, our executive Director, and Ms. Xin Shihua, our independent non-executive Director. Mr. Ma Hongfu is the chairman of our Strategy Committee.

Nomination Committee

Our Company established a Nomination Committee with written terms of reference. The primary functions of our Nomination Committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board. Detailed duties of our Nomination Committee are to: (1) provide advice on the board's scale and composition according to our Company's operation condition, asset size and shareholding structure; (2) research on selecting standards and procedure of Directors and management and provide advice to the Board accordingly; (3) search for suitable candidates as qualified directors and management; (4) examine and provide advice on candidates as directors and management; (5) examine and provide advice on other candidates of Senior Management that needs to be hired by the Board; and (6) other issues as authorised by the Board. Our Nomination Committee comprises Ms. Xin Shihua and Mr. Wong Cho Hang Stanley, our independent non-executive Directors, and Mr. Ma Hongfu, our Chairman and executive Director. Ms. Xin Shihua is the chairman of our Nomination Committee.

Audit Committee

Our Company established an Audit Committee with written terms of reference. The primary duties of our Audit Committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the internal control procedures of our Company. Detailed duties of our Audit Committee are to: (1) suggest engagement or change of external audit organisation; (2) supervise on internal audit agency and its implement; (3) take charge of communication between internal and external audit; (4) audit on our Company's financial information and its disclosure; (5) supervise on our Company's internal control system and audit on significant connected transactions; and (6) other issues as authorised by the Board. Our Audit Committee comprises Mr. Bai Yongzhi, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley, our independent non-executive Directors. Mr. Bai Yongzhi is the chairman of our Audit Committee.

Remuneration and Appraisal Committee

Our Company established a Remuneration and Appraisal Committee with written terms of reference. The primary functions of our Remuneration and Appraisal Committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. Detailed duties of our Remuneration and Appraisal Committee are to: (1) draft remuneration plan according to the Directors and Senior Management's position scope, duties, significance and remuneration level in other similar companies and similar positions; (2) remuneration plan includes but not limited to performance evaluation standards, procedures, and major evaluation system and major plan of incentives and punishment; (3) review performance of the duties of the Directors and Senior Management and undertake annual evaluation; (4) supervise on implementation of our Company's remuneration plan; and (5) other issues as authorised by the Board. Our Remuneration and Appraisal Committee comprises Mr. Bai Yongzhi and Ms. Xin Shihua, our independent non-executive Directors, and Mr. Wang Guofu, our Deputy Chairman, executive Director, deputy general manager and financial controller. Mr. Bai Yongzhi is the chairman of our Remuneration and Appraisal Committee.

COMPLIANCE ADVISER

Our Company has appointed GF Capital as its compliance adviser upon the Listing in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The key terms of the appointment are summarised as follows:

(a) the appointment will be for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Hong Kong Listing Rules in respect of the financial results for the first full financial year of our Group commencing after such Listing Date;

(b) GF Capital shall provide our Company with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines;

(c) our Company shall consult with and, if necessary, seek advice from GF Capital on a timely basis in the following circumstances:

   (i) before the publication of any regulatory announcement, circular or financial report;

   (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

   (iii) where our Company proposes to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in this prospectus;

   (iv) where the Hong Kong Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Hong Kong Listing Rules;

(d) our Company has agreed to indemnify GF Capital for certain actions against it and losses incurred by it arising out of or in connection with the performance by GF Capital of its duties under the agreement; and

(e) our Company may terminate the appointment of GF Capital as its compliance adviser only if its work is of an unacceptable standard as determined under the Hong Kong Listing Rules and the relevant laws and regulations or if there is a material dispute (which cannot be resolved within 30 days) over fees payable to it as permitted by Rule 3A.26 of the Hong Kong Listing Rules. GF Capital will have the right to resign or terminate its appointment by service of a three-month notice to our Company if our Company materially breaches the agreement.

CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Ma Hongfu currently performs both roles. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following person will, immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of the Company:

Name of Shareholder	Number of Shares Held After the Global Offering	Nature of Interest	Approximate Percentage of Shareholding in the Relevant Class of Shares After the Global Offering	Approximate Percentage of Shareholding in the Total Share Capital of the Company After the Global Offering
Mr. Ma Hongfu[(1)]	78,092,100 Domestic Shares	Beneficial owner/Interest of controlled corporation	74.11%	55.58%
Zhuangyuan Investment	30,894,700 Domestic Shares	Beneficial owner	29.32%	21.99%
Lucky Cow	15,000,000 Domestic Shares	Beneficial owner	14.24%	10.68%

Note 1: Mr. Ma Hongfu holds 97.38% equity interests in Zhuangyuan Investment and 39.44% equity interests in Lucky Cow. Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.

So far as our Directors are aware, the following persons will, assuming the Over-allotment Option is fully exercised, have an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of the Company:

Shareholder	Number of Shares Held After the Global Offering	Nature of Interest	Approximate Percentage of Shareholding in the Relevant Class of Shares After the Global Offering	Approximate Percentage of Shareholding in the Total Share Capital of the Company After the Global Offering
Mr. Ma Hongfu[1]	78,092,100 Domestic Shares	Beneficial owner/Interest of controlled corporation	74.11%	53.57%
Zhuangyuan Investment	30,894,700 Domestic Shares	Beneficial owner	29.32%	21.19%
Lucky Cow	15,000,000 Domestic Shares	Beneficial owner	14.24%	10.29%

Note 1: Mr. Ma Hongfu holds 97.38% equity interests in Zhuangyuan Investment and 39.44% equity interests in Lucky Cow. Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.

For persons who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of any other members of our Company, please refer to "Appendix VI – Statutory and General Information – C. Further Information about Directors, Supervisors and Substantial Shareholders – (a) Disclosure of Interests" for further details.

Save as disclosed herein, our Directors are not aware of any other person(s) who will, immediately after the Global Offering, have an interest or short position in the Shares or underlying shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

SHARE CAPITAL

As at the Latest Practicable Date, the registered share capital of our Company was RMB105,370,000 comprising 105,370,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the registered share capital of our Company immediately following completion of the Global Offering will be RMB140,500,000, comprising 105,370,000 Domestic Shares and 35,130,000 H Shares, with a nominal value of RMB1.00 each:

Number of Shares	Description of Shares	Approximate percentage of registered share capital
		%
105,370,000	Domestic Shares	75
35,130,000	H Shares to be issued under the Global Offering	25
140,500,000	Total	100

Assuming the Over-allotment Option is exercised in full, the registered share capital of our Company immediately following completion of the Global Offering will be RMB145,769,500, made up of 105,370,000 Domestic Shares and 40,399,500 H Shares, with a nominal value of RMB1.00 each:

Number of Shares	Description of Shares	Approximate percentage of registered share capital
		%
105,370,000	Domestic Shares	72
40,399,500	H Shares to be issued under the Global Offering	28
145,769,500	Total	100

The above tables assume the Global Offering becomes unconditional and is completed.

OUR SHARES

Upon completion of the Global Offering, our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and traded in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC. In general, we will pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in Renminbi.

Our promoters and their beneficial owners hold 91% of the existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares may not be sold within a period of one year from 19 April 2011, on which we were organised as a joint stock limited liability company. This lock-up period expired on 18 April 2012.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix V to this prospectus, our Domestic Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

Under our Articles of Association, any change or abrogation of the rights of class shareholders should be approved by way of a special resolution of the general meeting of shareholders and by a separate meeting of shareholders convened by the affected class shareholders. However, as provided in our Articles of Association, the procedures for the approval by separate class shareholders shall not apply (i) where we issue, upon approval by a special resolution of our Shareholders in a general meeting, either separately or concurrently in any twelve-month period, not more than 20% of each of the existing issued Domestic Shares and H Shares; (ii) where the plan for the issue of Domestic Shares and H Shares upon the Company's establishment is implemented within fifteen months following the date of approval by the authorised securities regulatory authorities of the State Council; or (iii) upon the transfer of our Domestic Shares held by the holders of our Domestic Shares to overseas investors and the listing and trading of such transferred shares shall have obtained the approval of the authorised securities regulatory authorities of the State Council.

Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering.

SHARE LOCK-UP

The PRC Company Law provides that in relation to a global offering of a company, the shares issued by a company prior to the global offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to its statutory restriction and not be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 business days upon listing.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Conversion of Domestic Shares

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares which are unlisted shares may be converted into H Shares and such H Shares may be listed or traded on an overseas stock exchange provided that prior to the conversion and trading of such shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. As at the Latest Practicable Date, none of our Domestic Shares have been approved for overseas listing. If any of our Domestic Shares are to be converted and traded as H Shares on the Hong Kong Stock Exchange, such conversion will need to be approved by the relevant PRC regulatory authorities including the CSRC. Approval of the Hong Kong Stock Exchange is required for the listing of such converted shares on the Hong Kong Stock Exchange. Based on the mechanism and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong. No class shareholder voting is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed conversion.

Mechanism and Procedures for Conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange complying with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial information as at and for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.

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 we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements".

OVERVIEW

We are a leading dairy company in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. We ranked the first with a market share of 19.0% in the liquid milk products market in terms of retail sales value in the Gansu and Qinghai regional market in 2014, according to the Frost & Sullivan Report. We operate a vertically integrated business model that covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Since we strategically shifted our focus to Cold Chain Liquid Milk Products (i.e., pasteurised milk and yogurt) in 2012, we have become a market leader in the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market. We also intend to continue our efforts in the sales of our modified milk and UHT milk products that are popular among local customers to maintain our diversified product offerings.

We categorise our products into (i) liquid milk products, (ii) milk beverages, and (iii) other dairy products. Our liquid milk products comprise pasteurised milk (i.e. fresh milk), UHT milk, modified milk and yogurt. Turnover from the sales of our liquid milk products accounted for 92.4%, 89.5%, 93.6% and 97.5% of our total turnover in the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. Turnover from the sales of milk beverage products accounted for 5.9%, 4.2%, 4.3% and 1.9% of our total turnover for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. Our other dairy products comprises milk tea powder, raw milk and milk powder, although raw milk and milk powder are not our regular products. Turnover from our other dairy products accounted for 1.7%, 6.3%, 2.1%, and 0.6% of our total turnover for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015.

We have experienced stable growth during the Track Record Period. Our revenue increased from RMB420.4 million for the year ended 31 December 2012 to RMB545.2 million for the year ended 31 December 2014, or a CAGR of 13.9%. Our revenue increased from RMB118.0 million for the three months ended 31 March 2014 to RMB145.4 million for the three months ended 31 March 2015. Our profit for the year before biological asset fair value adjustments increased from RMB57.0 million for the year ended 31 December 2012 to RMB80.1 million for the year ended 31 December 2014, or a CAGR of 18.5%, and our profit for the year after biological asset fair value adjustments increased from RMB54.3

million for the year ended 31 December 2012 to RMB65.4 million for the year ended 31 December 2014, or a CAGR of 9.7%. Our profit before biological asset fair value adjustments increased from RMB12.9 million for the three months ended 31 March 2014 to RMB21.0 million for the three months ended 31 March 2015, and our profit after biological asset fair value adjustments increased from RMB8.0 million for the three months ended 31 March 2014 to RMB16.7 million for the three months ended 31 March 2015. Our gross profit margin after biological asset fair value adjustments was 27.5%, 25.4%, 32.3% and 32.4% for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively.

BASIS OF PRESENTATION

Our consolidated financial information in the Accountants' Report included in Appendix I to this prospectus has been prepared in accordance with IFRS. Our financial information is presented in RMB, which is the functional currency of our Company and subsidiaries, all of which are established in the PRC.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe the most significant factors that directly or indirectly affect our financial performance and results of operations include:

- Market demand for our dairy products;
- Expansion of our distribution network;
- Product mix;
- Average selling price of our liquid milk products;
- Cost structure and price of raw milk; and
- Change in fair value of dairy cows.

Market Demand for Our Dairy Products

Gansu and Qinghai are the principal markets of our dairy products. The growth of our business will continue to be driven by demand for high quality dairy products in these markets. With the increase in per capita disposable income and rising health awareness, the dairy products market in Gansu and Qinghai has grown steadily in the past few years. The overall retail sales value of dairy products in Gansu and Qinghai amounted to RMB6.4 billion in 2014, increasing from RMB3.4 billion in 2009, with a CAGR of 13.3%. The steady growth of macro economy and the rising disposable income of residents in Gansu and Qinghai are both expected to further stimulate the continuous growth of dairy products market in these regions. According to Frost & Sullivan, the dairy product markets in Gansu and Qinghai are expected to maintain a steady growth with a CAGR of 12.0% from 2014 to 2019 and reach the retail sales value of RMB11.3 billion by 2019. Driven by the steady growth in market demand of dairy products in Gansu and Qinghai, our turnover increased steadily from RMB420.4 million in 2012, to RMB463.5 million in 2013 and further to RMB545.2 million in 2014. Our turnover increased from RMB118.0 million for the three months ended 31 March 2014 to RMB145.4 million for the three months ended 31 March 2015. We believe our ability to offer a wide range of high quality dairy products that are tailored to the tastes and preferences of local consumers will position us well to capture the growth in these dairy products markets.

In addition, the market demand for our dairy products experienced seasonality during the Track Record Period. The purchase orders we receive tend to increase during the fourth quarter of the year in anticipation of the seasonal increase in sales during the Chinese New Year period (usually during January or February of each year) and therefore our sales tend to be the highest accordingly. However, our sales slightly decrease after the Chinese New Year period and therefore our sales during the first quarter of the year tend to be the lowest. We believe such seasonality is a common phenomenon in the PRC associated with the customer's purchase patterns. As a result, our first quarter results may not be a meaningful indicator of our overall performance.

Expansion of our Distribution Network

We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu and Qinghai. As at 31 December 2014, we had entered into distribution agreements with 154 distributors and 126 sales agents, as compared to 131 distributors and 91 sales agents as at 31 December 2013 and 118 distributors and 86 sales agents as at 31 December 2012. From 1 January 2015 to 31 March 2015, the number of our distributors and sales agents with whom we had entered into distributions agreements remained unchanged. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network and solidify our established position in our primary markets. We also plan to continue to expand our Cold Chain Liquid Mild Products distribution network to further increase sales of our Cold Chain Liquid Milk Products and other high margin products in the northwestern China regional market. See "Business – Production Operations and Facilities – Our Production Facilities – Cold Chain Liquid Milk facilities" for further details about our plan to expand our cold chain distribution network. With respect to our Yongdaobu (永道布) brand which we position for national expansion, we plan to adopt distributorship sales model for the sales of our Yongdaobu (永道布) products outside Gansu and Qinghai and focus on major cities in China. We expect our sales to increase as we expand our geographical reach and distribution channels.

Product Mix

Product mix has affected our revenue, gross profit and gross profit margin in the past. As at 31 March 2015, we offered over 50 liquid milk and milk beverage products tailored to the different tastes, preferences and needs of consumers in our targeted markets. After the success we achieved from our bottle packaging line which we installed in 2012 to expand our Cold Chain Liquid Milk Products, we made a strategic decision to increase the proportion of sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future and will provide higher selling prices and higher gross profit margin to us compared to other dairy products. We have established an extensive distribution network for our Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and purchased additional Ecolean package lines which are designed for packaging of pateurised milk and yogurt products to expand our production and increase the sales of Cold Chain Liquid Milk Products. As a result, our yogurt products experienced rapid growth in sales amount, which increased from RMB50.7 million in 2012, to RMB72.8 million in 2013 and further to RMB153.2 million in 2014 and accounted for approximately 12.1%, 15.7% and 28.1% of our total sales. Our yogurt products increased from RMB19.1 million for the three months ended 31 March 2014 to RMB59.0 million for the three months ended 31 March 2015, which accounted for approximately 16.2% and 40.6% of our total sales. In light of the increase in sales of Cold Chain Liquid Milk Products with Ecolean packaging during the Track Record Period, the gross profit margin of our yogurt products increased from 24.2% in 2012 to 38.2% in 2014 and the gross profit margin of our pasteurised milk products increased from 31.8% in 2012 to 40.8% in 2014, representing our two highest margin product lines in 2014. The gross profit margin of our yogurt products increased from 35.4% for the three months ended 31 March 2014 to 37.9% for the three months ended 31 March 2015, and the gross profit margin of our pasteurised milk products increased from 39.8% for the three months ended 31 March 2014 to 41.5% for the three months ended 31 March 2015, representing our two highest margin product lines for the three months ended 31 March 2015.

We have also gradually increased our sales of other high margin products such as condensed modified milk using brick shape of aseptic carton packaging. With our effort in enhancing our product offering to increase the percentage of Cold Chain Liquid Milk Products and high margin products in our total sales, our gross profit margin only decreased slightly to 25.4% in 2013 from 27.5% in 2012 in spite of the significant increase of average market price of raw milk in 2013 compared to 2012, and our gross profit margin increased substantially to 32.3% in 2014 and maintained at a similar level of 32.4% for the three months ended 31 March 2015.

We plan to further increase the sales of Cold Chain Liquid Milk Products and other high margin products. We plan to further expand our cold chain production facilities and distribution network in Gansu and Qinghai by purchasing additional Ecolean packaging lines and constructing additional cold warehouses. We expect sales of our Cold Chain Liquid Milk Products and high-margin products will continue to increase in the foreseeable future.

Average Selling Price of our Liquid Milk Products

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition. The average selling price of our liquid milk products has increased consistently during the Track Record Period, from RMB6,536 per tonne in 2012, to RMB7,373 per tonne in 2013 and then to RMB8,792 per tonne in 2014. The average selling price of our liquid milk products has increased from RMB8,222 per tonne for the three months ended 31 March 2014 to RMB9,424 per tonne for the three months ended 31 March 2015. We believe our ability to achieve increasingly higher average selling price for our liquid milk products was primarily due to the high quality of our products and our ability to develop and launch new products catered to the evolving tastes and preferences of local consumers, as well as our success in changing the product mix of our liquid milk products to focus on marketing and sales of Cold Chain Liquid Milk Products and other high margin products.

The table below sets forth a sensitivity analysis relating to our average selling price of our liquid milk products, illustrating the impact on our profit from operation had the average selling price of our liquid milk products been adjusted based on the following percentages for the periods indicated:

	Change in average selling price of our liquid milk products (per tonne)					
	Increase/decrease 5%		Increase/decrease 15%		Increase/decrease 25%	
	RMB ('000)	%	RMB ('000)	%	RMB ('000)	%
Profit from Operations						
For the year ended 31 December 2012	+/– 19,420	+/– 27.2%	+/– 58,259	+/– 81.5%	+/– 97,098	+/– 135.8%
For the year ended 31 December 2013	+/– 20,748	+/– 32.6%	+/– 62,243	+/– 97.8%	+/– 103,739	+/– 163.0%
For the year ended 31 December 2014	+/– 25,526	+/– 25.5%	+/– 76,579	+/– 76.5%	+/– 127,631	+/– 127.6%
For the three months ended 31 March 2014	+/– 5,292	+/– 34.8%	+/– 15,875	+/– 104.4%	+/– 26,458	+/– 174.0%
For the three months ended 31 March 2015	+/– 7,088	+/– 27.7%	+/– 21,263	+/– 83.0%	+/– 35,439	+/– 137.0%

Cost Structure and Price of Raw Milk

Our results of operations are affected by price volatility of the main components of our raw materials, i.e., raw milk, packaging and auxiliary materials, the cost of which may have a direct effect on our gross profit margin. Raw milk procured from external third-party dairy farms and contracted farmers of our collectively-operated dairy farms is the largest component of our cost of sales, representing 58.9%, 57.1%, 45.0% and 42.3% of the total cost of sales for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively.

A stable supply of premium and safe raw milk for our production is crucial to our business. We believe the best way to ensure the stable supply of premium and safe raw milk for our production is to have our own dairy farms and increase our herd size. We currently have five self-operated dairy farms and three collectively-operated dairy farms through cooperation with local dairy farmers. For the three months ended 31 March 2015, we sourced raw milk used in our production from our self-operated dairy farms, collectively-operated dairy farms and external third-party dairy farms, each accounted for approximately 24.2%, 21.2% and 54.6% of the total volume of raw milk used in our production. During 2014, we sourced raw milk used in our production from our self-operated dairy farms, collectively-operated dairy farms and external third-party dairy farms, each accounted for approximately 21.1%, 19.0% and 59.9% of the total volume of raw milk used in our production. We plan to expand our herd size to increase the percentage of internally-sourced raw milk in our production. We believe our self-operated dairy farms and collectively-operated dairy farms will continue to provide a stable source of high quality and safe raw milk for our dairy product manufacturing, which enables us to ensure the high quality of our dairy products sold to consumers and demand higher selling prices of our products.

In addition, packaging and auxiliary materials used for the production of our dairy products represented 24.7%, 24.4%, 30.2% and 33.6% of our total cost of sales for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. Any significant change in the prices of raw milk and packaging and auxiliary materials will have a significant impact on our cost of sales and gross profit margins. The market price of raw milk has fluctuated during the Track Record Period. According to the Frost & Sullivan Report, the average market price of raw milk in Gansu was RMB3.69 per kg in 2012, RMB4.24 per kg in 2013, RMB4.27 per kg in 2014 and RMB3.26 per kg for the three months ended 31 March 2015; and the market price of raw milk in Qinghai was RMB3.49 per kg in 2012, RMB3.90 per kg in 2013, RMB3.93 per kg in 2014 and RMB3.01 per kg for the three months ended 31 March 2015. In line with the fluctuation in market price of raw milk, our average cost of procurement of raw milk from external third-party dairy farms and our collectively-operated dairy farms was RMB3.60 per kg in 2012, RMB4.21 per kg in 2013, RMB4.04 per kg in 2014 and RMB3.70 per kg for the three months ended 31 March 2015. Our average cost of procurement of raw milk from our self-operated farms was RMB3.81 per kg in 2012, RMB4.00 per kg in 2013, RMB4.22 per kg in 2014 and RMB4.09 per kg for the three months ended 31 March 2015.

The table below sets forth a quantitative analysis relating to the impact of source of raw milk on our gross profit margin for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 with hypothetical scenario assuming that all of our raw milk for production was sourced from one single channel for the respective periods.

For the year ended 31 December 2012

	Assuming if all of our raw milk for production was solely sourced from		
	Self-operated dairy farms	**Collectively-operated farms**	**Third party suppliers**
Turnover (RMB'000)	420,417	420,417	420,417
Cost of sales (RMB'000)	(315,509)	(308,668)	(302,398)
Gross profit (RMB'000)	104,908	111,749	118,019
Gross Profit Margin (%)	**25.0%**	**26.6%**	**28.1%**

For the year ended 31 December 2013

	Assuming if all of our raw milk for production was solely sourced from		
	Self-operated dairy farms	**Collectively-operated farms**	**Third party suppliers**
Turnover (RMB'000)	463,524	463,524	463,524
Cost of sales (RMB'000)	(335,670)	(337,951)	(349,927)
Gross profit (RMB'000)	127,854	125,573	113,597
Gross Profit Margin (%)	**27.6%**	**27.1%**	**24.5%**

For the year ended 31 December 2014

	Assuming if all of our raw milk for production was solely sourced from		
	Self-operated dairy farms	Collectively-operated farms	Third party suppliers
Turnover (RMB'000)	545,239	545,239	545,239
Cost of sales (RMB'000)	(376,719)	(384,170)	(361,818)
Gross profit (RMB'000)	168,520	161,069	183,421
Gross Profit Margin (%)	**30.9%**	**29.5%**	**33.6%**

For the three months ended 31 March 2015

	Assuming if all of our raw milk for production was solely sourced from		
	Self-operated dairy farms	Collectively-operated farms	Third party suppliers
Turnover (RMB'000)	145,411	145,411	145,411
Cost of sales (RMB'000)	(101,802)	(102,712)	(95,619)
Gross profit (RMB'000)	43,609	42,699	49,792
Gross Profit Margin (%)	**30.0%**	**29.4%**	**34.2%**

As illustrated in the tables above, notwithstanding that our gross profit margin would be the highest if all of our raw milk for production had been sourced from third party suppliers for the year ended 31 December 2012, 2014 and the three months ended 31 March 2015, our gross profit margin would have been prone to larger fluctuation if we had solely sourced our raw milk from third party suppliers (gross profit margin ranged from 24.5% to 34.2%) in comparison with sourcing from our self-operated dairy farms (gross profit margin ranged from 25.0% to 30.9%) or collectively-operated farms (gross profit margin ranged from 26.6% to 29.5%) during the Track Record Period. We consider that sourcing raw milk from different channels rather than a single source could provide our Group with a higher flexibility in cost control and enhance the stability of our operation and financial performance. We also believe it is the best way to ensure the stable supply of premium and safe raw milk production capacity and quality to satisfy the needs of our fast growing business.

The tables below set forth a sensitivity analysis relating to our average (i) cost of raw milk procured from third-party diary farms and collectively-operated diary farms; and (ii) costs of packaging and auxiliary materials, illustrating what the impact on our profit from operation would have been if our average cost of raw milk procured from third-party diary farms and collectively-operated diary farms and packaging and auxiliary materials had been adjusted based on the following percentages for the periods indicated:

	Change in average cost of raw milk procured from third-party dairy farms and collectively-operated dairy farms (per kg)					
	Increase/decrease 5%		Increase/decrease 15%		Increase/decrease 25%	
	RMB '000	%	RMB '000	%	RMB '000	%
Profit from Operations						
For the year ended 31 December 2012	–/+ 8,984	–/+ 12.6%	–/+ 26,952	–/+ 37.7%	–/+ 44,920	–/+ 62.8%
For the year ended 31 December 2013	–/+ 9,873	–/+ 15.5%	–/+ 29,618	–/+ 46.5%	–/+ 49,364	–/+ 77.6%
For the year ended 31 December 2014	–/+ 8,312	–/+ 8.3%	–/+ 24,937	–/+ 24.9%	–/+ 41,561	–/+ 41.5%
For the three months ended 31 March 2014	–/+ 2,175	–/+ 14.3%	–/+ 6,524	–/+ 42.9%	–/+ 10,873	–/+ 71.5%
For the three months ended 31 March 2015	–/+ 2,079	–/+ 8.1%	–/+ 6,238	–/+ 24.4%	–/+ 10,397	–/+ 40.2%

	Change in average cost of packaging and auxiliary materials (per kg)					
	Increase/decrease 5%		Increase/decrease 15%		Increase/decrease 25%	
	RMB '000	%	RMB '000	%	RMB '000	%
Profit from Operations						
For the year ended 31 December 2012	–/+ 3,764	–/+ 5.3%	–/+ 11,293	–/+ 15.8%	–/+ 18,822	–/+ 26.3%
For the year ended 31 December 2013	–/+ 4,224	–/+ 6.6%	–/+ 12,671	–/+ 19.9%	–/+ 21,119	–/+ 33.2%
For the year ended 31 December 2014	–/+ 5,568	–/+ 5.6%	–/+ 16,703	–/+ 16.7%	–/+ 27,839	–/+ 27.8%
For the three months ended 31 March 2014	–/+ 1,084	–/+ 7.1%	–/+ 3,253	–/+ 21.4%	–/+ 5,421	–/+ 35.7%
For the three months ended 31 March 2015	–/+ 1,653	–/+ 6.5%	–/+ 4,958	–/+ 19.4%	–/+ 8,263	–/+ 31.9%

Change in Fair Value of Dairy Cows

Our results of operations are affected by changes in fair value less cost to sell of biological assets in respect of our dairy cows. We are required under IFRS to recognise such changes under "Gain or loss arising from changes in fair value less cost to sell of biological assets." Net gains or losses arising from changes in fair value less costs to sell of biological assets represents fair value changes on our dairy cows due to the changes in physical attributes, market price of raw milk and discounted future cash flow to be generated by these dairy cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milking is higher than the selling price of heifer. Further, when a milkable cow is culled and sold, its value decreases. During the Track Record Period, our biological assets were revalued at each reporting date. We recorded a loss of RMB2.7 million, RMB10.5 million, RMB14.7 million and RMB4.3 million arising from such changes for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively.

The fair value of the heifers and calves is determined with reference to their market prices and breeding costs, 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.

Therefore, the mix of calves, heifers and milkable cows in our self-operated dairy farms as at each reporting date will directly affect the fair value re-evaluated at each reporting date. In addition, the size of our herds of dairy cows in our self-operated dairy farms will also have a direct impact on the fair value of dairy cows at each reporting date.

During the Track Record Period, (i) calves and heifers and (ii) milkable cows accounted for 56.5% and 43.5% of our self-owned dairy cows respectively as at 31 December 2012, 40.2% and 59.8% of our self-owned dairy cows respectively as at 31 December 2013, 54.8% and 45.2% of our self-owned dairy cows respectively as at 31 December 2014, and 56.1% and 43.9% of our self-owned dairy cows query respectively as at 31 March 2015. With the expansion of our self-operated dairy farms during the Track Record Period, our self-owned herd size increased from 3,541 dairy cows as at 31 December 2012 to 4,012 dairy cows as at 31 December 2013, and further increased to 4,822 dairy cows as at 31 December 2014, and slightly decreased to 4,736 dairy cows as at 31 March 2015. Due to the relatively low percentage of milkable cows in our herd structure and the high breeding costs allocated to each cow, we recorded loss from change in fair value of dairy cows during the Track Record Period. We expect that our results will continue to be affected by the changes in the fair value of the biological assets.

CRITICAL ACCOUNTING POLICIES

In our preparation of the consolidated financial statements in accordance with IFRS, we have made judgements, estimates and assumptions that affect each reported amount relating to our assets and liabilities at the end of each financial period, as well as each reported amount relating to our income and expenses during each financial period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of our current business and other conditions, our expectations regarding the future based on available information and our best assumptions.

When reviewing our consolidated financial statements, you should consider these factors: (i) our selection of critical accounting policies; (ii) the judgement and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in relevant conditions and assumptions. The accounting policies involving the most significant judgement and estimation for the preparation of our consolidated financial statements are set out below:

Fair Value of Dairy Cows

Our dairy cows are divided into three groups: calves, heifers and milkable cows, which are raised or grown by us for the purposes of feeding dairy cows and producing raw milk.

Our dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as of 31 December 2012, 2013 and 2014 and 31 March 2014 and 2015 adjusted with reference to the species, age, growing condition, cost incurred and expected milk yield to reflect differences in characteristic and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when reliable market-determined prices are unavailable.

During the Track Record Period, the respective valuer for dairy cows has adopted the following principal valuation assumptions:

- *Calves and heifers:* the fair value of 14 months old heifers is determined by referring to the market price of the heifers of the age. The fair values of the heifers older than 14 months are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the margins required by raisers. The fair values of the calves and heifers younger than 14 months old are determined by subtracting the breeding costs required to raise the animals from the respective specific ages to 14 months old and the margins required by raisers.

- *Milkable cows:* the fair values of milkable cows are determined using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows. The forecast future cash flows were developed by the independent professional valuer and the expert consultants.

Any changes in the estimates and assumptions may affect the fair value of the dairy cows significantly. 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. For details in the assumptions and inputs adopted in the valuation of our dairy cows, please see "– Valuation of Biological Assets – Key Assumptions and Inputs" of this section.

Fair Value of Raw Milk

Agricultural produce harvested from the Group's biological assets are raw milk. Upon harvest, agricultural produce are initially recognised as inventories at their fair values less costs to sell at the point of harvest, which are determined based on their market prices quoted in the local area. Any resultant gain or loss arising on initial recognition of such fair values (i.e. the difference between the fair values less costs to sell of the agricultural produce at the point of harvest and the breeding costs) is recognised in the profit or loss in the period of harvest.

Upon subsequent sales, such amount of the inventories initially recognised is charged to the cost of sales in the profit or loss.

Impairment of Receivables

We assess doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. We base the estimates on the assessment of recoverability of individual receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

Impairment of Long-lived Assets

Our long-lived assets primarily consist of property, plant and equipment, and lease prepayment for our land use rights, If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with the accounting policy for impairment of long-lived assets. We review the carrying amounts of long-lived assets periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, we reduce the carrying amount to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to the level of revenue and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in an additional impairment charge or a reversal of impairment in future periods, where applicable.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. We estimate the useful lives of our property, plant and equipment to be approximately ten years. We review the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

PRINCIPAL CONSOLIDATED STATEMENTS OF PROFIT OR LOSS ITEMS

The following table sets forth a summary of our consolidated results of operations before and after biological asset fair value adjustments is made for the period indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended 31 December									Three months ended 31 March					
	2012			2013			2014			2014			2015		
	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments	Results before biological asset fair value adjustments	Adjustment	Results after biological asset fair value adjustments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	420,417	–	420,417	463,524	–	463,524	545,239	–	545,239	117,958	–	117,958	145,411	–	145,411
Cost of sales	(301,743)	(3,214)	(304,957)	(340,233)	(5,692)	(345,925)	(364,284)	(4,918)	(369,202)	(83,593)	(1,257)	(84,850)	(97,016)	(1,295)	(98,311)
Gross Profit	118,674	(3,214)	115,460	123,291	(5,692)	117,599	180,955	(4,918)	176,037	34,365	(1,257)	33,108	48,395	(1,295)	47,100
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	–	3,214	3,214	–	5,692	5,692	–	4,918	4,918	–	1,257	1,257	–	1,295	1,295
Loss arising from changes in fair value less costs to sell of biological assets	–	(2,663)	(2,663)	–	(10,471)	(10,471)	–	(14,674)	(14,674)	–	(4,864)	(4,864)	–	(4,313)	(4,313)
Other net income	14,204	–	14,204	13,841	–	13,841	15,718	–	15,718	2,573	–	2,573	3,340	–	3,340
Distribution costs	(25,154)	–	(25,154)	(24,058)	–	(24,058)	(33,846)	–	(33,846)	(7,221)	–	(7,221)	(7,499)	–	(7,499)
Administrative costs	(33,586)	–	(33,586)	(38,960)	–	(38,960)	(48,110)	–	(48,110)	(9,648)	–	(9,648)	(14,058)	–	(14,058)
Profit from operations	74,138	(2,663)	71,475	74,114	(10,471)	63,643	114,717	(14,674)	100,043	20,069	(4,864)	15,205	30,178	(4,313)	25,865
Net finance costs	(15,946)	–	(15,946)	(25,396)	–	(25,396)	(26,351)	–	(26,351)	(6,474)	–	(6,474)	(6,840)	–	(6,840)
Profit before taxation	58,192	(2,663)	55,529	48,718	(10,471)	38,247	88,366	(14,674)	73,692	13,595	(4,864)	8,731	23,338	(4,313)	19,025
Income tax	(1,219)	–	(1,219)	(3,608)	–	(3,608)	(8,283)	–	(8,283)	(698)	–	(698)	(2,310)	–	(2,310)
Profit for the year/period	56,973	(2,663)	54,310	45,110	(10,471)	34,639	80,083	(14,674)	65,409	12,897	(4,864)	8,033	21,028	(4,313)	16,715
Attributable to:															
Equity shareholders of the Company	56,973	(2,663)	54,310	45,110	(10,471)	34,639	80,083	(14,674)	65,409	12,897	(4,864)	8,033	21,028	(4,313)	16,715
Profit for the year/period	56,973	(2,663)	54,310	45,110	(10,471)	34,639	80,083	(14,674)	65,409	12,897	(4,864)	8,033	21,028	(4,313)	16,715

Turnover

Our turnover grew from RMB420.4 million for the year ended 31 December 2012 to RMB463.5 million for the year ended 31 December 2013, further to RMB545.2 million for the year ended 31 December 2014, representing a CAGR of 13.9%. Our turnover grew from RMB118.0 million for the three months ended 31 March 2014 to RMB145.4 million for the three months ended 31 March 2015. Our turnover could be analysed from the following perspectives:

(i) By Financial Reporting Segments

Our turnover is derived from two different segments below:

- Dairy farming – breeding dairy cows to produce and sell raw milk; and

- Dairy products production – producing and selling (i) liquid milk products (including pasteurised milk, UHT milk, modified milk and yogurt), (ii) milk beverages, and (iii) other dairy products.

We use almost all of our raw milk harvested from our dairy farming segment to onwardly produce our dairy products. The value of raw milk produced for internal production use is recorded as "turnover" under our dairy farming segment and "cost of sales" under our dairy products production segment.

Please refer to "Note 3 – Segment reporting" of the Accountants' Report included as Appendix I to this prospectus.

(ii) By Products

The following table sets forth the sales amount, sales volume and average selling price per tonne of our dairy products for the period indicated.

	Year ended 31 December												Three months ended 31 March							
	2012				2013				2014				2014				2015			
	Turnover	% of total	Sales volume	Average selling price	Turnover	% of total	Sales volume	Average selling price	Turnover	% of total	Sales volume	Average selling price	Turnover	% of total	Sales volume	Average selling price	Turnover	% of total	Sales volume	Average selling price
	RMB'000	%	Tonnes	RMB/ tonne	RMB'000	%	Tonnes	RMB/ tonne	RMB'000	%	Tonnes	RMB/ tonne	RMB'000	%	Tonnes	RMB/ tonne	RMB'000	%	Tonnes	RMB/ tonne
													(unaudited)							
Liquid Milk Products																				
Pasteurised Milk	24,570	5.8	3,965	6,197	25,895	5.6	3,116	8,310	25,877	4.7	2,985	8,669	5,393	4.6	637	8,466	4,738	3.3	558	8,491
UHT Milk	215,597	51.3	35,563	6,062	174,335	37.6	27,880	6,253	127,904	23.5	19,790	6,463	36,832	31.2	5,285	6,969	24,706	17.0	3,759	6,572
Modified Milk	97,547	23.2	14,119	6,909	141,951	30.6	17,606	8,063	203,504	37.3	21,752	9,356	44,483	37.7	5,050	8,809	53,274	36.6	5,714	9,323
Yogurt	50,679	12.1	5,780	8,768	72,773	15.7	7,679	9,477	153,240	28.1	13,539	11,318	19,123	16.2	1,900	10,065	59,038	40.6	5,011	11,782
Subtotal	388,393	92.4	59,427	6,536	414,954	89.5	56,281	7,373	510,525	93.6	58,066	8,792	105,831	89.7	12,872	8,222	141,756	97.5	15,042	9,424
Milk Beverages	25,004	5.9	6,146	4,068	19,600	4.2	4,130	4,746	23,686	4.3	4,936	4,799	6,320	5.4	1,298	4,869	2,824	1.9	520	5,431
Other Dairy Products	7,020	1.7	604	11,623	28,970	6.3	1,443	20,076	11,028	2.1	643	17,151	5,807	4.9	210	27,652	831	0.6	46	18,065
Total	420,417	100.0	66,177	6,353	463,524	100.0	61,854	7,494	545,239	100.0	63,645	8,567	117,958	100.0	14,380	8,203	145,411	100.0	15,608	9,316

Note: Turnover from our other dairy products consists of sales of milk tea powder, raw milk and milk powder. Raw milk and milk powder are not our regular products.

Turnover from our liquid milk products amounted to RMB388.4 million, RMB415.0 million, RMB510.5 million, RMB105.8 million and RMB141.8 million for the years ended 31 December 2012, 2013 and 2014, and the three months ended 31 March 2014 and 2015, respectively, which accounted for 92.4%, 89.5%, 93.6%, 89.7% and 97.5% of our consolidated turnover for the respective periods. The increase in our turnover during the Track Record Period was primarily due to increase in turnover from the sales of our modified milk and yogurt products as a result of our continuous effort to optimise our product offering mix.

Turnover from our milk beverage products amounted to RMB25.0 million, RMB19.6 million, RMB23.7 million, RMB6.3 million and RMB2.8 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively, which accounted for 5.9%, 4.2%, 4.3%, 5.4% and 1.9% of our consolidated turnover for the respective periods.

Turnover from our other dairy products amounted to RMB7.0 million, RMB29.0 million, RMB11.0 million, RMB5.8 million and RMB0.8 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively, which accounted for 1.7%, 6.3%, 2.1%, 4.9% and 0.6% of our consolidated turnover for the respective periods.

(iii) By Sales Channel

We sell our products through distributors, sales agents and direct sales. The following table illustrates a breakdown of our turnover from sales of our products through different sales channels for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2012		2013		2014		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Distributors	229,777	54.7	218,508	47.1	298,435	54.7	74,040	62.8	75,427	51.9
Sales Agents	94,653	22.5	141,524	30.6	176,843	32.4	33,083	28.0	56,338	38.7
Direct Sales	95,987	22.8	103,492	22.3	69,961	12.9	10,835	9.2	13,646	9.4
TOTAL	**420,417**	**100.0**	**463,524**	**100.0**	**545,239**	**100.0**	**117,958**	**100.0**	**145,411**	**100.0**

The turnover from sales through distributors decreased for the year ended 31 December 2013 compared to 2012 primarily due to our strategical reduction on the sales of traditional UHT milk, the majority of which were distributed by our distributors. The turnover from sales through distributors increased in 2014 compared to 2013 because the high-margin condensed modified milk products using Tetra Prisma and other aseptic carton packaging that we had developed prior to 2014 were well received by customers and recorded higher sales in 2014, and such products were primarily distributed through distributors. The increase in turnover from sales through distributors for the three months ended 31 March 2015 compared to the three months ended 31 March 2014 was in line with our overall growth in sales of our products.

The turnover from sales through sales agents increased consistently during the Track Record Period reflecting our continuous efforts in expanding our sales of Cold Chain Liquid Milk Products in Lanzhou and Xining, where we primarily use sales agents to distribute and sell our Cold Chain Liquid Milk Products.

The decrease in the turnover from direct sales for the year ended 31 December 2014 compared to the year ended 31 December 2013 primarily reflected a decrease in the direct sales to schools/education bureau resulting from the change to a less frequent governmental milk consumption requirement for students in certain areas in Gansu and Qinghai. The increase in the turnover from direct sales from the three months ended 31 March 2014 to the three months ended 31 March 2015 was due to the increased sales to supermarkets in and Xining as a result of our effort to enhance promotion and the launch of high margin products.

(iv) By Geographical Area

Currently our daily products are primarily sold to customers in Gansu and Qinghai, with a small portion sold in other provinces. The following table illustrates a breakdown of our turnover from these areas for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2012		2013		2014		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Gansu	336,120	79.9	359,728	77.6	411,734	75.5	92,535	78.4	106,532	73.3
Lanzhou[(1)]	*155,875*	*37.1*	*188,841*	*40.7*	*223,122*	*40.9*	*49,103*	*41.6*	*64,080*	*44.1*
Other regions in Gansu	*180,245*	*42.8*	*170,887*	*36.9*	*188,612*	*34.6*	*43,432*	*36.8*	*42,452*	*29.2*
Qinghai	74,895	17.9	80,071	17.3	121,292	22.2	23,189	19.7	36,684	25.2
Xining[(1)]	*21,603*	*5.1*	*25,201*	*5.4*	*58,982*	*10.8*	*6,676*	*5.7*	*22,205*	*15.3*
Other regions in Qinghai	*53,292*	*12.8*	*54,870*	*11.9*	*62,310*	*11.4*	*16,513*	*14.0*	*14,479*	*9.9*
Other provinces in the PRC	9,402	2.2	23,725	5.1	12,213	2.3	2,234	1.9	2,195	1.5
TOTAL	**420,417**	**100.0**	**463,524**	**100.0**	**545,239**	**100.0**	**117,958**	**100.0**	**145,411**	**100.0**

Note:

(1) In Lanzhou and Xining, we primarily sell our dairy products to end-consumers through sales agents and direct sales, except for limited cases where we sell our dairy products in certain remote regions in Lanzhou and Xining through distributors. Outside of Lanzhou and Xining, we primarily sell our dairy products through third-party distributors except for limited cases where we sell our dairy products directly to supermarkets and local schools outside of Lanzhou and Xining.

Our turnover from sales of our products in Gansu and Qinghai has consistently increased during the Track Record Period due to the increased sales of our liquid milk products as a result of the generally increasing market demand of our dairy products and our continuous efforts in adjusting our product mix to shift our focus to Cold Chain Liquid Milk Products and other high margin products, which in general demand higher selling price. The proportion of sales in Qinghai to our total sales increased in 2014 compared to 2013, and increased in the three months ended 31 March 2015 compared to the three months ended 31 March 2014, because we continue to increase the production in our Qinghai production plant and the sales of its products in Qinghai.

Cost of Sales and Gross Profit Margin

Set forth below is a summary of our cost of sales before and after we take into account biological asset fair value adjustments for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	(RMB in thousands, except for percentages)				
				(unaudited)	
Turnover	420,417	463,524	545,239	117,958	145,411
Cost of sales (before biological asset fair value adjustments)	301,743	340,233	364,284	83,593	97,016
Gross profit margin (before biological asset fair value adjustments)	28.2%	26.6%	33.2%	29.1%	33.3%
Cost of sales (after biological asset fair value adjustments)	304,957	345,925	369,202	84,850	98,311
Gross profit margin (after biological asset fair value adjustments)	27.5%	25.4%	32.3%	28.1%	32.4%

Our cost of sales after biological asset fair value adjustments consists primarily of (i) production costs incurred for our liquid milk products, (ii) breeding costs to produce raw milk, and (iii) gain arising on initial recognition of agricultural produce at fair value less cost to sell at the point of harvest. Production costs consist primarily cost of raw milk, packaging and auxiliary materials and feeds. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, our cost of sales before and after biological asset fair value adjustments was approximately 71.8%, 73.4%, 66.8%, 70.9% and 66.7%, and 72.5%, 74.6%, 67.7%, 71.9% and 67.6% of our total turnover for the same periods, respectively. The gain arising on initial recognition of agricultural produce at fair value less cost to sell at the point of harvest is a component of cost of sales after biological asset fair adjustments and the inclusion of such biological asset fair value change upon adjustments results in a slightly lower gross profit margin after biological asset fair adjustments as compared to that before biological asset fair value adjustments.

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2012		2013		2014		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Production costs incurred for liquid milk products										
Raw milk procured from third-party dairy farms and collectively-operated dairy farms	179,679	58.9	197,454	57.1	166,245	45.0	43,491	51.3	41,588	42.3
Packaging and auxiliary materials	75,288	24.7	84,476	24.4	111,355	30.2	21,685	25.6	33,051	33.6
Others	19,975	6.6	17,348	5.0	35,770	9.7	7,102	8.3	11,023	11.2
Subtotal	**274,942**	**90.2**	**299,278**	**86.5**	**313,370**	**84.9**	**72,278**	**85.2**	**85,662**	**87.1**
Breeding costs to produce raw milk in our self-operated dairy farms										
Feeds	15,675	5.1	25,085	7.3	31,247	8.5	7,586	8.9	7,758	7.9
Others[1]	11,126	3.6	15,870	4.6	19,667	5.3	3,729	4.4	3,596	3.7
Subtotal	**26,801**	**8.8**	**40,955**	**11.8**	**50,914**	**13.8**	**11,315**	**13.3**	**11,354**	**11.6**
Gain arising on initial recognition of agricultural produce at fair value less cost to sell at the point of harvest	**3,214**	**1.1**	**5,692**	**1.6**	**4,918**	**1.3**	**1,257**	**1.5**	**1,295**	**1.3**
TOTAL	**304,957**	**100.0**	**345,925**	**100.0**	**369,202**	**100.0**	**84,850**	**100.0**	**98,311**	**100.0**

Note:

1. Others include labour costs consisting of salaries and benefits for staff directly involved in the dairy farming activities, depreciation and amortisation and other costs.

Production costs incurred for our liquid milk products primarily consist of costs related to raw milk procured from third-party dairy farms and collectively-operated dairy farms, costs of packaging and auxiliary materials, labour costs including salaries and benefits for staff directly involved in the manufacturing activities, depreciation and amortisation and other costs. Production costs incurred for our liquid milk products accounted for 90.2%, 86.5%, 84.9%, 85.2% and 87.1% of our total cost of sales after biological asset fair value adjustments for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, cost for raw milk procured from third-party dairy farms and collectively-operated dairy farms accounted for 58.9%, 57.1%, 45.0%, 51.3% and 42.3%, respectively, of our total cost of sales after biological asset fair value adjustments.

Breeding costs to produce raw milk in our self-operated dairy farms primarily consists of feed costs. Breeding costs to produce raw milk in our self-operated dairy farms accounted for 8.8%, 11.8%, 13.8%, 13.3% and 11.6% of our total cost of sales after biological asset fair value adjustments for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively. Feed costs accounted for 5.1%, 7.3%, 8.5%, 8.9% and 7.9% of our total cost of sales after biological asset fair value adjustments for the respective periods. We feed our dairy cows forages including corn silage, alfalfa, corn, soybean, oat hay etc.

The following table sets forth the breakdown of our cost of sales and gross profit by our product types, as well as their respective gross profit margin after biological asset fair value adjustments, for the periods indicated:

	Year ended 31 December									Three months ended 31 March					
	2012			2013			2014			2014			2015		
	Cost of sales	Gross Profit	Gross profit margin	Cost of sales	Gross Profit	Gross profit margin	Cost of sales	Gross Profit	Gross profit margin	Cost of sales	Gross Profit	Gross profit margin	Cost of sales	Gross Profit	Gross profit margin
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000 (unaudited)	%	RMB'000	RMB'000	%
Liquid Milk Products															
Pasteurised Milk	16,759	7,811	31.8	16,294	9,601	37.1	15,326	10,551	40.8	3,244	2,149	39.8	2,773	1,965	41.5
UHT Milk	154,171	61,426	28.5	133,597	40,738	23.4	95,087	32,817	25.7	27,522	9,310	25.3	18,493	6,213	25.1
Modified Milk	71,043	26,504	27.2	106,458	35,493	25.0	136,760	66,744	32.8	31,780	12,703	28.6	37,347	15,927	29.9
Yogurt	38,406	12,273	24.2	47,612	25,161	34.6	94,673	58,567	38.2	12,354	6,769	35.4	36,658	22,380	37.9
Subtotal	280,379	108,014	27.8	303,961	110,993	26.7	341,846	168,679	33.0	74,900	30,931	29.2	95,271	46,485	32.8
Milk Beverage	19,147	5,857	23.4	14,314	5,286	27.0	19,606	4,080	17.2	4,997	1,323	20.9	2,320	504	17.8
Other Dairy Products	5,431	1,589	22.6	27,650	1,320	4.6	7,750	3,278	29.7	4,953	854	14.7	720	111	13.4
Total cost of sales/Total gross profit/Overall gross profit margin	304,957	115,460	27.5	345,925	117,599	25.4	369,202	176,037	32.3	84,850	33,108	28.1	98,311	47,100	32.4

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was 27.5% for the year ended 31 December 2012, 25.4% for the year ended 31 December 2013, 32.3% for the year ended 31 December 2014, 28.1% for the three months ended 31 March 2014 and 32.4% for the three months ended 31 March 2015. The increase during the Track Record Period was primarily due to an increase in the average selling price of our liquid milk products resulting from our effort to optimise our product offering mix to increase the percentage of sales of Cold Chain Liquid Milk Products and other high margin products in our total sales, despite the overall increase in the market price of raw milk and cost of packaging and auxiliary materials in 2013.

Among our four sub-categories of liquid milk products, pasteurized milk (i.e., fresh milk) products commanded the highest gross profit margin ranging from 31.8% to 41.5% and gross profit margin of which had been on an increasing trend during the Track Record Period. Such high gross profit margin and its consistent increase were primarily due to the increased average selling price of our pasteurized milk products as a result of their high quality. Our yogurt products commanded the second highest gross profit margin ranging from 24.2% to 38.2% and gross profit margin of which had also been on a general increasing trend during the Track Record Period. The high gross profit margin and the general increase in gross profit margin of our yogurt products were primarily due to the launch of several different flavours of yogurt products using the Ecolean packaging in 2013 and the increased sales of these products because of their popularity and general acceptance. With respect to our modified milk products, their gross profit margin ranged from 25.0% to 32.8% during the Track Record Period and the fluctuation primarily reflected the changes in market price of raw milk and our ability to increase the average selling price of modified milk products as a result of our efforts in adjusting product mix to focus on popular products within this sub-category. Finally, our UHT milk products had gross profit margin in the range of 23.4% to 28.5% during the Track Record Period and the fluctuation was primarily due to a combination of the changes in average selling price and cost of raw milk during the relevant periods. The gross profit margins of our four sub-categories of liquid milk products during the Track Record Period were consistent with our strategic shift to focus on the sales of Cold Chain Liquid Milk Products, being pasteurized milk and yogurt products.

Initial Recognition of Agricultural Produce at Fair Value Less Costs to Sell at the Point of Harvest

Our agricultural produce consists of raw milk produced by our self-owned dairy cows in our self-operated dairy farms, which had been sold to our production plants for manufacturing into dairy products. Under IFRS, agricultural produce are recognised as inventories at their fair value less costs to sell at the point of harvest. The fair value is determined based on the market price quoted in the local area. The resulting gain or loss of recognition of such fair value, being the difference between (i) the fair value less costs to sell of such raw milk and (ii) the breeding costs incurred, is recognised in profit or loss for that period. Meanwhile, the gain or loss so recognised is charged as cost of sales upon internal consumption or subsequent sales of such raw milk as part of the cost of inventories sold. Any agricultural produce not consumed or sold during the period in which it was harvested will remain as inventory.

Our net gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest amounted to RMB3.2 million, RMB5.7 million, RMB4.9 million, RMB1.3 million and RMB1.3 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively.

Going forward, as we plan to consume or sell substantially all of the raw milk during the period in which it is produced, we do not expect any net gain so recognised will have a substantial impact on our profit from operations or operating margin.

Changes in Fair Value Less Costs to Sell of Biological Assets

Net gains or losses arising from changes in fair value less costs to sell of biological assets represents fair value changes on our dairy cows due to the changes in physical attributes and market prices of and discounted future cash flow to be generated by these dairy cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milking is higher than the selling price of heifer. Further, when a milkable cow is culled and sold, its value decreases. During the Track Record Period, our dairy cows were revalued at each reporting date.

We recorded net loss arising from changes in fair value less costs to sell of biological assets amounted to RMB2.7 million, RMB10.5 million, RMB14.7 million, RMB4.9 million and RMB4.3 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015. Please refer to "Financial Information – Results of Our Operations" for an analysis on the fluctuation of the loss arising from changes in fair value less costs to sell of biological assets.

When disposing of our dairy cows, we write off the carrying amount of the dairy cows, and the difference between the carrying amount of the dairy cows disposed and the proceeds from the disposal is recorded as change in fair value less cost to sell of our biological assets. The difference between the carrying amount of the dairy cows disposed and the proceeds from the disposal for a period is immaterial as compared with the total fair value of our biological assets as of the end of that period. The cash proceeds are recorded under investment cash inflow. The cash proceeds from disposal of biological assets amounted to RMB3.0 million, RMB4.9 million, RMB6.8 million, RMB1.2 million and RMB2.4 million for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively.

Other Net Income

Other net income include government grants and income from sales of raw materials. Government grants are unconditional grants and subsidies provided by the PRC government to support the dairy farming business. Sales of raw materials includes primarily the sales of feeds to contracted farmers in our collectively-operated dairy farms.

Distribution Costs

Our distribution costs consisted primarily of staff costs, advertising and promotional expenses, office and travelling expenses, transportation expenses and consumables. The following table sets forth a breakdown of our distribution costs for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2012		2013		2014		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Staff costs	12,633	50.2	11,611	48.3	13,295	39.3	3,036	42.0	3,037	40.5
Advertising and promotional expenses	5,996	23.8	3,396	14.1	3,376	10.0	630	8.7	273	3.6
Office and travelling expenses	2,708	10.8	2,894	12.0	3,216	9.5	590	8.2	904	12.1
Transportation expenses	1,819	7.2	2,806	11.7	6,606	19.5	1,648	22.8	1,691	22.5
Consumables	1,312	5.2	2,173	9.0	4,973	14.7	721	10.0	887	11.8
Others	686	2.8	1,178	4.9	2,380	7.0	596	8.3	707	9.5
Total distribution costs	**25,154**	**100.0**	**24,058**	**100.0**	**33,846**	**100.0**	**7,221**	**100.0**	**7,499**	**100.0**

Administrative Expenses

Administrative expenses consisted primarily of (i) repairment expenses related to our production and office equipment and facilities, (ii) staff costs, (iii) listing expenses in connection with this Global Offering, (iv) consultation expenses in connection with consultation in relation to our product development activities and our previous attempt for the listing of our shares in the Shenzhen Stock Exchange, (v) office expenses, (vi) depreciation and amortisation of our office equipment and facilities, (vii) travelling expenses, and (viii) allowance for impairment of doubtful debts. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2012		2013		2014		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Repairment expenses	10,214	30.4	10,118	26.0	12,470	25.9	3,244	33.6	3,536	25.2
Staff costs	7,353	21.9	8,656	22.2	11,193	23.3	3,067	31.8	3,976	28.3
Listing expenses	–	–	–	–	7,232	15.0	–	–	1,665	11.8
Consultation expenses	3,301	9.8	3,247	8.3	2,149	4.5	431	4.5	316	2.2
Office expenses	2,799	8.3	3,267	8.4	3,583	7.4	1,374	14.2	1,279	9.1
Depreciation and amortisation	2,524	7.5	3,322	8.5	3,437	7.1	889	9.2	897	6.4
Travelling expenses	2,136	6.4	2,109	5.4	2,634	5.5	366	3.8	589	4.2
Allowance for impairment of doubtful debts	815	2.4	3,746	9.6	(1,597)	(3.3)	(822)	(8.5)	(103)	(0.7)
Others	4,444	13.3	4,495	11.6	7,009	14.6	1,099	11.4	1,903	13.5
Total administrative expenses	**33,586**	**100.0**	**38,960**	**100.0**	**48,110**	**100.0**	**9,648**	**100.0**	**14,058**	**100.0**

Net Finance Costs

Our net finance costs consist of (i) interest expenses on bank loans (ii) finance charges on obligations under finance leases less the total of (i) interest income and (ii) interest expenses capitalised into property, plant and equipment. Our net finance costs are primarily affected by the outstanding borrowings principals and applicable interest rates. The following table sets forth a breakdown of our net finance costs for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income	(244)	(445)	(469)	(225)	(418)
Interest expenses on bank loans					
– Interest on bank loans wholly repayable within five years	12,143	23,246	23,695	5,760	6,724
– Interest on bank loans wholly repayable over five years	4,139	1,965	3,380	851	399
Finance charges on obligations under finance leases	674	805	727	211	135
Less: interest expenses capitalised	(766)	(175)	(982)	(123)	–
Total net finance cost	**15,946**	**25,396**	**26,351**	**6,474**	**6,840**

Income Tax

(i) PRC Enterprise Income Tax

We conduct our businesses in China and are subject to taxation in China. Under the EIT Law, which became effective on 1 January 2008, we are generally subject to a uniform tax rate of 25%. However, due to the nature of our business and our location, we have been enjoying a series of preferential tax policies during the Track Record Period. We set out below the details of these preferential tax policies:

	Name of the Tax Regulation	Application to our Company and its subsidiaries	Applicable Regions	Implementation Information
1	Announcement of the State Administration of Taxation on Issues Concerning Enterprise Income Tax Related to Enhancing the Western Region Development Strategy, Announcement No.12 [2012] of the State Administration of Taxation (《國家稅務總局關於深入實施西部大開發戰略有關企業所得稅問題的公告》(國家稅務總局公告2012年第12號)) issued by the State Administration of Taxation on 6 April 2012	Our Company and some of the subsidiaries are entitled to a reduced enterprise income tax rate of 15% from 2011 to 2020.	Qinghai & Gansu	Renew annually

	Name of the Tax Regulation	Application to our Company and its subsidiaries	Applicable Regions	Implementation Information
2	Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax (for Trial Implementation) No. 149 [2008] issued by the Ministry of Finance (《財政部、國家稅務總局關於發佈享受企業所得稅收優惠政策的農產品初加工範圍(試行)的通知》(財稅[2008]149號))	Our Company and some of the subsidiaries are exempted from the enterprise income tax for initial processing of dairy products, which include pasteurised milk and UHT milk.	Gansu & Qinghai	Renew annually
3	Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) and Supplementary Notice of the State Administration of Taxation on Issues Concerning the Administration of Enterprise Income Tax Preferences Letter No. 255 [2009] issued by the State Administration of Taxation (《關於企業所得稅稅收優惠管理問題的補充通知》國稅函[2009]255號)	Some of the subsidiaries are exempted from enterprise tax for sales incomes arising from dairy cows breeding.	Qinghai, Gansu & Ningxia	Renew annually
4	Notice of Qinghai People's Government on Issuing the Preferential Policies for Attracting Investments of Xining Economic and Technological Development Zones, Qing Zheng No. 34[2001] (《青海省人民政府關於印發西寧經濟技術開發區招商引資優惠政策的通知》青政[2001]34號)	Qinghaihu Dairy was exempted from the enterprise income tax from 2009 to 2012.	Qinghai	This preferential policy was terminated in 2013

Under the relevant PRC tax laws and regulations, we can continue to enjoy the tax exemption set out in items 1–3 above until they are terminated so far as the relevant members of our Group complete filings with the relevant competent tax authorities as required.

(ii) Effective Tax Rate

As a result of the foregoing, our effective tax rate, representing income tax expense divided by profit before taxation after biological asset fair value adjustments, was 2.2%, 9.4%, 11.2%, 8.0% and 12.1% for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had fulfiled all our tax obligations and did not have any unresolved tax disputes with the applicable tax authorities.

RESULTS OF OUR OPERATIONS

Three Months Ended 31 March 2014 Compared to Three Months Ended 31 March 2015

Turnover

Our turnover increased by RMB27.4 million, or 23.2%, from RMB118.0 million for the three months ended 31 March 2014 to RMB145.4 million for the three months ended 31 March 2015. The growth in our turnover was primarily due to the increased sales of our liquid milk products.

Our turnover from the sales of liquid milk products increased by RMB36.0 million, or 33.9%, from RMB105.8 million for three months ended 31 March 2014 to RMB141.8 million for the three months ended 31 March 2015, primarily due to the growth of the dairy industry in Gansu and Qinghai as well as the increases in both of the average selling price and sales volume of Cold Chain Liquid Milk Products and other high margin products such as condensed modified milk. We further installed additional Ecolean packaging lines in the second half of the year 2014 for the increased production of Cold Chain Liquid Milk Products as a result of our effort to adjust our product offering mix by increasing the proportion of Cold Chain Liquid Milk Products and other high margin products.

Pasteurised Milk. Turnover from our pasteurised milk products decreased by RMB0.7 million, or 12.1%, from RMB5.4 million for three months ended 31 March 2014 to RMB4.7 million for the three months ended 31 March 2015, primarily due to a decrease in the sales of our pasteurised milk products as a result of our shift of focus to promoting products with longer shelf life such as modified milk and yogurt as part of our marketing strategy in the Chinese New Year for the first quarter in 2015.

UHT Milk. Turnover from our UHT milk products decreased by RMB12.1 million, or 32.9%, from RMB36.8 million for three months ended 31 March 2014 to RMB24.7 million for the three months ended 31 March 2015, primarily due to a decrease in sales of UHT milk products, which have relatively lower gross profit margin. This was in line with our effort and strategy to optimise our product offering mix and to cater for the tastes and preferences of local consumers.

Modified Milk. Turnover from our modified milk products increased by RMB8.8 million, or 19.8%, from RMB44.5 million for three months ended 31 March 2014 to RMB53.3 million for the three months ended 31 March 2015, primarily due to an increase in the sales and average selling price of high margin modified milk products using Tetra Prisma and other aseptic cartoon packaging as a result of our effort to adjust our product offering mix to focus on high margin products.

Yogurt. Turnover from our yogurt products increased by RMB39.9 million, or 208.9%, from RMB19.1 million for three months ended 31 March 2014 to RMB59.0 million for the three months ended 31 March 2015, primarily due to the increase in both the sales volume and the average selling price of our yogurt products as we introduced new flavours and tastes using Ecolean packaging such as Shenghu condensed yogurt, Shenghu black gojiberry-flavoured yogurt and probiotic yogurt, which were well received by customers, as well as our continuous effort to expand our cold chain distribution network. In addition, the additional Ecolean packaging production lines installed in the second half of the year 2014 had contributed to the increased production capacity of Cold Chain Liquid Milk Products for the three months ended 31 March 2015.

Cost of Sales

Our cost of sales after biological asset fair value adjustments increased by RMB13.5 million, or 15.9%, from RMB84.9 million for three months ended 31 March 2014 to RMB98.3 million for the three months ended 31 March 2015, primarily due to an increase in the costs of packaging and auxiliary materials a result of an increase in sales of Cold Chain Liquid Milk Products and other high margin products. Before biological asset fair value adjustments, our cost of sales increased by RMB13.4 million, or 16.1%, from RMB83.6 million for three months ended 31 March 2014 to RMB97.0 million for the three months ended 31 March 2015.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit after biological assets fair value adjustments increased by RMB14.0 million, or 42.3%, from RMB33.1 million for three months ended 31 March 2014 to RMB47.1 million for three months ended 31 March 2015. Our gross profit margin after biological asset fair value adjustments increased from 28.1% for the three months ended 31 March 2014 to 32.4% for the three months ended 31 March 2015. The increase was primarily due to an increase in average selling price and sales volume of our liquid milk products resulting from our continuous effort to optimise our product offering mix to increase the percentage of sales of Cold Chain Liquid Milk Products and other high margin products to our total sales, and a slight decrease in the average cost of raw milk sourced from third-party dairy farms and our collectively-operated farms, which was partially offset by an increase in the purchase costs of packaging and auxiliary materials.

Pasteurised Milk. Gross profit margin after biological asset fair value adjustments of our pasteurised milk products increased from 39.8% for the three months ended 31 March 2014 to 41.5% for the three months ended 31 March 2015. The increase was primarily due to the increase in the average selling price of our pasteurised milk for the respective periods.

UHT Milk. Gross profit margin after biological asset fair value adjustments of our UHT milk products only slightly decreased from 25.3% for the three months ended 31 March 2014 to 25.1% for the three months ended 31 March 2015, primarily due to a decrease in the average selling price of our UHT milk products resulting from an intense competition as part of our strategic adjustment to product mix.

Modified Milk. Gross profit margin after biological asset fair value adjustments of our modified milk products increased from 28.6% for the three months ended 31 March 2014 to 29.9% for the three months ended 31 March 2015, primarily due to the increase in the average selling price of our modified milk products as a result of our continuous strategic adjustment of producing mix to increase sales of our high-margin modified milk products.

Yogurt. Gross profit margin after biological asset fair value adjustments of our yogurt products increased from 35.4% for the three months ended 31 March 2014 to 37.9% for the three months ended 31 March 2015. The increase was primarily due to an increased sales of our high-margin yogurt products with Ecolean packaging and our launch of higher gross profit margin yogurt products in 2015.

Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

Our gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest remained stable at RMB1.3 million for the three months ended 31 March 2014 and 2015.

Loss arising from changes in fair value less costs to sell of biological assets

Our net loss arising from changes in fair value less costs to sell of biological assets decreased by RMB0.6 million, or 11.3%, from RMB4.9 million for the three months ended 31 March 2014 to RMB4.3 million for the three months ended 31 March 2015. The decrease in loss was primarily due to (i) the decrease in the average breeding costs and other related fixed costs per dairy cow for the three months ended 31 March 2015; and (ii) a decrease in the total number of milkable cows as at 31 March 2015. Please see "— Factors Affecting our Results of Operations and Financial Condition — Change in Fair Value of Dairy Cows" for further information on the evaluation of calves and heifers, and milkable cows.

Other Net Income

Other net income increased by RMB0.8 million, or 29.8%, from RMB2.6 million for the three months ended 31 March 2014 to RMB3.3 million for the three months ended 31 March 2015, primarily due to an increase in government grants.

Distribution Costs

Our distribution costs increased by RMB0.3 million, or 3.8%, from RMB7.2 million for the three months ended 31 March 2014 to RMB7.5 million for the three months ended 31 March 2015. Our distribution costs has remained stable for the respective periods.

Administrative Expenses

Our administrative expenses increased by RMB4.4 million, or 45.7%, from RMB9.6 million for the three months ended 31 March 2014 to RMB14.1 million for the three months ended 31 March 2015, primarily due to (i) the incurrence of listing expenses for the three months ended 31 March 2015, (ii) an increase in staff costs, and (iii) a decrease in reversal of impairment loss for doubtful debts.

Net Finance Costs

Our net finance costs increased by RMB0.4 million, or 5.7%, from RMB6.5 million for the three months ended 31 March 2014 to RMB6.8 million for the three months ended 31 March 2015, primarily due to slightly increased interest expenses for the three months ended 31 March 2015.

Income Tax

Our income tax expenses increased by RMB1.6 million, or 230.9%, from RMB0.7 million for the three months ended 31 March 2014 to RMB2.3 million for the three months ended 31 March 2015, primarily due to the substantial increase in taxable income. Our effective tax rate was 8.0% and 12.1%, respectively, for the three months ended 2014 and 2015. The increase was a result of our strategic adjustment of our product mix by which we significantly increased the proportion of sales of yogurt and modified milk products, which did not enjoy tax exemption treatment, and reduced the proportion of sales of pasteurised milk and UHT milk products, which were exempt from income tax.

Profit for the Period

As a result of the foregoing factors, our profit after biological asset fair value adjustments increased by RMB8.7 million, or 108.1%, from RMB8.0 million for the three months ended 31 March

2014 to RMB16.7 million for the three months ended 31 March 2015. Before biological asset fair value adjustments, our profit for the year increased by RMB8.1 million, or 63.0%, from RMB12.9 million for the three months ended 31 March 2014 to RMB21.0 million for the three months ended 31 March 2015.

Year Ended 31 December 2014 Compared to Year Ended 31 December 2013

Turnover

Our turnover increased by RMB81.7 million, or 17.6%, from RMB463.5 million for the year ended 31 December 2013 to RMB545.2 million for the year ended 31 December 2014. The growth in our turnover was primarily due to the increased sales of our liquid milk products.

Our turnover from the sales of liquid milk products increased by RMB95.5 million, or 23.0%, from RMB415.0 million for the year ended 31 December 2013 to RMB510.5 million for the year ended 31 December 2014 primarily due to the growth of the dairy industry in Gansu and Qinghai as well as the increases in both of the average selling price and sales volume of Cold Chain Liquid Milk Products and other high margin products such as condensed modified milk products using Tetra Prisma and other aseptic carton packaging. We further installed additional Ecolean packaging lines in 2013 and 2014 for the production of Cold Chain Liquid Milk Products as a result of our effort to adjust our product offering mix by increasing the proportion of Cold Chain Liquid Milk Products and other high margin products.

Pasteurised Milk. Despite of a drop in sales volume of pasteurised milk in 2014, turnover from pasteurised milk products maintained at a similar level of approximately RMB25.9 million for both of the years ended 31 December 2013 and 2014 due to the increase in average selling price of our pasteurised milk products in 2014 as a result of our shift of focus to Cold Chain Liquid Milk Products with higher gross profit margin as part of our plan to adjust our product offering mix.

UHT Milk. Turnover from our UHT milk products decreased by RMB46.4 million, or 26.6%, from RMB174.3 million for the year ended 31 December 2013 to RMB127.9 million for the year ended 31 December 2014 primarily due to a decrease in sales of UHT milk products, which traditionally have intense market competition and relatively lower gross profit margin. This is in line with our effort and strategy to optimise our product offering mix. In addition to our strategy to reduce our UHT milk products, our UHT milk products were mainly sold to schools and education bureau. The schools in Gansu and Qinghai have reduced the milk consumption requirement for students, which also to some extent contributed to the decreased sales of our UHT milk products in 2014.

Modified Milk. Turnover from our modified milk products increased by RMB61.5 million, or 43.4%, from RMB142.0 million for the year ended 31 December 2013 to RMB203.5 million for the year ended 31 December 2014 primarily due to an increase in the sales and average selling price of high margin modified milk products using Tetra Prisma and other aseptic carton packaging since its launch in 2013 as a result of our effort to adjust our product offering mix to focus on high margin products.

Yogurt. Turnover from our yogurt products increased by RMB80.4 million, or 110.4%, from RMB72.8 million for the year ended 31 December 2013 to RMB153.2 million for the year ended 31 December 2014 primarily due to the increase in average selling price and sales volume of our yogurt products with different flavours and tastes using Ecolean packaging, which was launched in 2013 as a result of our continuous efforts to increase our production capacity of Cold Chain Liquid Milk Products and develop our cold chain distribution network.

Cost of Sales

Our cost of sales after biological asset fair value adjustments increased by RMB23.3 million, or 6.7%, from RMB345.9 million for the year ended 31 December 2013 to RMB369.2 million for the year ended 31 December 2014, primarily due to (i) an increase in breeding costs as a result of the expansion of our herd size; and (ii) an increase in the costs of packaging and auxiliary materials as a result of an increase in sales of Cold Chain Liquid Milk Products and other high margin products, offset by a decrease in costs of raw milk procured externally. Before biological asset fair value adjustments, our cost of sales increased by RMB24.1 million, or 7.1% from RMB340.2 million for the year ended 31 December 2013 to RMB364.3 million for the year ended 31 December 2014.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit after biological assets fair value adjustments increased by RMB58.4 million, or 49.7%, from RMB117.6 million for the year ended 31 December 2013 to RMB176.0 million for the year ended 31 December 2014. Our gross profit margin after biological asset fair value adjustments increased from 25.4% for the year ended 31 December 2013 to 32.3% for the year ended 31 December 2014. The increase was primarily due to an increase in the average selling price of our liquid milk products resulting from our effort to optimise our product offering mix to increase the percentage of sales of Cold Chain Liquid Milk Products and other high margin products to our total sales, and a slight decrease in the average cost of raw milk sourced from third-party dairy farms and our collectively-operated farms, which was partially offset by an increase in the purchase costs of packaging and auxiliary materials.

Pasteurised Milk. Gross profit margin after biological asset fair value adjustments of our pasteurised milk products increased from 37.1% for the year ended 31 December 2013 to 40.8% for the year ended 31 December 2014. The increase was primarily due to further increased sales of pasteurised milk products using the Ecolean packaging, which increased the selling price and gross profit margin of our pasteurised milk products.

UHT Milk. Gross profit margin after biological asset fair value adjustments of our UHT milk products increased from 23.4% for the year ended 31 December 2013 to 25.7% for the year ended 31 December 2014, primarily due to decrease in the cost of raw milk.

Modified Milk. Gross profit margin after biological asset fair value adjustments of our modified milk products increased from 25.0% for the year ended 31 December 2013 to 32.8% for the year ended 31 December 2014, primarily due to (i) the continuing increase in the average selling price of modified milk products resulting from our strategic adjustment of product mix to increase the sales of our high margin modified milk products, such as condensed modified milk using Tetra Prisma and other aseptic carton packaging which become one of our popular products since its launch in 2013 due to its general acceptance catered to the preference of local customers, allowing us to command higher selling price and gross profit margin and (ii) a decrease in the cost of raw milk sourced from third-party dairy farms and our collectively-operated dairy farms in 2014.

Yogurt. Gross profit margin after biological asset fair value adjustments of our yogurt products increased from 34.6% for the year ended 31 December 2013 to 38.2% for the year ended 31 December 2014. The increase was primarily due to the increased sale of yogurt products using the Ecolean packaging, which were well received by customers since we started to launch this line of yogurt products to the market in 2013, as well as other packaging production technologies as part of our continuous effort to expand our cold chain distribution capability, which increased the average selling price and gross profit margin of yogurt products.

Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

Our gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest decreased by RMB0.8 million, or 14.0%, from RMB5.7 million for the year ended 31 December 2013 to RMB4.9 million for the year ended 31 December 2014, primarily due to an increase in the average breeding cost to produce raw milk, which was partially offset by an increase in the production volume of raw milk in our dairy farms and an increase in the market price of raw milk in 2013.

Loss arising from changes in fair value less costs to sell of biological assets

Our net loss arising from changes in fair value less costs to sell of biological assets increased by RMB4.2 million, or 40.0%, from RMB10.5 million for the year ended 31 December 2013 to RMB14.7 million for the year ended 31 December 2014. The increase was primarily due to the following factors: (i) total breeding costs and other related costs such as staff costs, amortisation and depreciation expenses and utilities cost for the year ended 31 December 2014 were increased as a result of the expansion of our dairy farming operations, which led to an increase in the average breeding costs and other related fixed costs per dairy cow for the year ended 31 December 2014; (ii) a decrease in the total number of milkable cows as at 31 December 2014 as we increased the culling rate of milkable cows with low milk yield in the fourth quarter of 2014; and (iii) we have imported a total of 999 Holsteins dairy cows from Australia in September 2014, all of which are heifers. Importing heifers instead of milkable cows is consistent with the general practice in the dairy farming industry in China as it usually takes about nine-month's time to complete the procedures and for the cows to arrive in China since the cows were purchased. As of 31 December 2014, calves and heifers accounted for approximately 54.8% of our total self-owned dairy cows and milkable cows accounted for the other approximate 45.2%. The fair value of calves and heifers is much lower than the fair value of milkable cows. Please see "– Factors Affecting our Results of Operations and Financial Condition – Change in Fair Value of Dairy Cows" for further information on the evaluation of calves and heifers, and milkable cows.

Other Net Income

Other net income increased by RMB1.9 million, or 13.8%, from RMB13.8 million for the year ended 31 December 2013 to RMB15.7 million for the year ended 31 December 2014, primarily due to (i) the incurrence of net loss of RMB3.3 million on disposal of property and equipment due to the fire accident occurred in our Qinghai production plant for the year ended 31 December 2013 as compared to nil for the year ended 31 December 2014, and (ii) a decrease in government grants in 2014.

Distribution Costs

Our distribution costs increased by RMB9.7 million, or 40.2%, from RMB24.1 million for the year ended 31 December 2013 to RMB33.8 million for the year ended 31 December 2014, primarily due to the increases in staff costs, transportation expenses and consumables as a result of an increase in our overall sales in 2014.

Administrative Expenses

Our administrative expenses increased by RMB9.1 million, or 23.3%, from RMB39.0 million for the year ended 31 December 2013 to RMB48.1 million for the year ended 31 December 2014, primarily due to an increase in staff costs and the incurrence of listing expenses in 2014.

Net Finance Costs

Our net finance costs increased by RMB1.0 million, or 3.9%, from RMB25.4 million for the year ended 31 December 2013 to RMB26.4 million for the year ended 31 December 2014, primarily due to increased interest expenses in 2014.

Income Tax

Our income tax expenses increased by RMB4.7 million, or 130.6%, from RMB3.6 million for the year ended 31 December 2013 to RMB8.3 million for the year ended 31 December 2014, primarily due to the substantial increase in taxable income. Our effective tax rate was 9.4% and 11.2%, respectively, for the years ended 31 December 2013 and 2014. The increase was a result of our strategic adjustment of our product mix by which we significantly increased the proportion of sales of yogurt and modified milk, which do not enjoy tax free treatment and reduced the proportion of sales of UHT milk, which are exempt from income tax.

Profit for the Year

As a result of the foregoing factors, our profit after biological asset fair value adjustments increased by RMB30.8 million, or 89.0%, from RMB34.6 million for the year ended 31 December 2013 to RMB65.4 million for the year ended 31 December 2014. Before biological asset fair value adjustments, our profit for the year increased RMB35.0 million, or 77.6%, from RMB45.1 million for the year ended 31 December 2013 to RMB80.1 million for the year ended 31 December 2014.

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Turnover

Our turnover increased by RMB43.1 million, or 10.3%, from RMB420.4 million for the year ended 31 December 2012 to RMB463.5 million for the year ended 31 December 2013. The growth in our turnover was primarily due to the increase in turnover from our liquid milk products.

Our turnover from sales of liquid milk products increased by RMB26.6 million, or 6.8%, from RMB388.4 million for the year ended 31 December 2012 to RMB415.0 million for the year ended 31 December 2013 primarily due to the general growth of the dairy industry in Gansu and Qinghai and increased sales of modified milk, partially offset by a decrease in the turnover from UHT milk products, which faced intense competition and had relatively lower gross profit margin. Such a decrease was in line with our strategy to optimize our product offering mix.

Pasteurised Milk. Turnover from pasteurised milk increased by RMB1.3 million, or 5.3%, from RMB24.6 million for the year ended 31 December 2012 to RMB25.9 million for the year ended 31 December 2013 primarily due to an increase in sales of pasteurised milk using Ecolean packaging newly launched in 2013 as a result of the effort to develop our cold chain distribution network and increase the sales of our Cold Chain Liquid Milk Products, which enjoyed relatively higher average selling price. Such an increase was partially offset by the decrease in the overall sales volume of pasteurised milk products with low margin in 2013.

UHT Milk. Turnover from our UHT milk products decreased by RMB41.3 million, or 19.2%, from RMB215.6 million for the year ended 31 December 2012 to RMB174.3 million for the year ended 31 December 2013 primarily due to a decrease in sales of traditional UHT milk products with relatively lower gross profit margin because of its traditionally intense market competition, as a result of our effort to adjust our product offering mix.

Modified Milk. Turnover from our modified milk products increased by RMB44.5 million, or 45.6%, from RMB97.5 million for the year ended 31 December 2012 to RMB142.0 million for the year ended 31 December 2013 primarily due to an increase in sales and average selling price of high margin condensed modified milk products using Tetra Prisma and other aseptic carton packaging as a result of our effort to optimise our product offering mix.

Yogurt. Turnover from our yogurt products increased by RMB22.1 million, or 43.6%, from RMB50.7 million for the year ended 31 December 2012 to RMB72.8 million for the year ended 31 December 2013 primarily due to an increase in sales of yogurt products using our Ecolean packaging as a result of our continuous effort to optimise our product offering mix by expanding the sales of our Cold Chain Liquid Milk Products.

Cost of Sales

Our cost of sales after biological assets fair value adjustments increased by RMB40.9 million, or 13.4%, from RMB305.0 million for the year ended 31 December 2012 to RMB345.9 million for the year ended 31 December 2013, primarily due to the overall increase in our turnover and in particular the increase in breeding costs as a result of the expansion of our herd size and the costs of packaging and auxiliary materials as a result of an increase in sales of Cold Chain Liquid Milk Products and other high margin products and an increase in the market price of raw milk in 2013. Before biological asset fair value adjustments, our cost of sales increased by RMB38.5 million, or 12.8% from RMB301.7 million for the year ended 31 December 2012 to RMB340.2 million for the year ended 31 December 2013.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit after biological asset fair value adjustments increased by RMB2.1 million, or 1.8%, from RMB115.5 million for the year ended 31 December 2012 to RMB117.6 million for the year ended 31 December 2013. Our gross profit margin after biological asset fair value adjustments decreased from 27.5% for the year ended 31 December 2012 to 25.4% for the year ended 31 December 2013 primarily due to the increase in the market price of raw milk in 2013 despite that our average selling price increased in 2013.

Pasteurised Milk. Gross profit margin after biological asset fair value adjustments of our pasteurised milk products increased from 31.8% for the year ended 31 December 2012 to 37.1% for the year ended 31 December 2013. The increase was primarily due to the introduction of products using the Ecolean packaging starting in 2013 as part of our effort to optimise our product offerings mix by improving our Cold Chain Liquid Milk Products sales capability, which increased the selling price and gross profit margin of Cold Chain Liquid Milk Products despite of the higher market price of raw milk in 2013 compared to 2012.

UHT Milk. Gross profit margin after biological asset fair value adjustments of our UHT milk products decreased from 28.5% for the year ended 31 December 2012 to 23.4% for the year ended 31 December 2013, primarily due to an increase in the market price of raw milk in 2013 as compared to 2012.

Modified Milk. Gross profit margin after biological asset fair value adjustments of our modified milk products decreased from 27.2% for the year ended 31 December 2012 to 25.0% for the year ended 31 December 2013, primarily due to an increase in the market price of raw milk in 2013 as compared to 2012 and the adjustment and transition that were being made to modified milk as part of our effort to optimise our product offering mix.

Yogurt. Gross profit margin after biological asset fair value adjustments of our yogurt products increased from 24.2% for the year ended 31 December 2012 to 34.6% for the year ended 31 December 2013. The increase was primarily due to the launch of several different flavours of yogurt products using the Ecolean packaging in 2013 as part of our effort to optimise our product offering mix by expanding the sales of our Cold Chain Liquid Milk Products, which increased the selling price and gross profit margin of Cold Chain Liquid Milk Products, despite of the significant increase in the purchase price of raw milk.

Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

Our gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased by RMB2.5 million, or 78.1%, from RMB3.2 million for the year ended 31 December 2012 to RMB5.7 million for the year ended 31 December 2013, primarily due to an increase in the production volume of raw milk in our dairy farms and an increase in the market price of raw milk in 2013.

Loss arising from changes in fair value less costs to sell of biological assets

Our net loss arising from changes in fair value less costs to sell of biological assets increased by RMB7.8 million, or 288.9%, from RMB2.7 million for the year ended 31 December 2012 to RMB10.5 million for the year ended 31 December 2013. The significant increase was primarily due to the increases in total breeding costs and other related costs such as staff costs, amortisation and depreciation expenses and utilities cost resulting from the expansion of our dairy farming operations, which led to the increases in the average breeding costs and other related fixed costs per dairy cow. The higher percentage of milkable cows in 2013 compared to 2012 has offset the loss to some extent. Please see "– Factors Affecting our Results of Operations and Financial Condition – Change in Fair Value of Dairy Cows" for further information on the evaluation of calves and heifers, and milkable cows.

Other Net Income

Other net income decreased by RMB0.4 million, or 2.8%, from RMB14.2 million for the year ended 31 December 2012 to RMB13.8 million for the year ended 31 December 2013, primarily due to (i) the incurrence of net loss of RMB3.3 million on disposal of properties, plant and equipment due to the fire accident happened in our Qinghai production plant in 2013, and (ii) the increases in government grants in 2013 and income from sales of feeds.

Distribution Costs

Our distribution costs decreased slightly by RMB1.1 million, or 4.4%, from RMB25.2 million for the year ended 31 December 2012 to RMB24.1 million for the year ended 31 December 2013, primarily due to (i) a decrease in advertising and promotional expenses as a result of our effort to adopt a more focused approach in our spending on advertising activities, and (ii) a decrease in staff costs as a result of our adoption of a new performance evaluation approach of tieing the compensation to profit in 2013, as opposed to the approach of tieing to sales in previous years.

Administrative Expenses

Our administrative expenses increased by RMB5.4 million, or 16.1%, from RMB33.6 million for the year ended 31 December 2012 to RMB39.0 million for the year ended 31 December 2013, primarily due to (i) the increase in staff costs as a result of the general increase in salary, and (ii) the impairment loss for doubtful debts.

Net Finance Costs

Our net finance costs increased by RMB9.5 million, or 59.7%, from RMB15.9 million for the year ended 31 December 2012 to RMB25.4 million for the year ended 31 December 2013, primarily due to the increase in interest expenses.

Income Tax

Our income tax expenses increased by RMB2.4 million, or 200.0%, from RMB1.2 million for the year ended 31 December 2012 to RMB3.6 million for the year ended 31 December 2013, primarily due to an increase in our taxable income resulting from the increase in our sales coupled with a decrease in sales of our pasteurised milk and UHT milk products, which are free from enterprise income tax, as a result of our effort to optimise our product offering mix.

Our effective tax rate was 2.2% and 9.4%, respectively, for the years ended 31 December 2012 and 2013. The increase in the effective tax rate in 2013 compared to 2012 was primarily due to the expiration at the end of 2012 of the tax exemption treatment enjoyed by Qinghaihu Dairy, one of subsidiaries. In addition, the adjustment of our product mix in 2013 to increase the sales of yogurt products also resulted in higher tax paid by us because such products are not eligible for preferential tax treatment as opposed to pasteurised milk and UHT milk products, the sales of which are tax free.

Profit for the Year

As a result of the foregoing factors, our profit after biological assets fair value adjustments decreased by RMB19.7 million, or 36.3%, from RMB54.3 million for the year ended 31 December 2012 to RMB34.6 million for the year ended 31 December 2013. Before biological asset fair value adjustments, our profit for the year decreased RMB11.9 million, or 20.9%, from RMB57.0 million for the year ended 31 December 2012 to RMB45.1 million for the year ended 31 December 2013.

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

The table below sets forth our consolidated statements of financial position as at the dates indicated:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	512,198	570,535	618,848	627,728
Available-for-sale financial assets	44	33,720	33,720	33,720
Lease prepayments	12,803	15,152	14,376	14,146
Biological assets	60,985	79,578	103,264	104,467
Deferred tax assets	2,281	3,400	3,776	4,156
Other non-current assets	8,528	32,475	31,009	29,581
	596,839	734,860	804,993	813,798
Current assets				
Inventories	114,487	121,322	108,645	87,934
Trade receivables	37,861	33,629	21,783	21,794
Deposits, prepayments and other receivables	27,944	32,593	23,866	20,277
Pledged deposit	6,255	6,271	26,748	8,842
Cash and cash equivalents	89,316	132,323	215,454	205,826
	275,863	326,138	396,496	344,673
Current liabilities				
Trade and bills payables	49,494	52,593	110,059	65,711
Receipts in advance	10,339	17,514	28,107	10,120
Accrued expenses and other payables	38,199	46,742	46,549	51,027
Non-current liabilities due within one year	4,627	7,386	13,865	10,332
Bank loans	266,000	366,500	376,500	376,500
Current taxation	2,821	5,985	11,808	12,553
	371,480	496,720	586,888	526,243
Net current liabilities	(95,617)	(170,582)	(190,392)	(181,570)
Total assets less current liabilities	501,222	564,278	614,601	632,228

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities				
Bank loans	72,000	86,500	73,500	73,500
Deferred income	25,708	38,922	40,171	42,038
Obligations under finance leases	8,147	8,850	4,012	3,141
Other long-term payables	–	–	1,503	1,419
	105,855	134,272	119,186	120,098
NET ASSETS	395,367	430,006	495,415	512,130

Property, plant and equipment

Our property, plant and equipment primarily consist of plant and buildings, machinery and equipment, motor vehicles, office and electronic equipment and construction in progress. We had property, plant and equipment in the amount of RMB512.2 million, RMB570.5 million, RMB618.8 million, and RMB627.7 million as of 31 December 2012, 2013, 2014 and 31 March 2015, respectively. The continued increase in our property, plant and equipment during the Track Record Period primarily due to the continuous expansion of dairy farms and production equipment during the Track Record Period.

Available-for-sale financial assets

Our available-for-sale financial assets mainly represent our equity interest in Xi'an Dongfang due to our acquisition of 18% equity interests in it in 2013. We had available-for-sale financial assets of RMB44,000, RMB33.7 million, RMB33.7 million and RMB33.7 million as of 31 December 2012, 2013 and 2014 and 31 March 2015, respectively.

Lease prepayments

Our lease prepayments represent payments for the acquisitions of land use rights under operating leases for the land, where our production plants and some dairy farms are located. The lease prepayments for the land use rights were RMB12.8 million, RMB15.2 million, RMB14.4 million and RMB14.1 million as of 31 December 2012, 2013 and 2014 and 31 March 2015, respectively. The increase as of 31 December 2013 was mainly attributable to prepayment for land use right for the construction of our new self-operated dairy farm, Lanzhou Ruixing dairy farm.

Other non-current assets

Our other non-current assets represent primarily advances made to contracted farmers at our collectively-operated dairy farms to support their purchase of dairy cows. We had other non-current assets in the amount of RMB8.5 million, RMB32.5 million, RMB31.0 million and RMB29.6 million as of 31 December 2012, 2013 and 2014 and 31 March 2015, respectively.

Deferred income

Our deferred income primarily consists of government grants, which were conditional upon the construction and acquisition of property, plant and equipment for dairy farm facilities. The government grants have been recognised as deferred income, and are being amortised over the useful lives of the related assets to profit or loss. We had deferred income in the amount of RMB25.7 million, RMB38.9 million, RMB40.2 million and RMB42.0 million as of 31 December 2012, 2013 and 2014 and 31 March 2015, respectively. The increase was primarily due to the additional government grants we received during the Track Record Period.

Biological Assets

During the Track Record Period, our biological assets comprised of dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our self-owned dairy cows, which are in our self-operated dairy farms at the end of each of the reporting periods:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Dairy cows				
Milkable cows	34,297	55,089	54,359	54,158
Heifers	23,219	20,904	44,524	44,961
Calves	3,469	3,585	4,381	5,348
Total	**60,985**	**79,578**	**103,264**	**104,467**

The numbers of dairy cows in our self-operated dairy farms are summarised as follows:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	(heads)			
Dairy cows				
Milkable cows	1,541	2,398	2,180	2,080
Heifers	1,551	1,191	2,137	2,040
Calves	449	423	505	616
Total	**3,541**	**4,012**	**4,822**	**4,736**

Our biological assets increased by 30.5%, from RMB61.0 million as at 31 December 2012 to RMB79.6 million as at 31 December 2013. Our biological assets further increased by 29.8% to RMB103.3 million as at 31 December 2014 and by 1.2% to RMB104.5 million as at 31 March 2015. The value of our biological assets continued to increase throughout the Track Record Period as we continued to expand our herd of dairy cows, which is part of our growth and expansion strategy.

Valuation of the Dairy Cows

Our dairy cows were independently valued by Jones Lang LaSalle, an independent professional valuer not connected with us, and with appropriate extensive experience in valuation of biological assets. See "– Valuation of Biological Assets".

Set forth below is the fair value of our dairy cow herd at the end of each of the reporting periods:

	As at 31 December									As at 31 March		
	2012			2013			2014			2015		
	Herd Value	Herd Size	Average Value	Herd Value	Herd Size	Average Value	Herd Value	Herd Size	Average Value	Herd Value	Herd Size	Average Value
	RMB'000	Head	RMB	RMB'000	Head	RMB	RMB'000	Head	RMB	RMB'000	Head	RMB
Dairy cows:												
Calves & heifers	26,688	2,000	13,344	24,489	1,614	15,173	48,905	2,642	18,511	50,309	2,656	18,942
Milkable cows	34,297	1,541	22,256	55,089	2,398	22,973	54,359	2,180	24,935	54,158	2,080	26,038
Total	**60,985**	**3,541**		**79,578**	**4,012**		**103,264**	**4,822**		**104,467**	**4,736**	

Set forth below are the key assumptions and inputs adopted in the valuation process of our dairy cows as well as the actual historical results. According to IFRS, an entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants. Based on the above standard, Jones Lang LaSalle has applied certain assumptions based on the actual data of our Company, by making appropriate adjustments in consideration of industry practice and market conditions. Jones Lang LaSalle advised us that it has adopted consistent approach in deriving relevant assumptions in the valuation of comparable listed dairy companies.

		As at 31 December			As at 31 March
		2012	2013	2014	2015
Milkable Cows					
Valuation Approach(1) . .					
Raw milk price(2)	Assumption used	3.8	4.1	4.1	4.1
	Actual	3.8	4.1	4.4	4.3
Feed costs(3) (RMB/kg of raw milk)	Assumption used	2.3	2.3	2.3	2.3
	Actual	2.3	2.3	2.3	2.0
Culling rate(4)(%)	Assumption used	6.0%	6.0%	6.0%	6.0%
	Actual	1.4%	1.8%	3.3%	8.6%
Projected lactation periods(5)	Assumption used	6	6	6	6
	Actual	2	3	5	6
Milk Yield per head per lactation period(6) (Tonnes)	Assumption used	6.3–7.7	5.1–6.4	5.7–6.2	5.7–6.2
	Actual	7.5	6.4	5.6	5.9
Discount rate(7)(%)		12.4%	12.5%	12.8%	12.8%
Calves and Heifers					
Per head market price of 14 month-old heifers(8) (RMB)	Assumption used	15,000	16,000	{ 22,000 16,000	22,000 16,000
	Actual	14,000	13,000	17,500	17,500
Per head breeding costs required to raise the calves from (9) (RMB):					
0 month to 6 months . . .	Assumption used	4,451	4,644	4,061	4,061
	Actual	4,284	4,302	4,176	4,282
7 months to 24 months .	Assumption used	12,557	13,190	14,176	14,176
	Actual	12,960	13,014	13,122	13,246

Notes:

1. Valuation approach . . . . The fair values of 14 months old heifers are determined by referring to the market price of the actively traded market. The fair values of heifers older than 14 months are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages considering the profit required by raisers. The fair values of heifers younger than 14 months old and calves are determined by subtracting the breeding costs required to raise the animals from the respective specific ages to 14 months old and the margins that would be required by a raiser.

Given the unique characteristics of the milkable cows, there are substantial limitations for the market approach or the cost approach for valuing the milkable cows. The market approach requires market transactions of comparable assets as an indication of value. Jones Lang LaSalle has not identified any current market transaction which is comparable with the characteristics of the milkable cows of the Group in terms of maturity, species composition, productivity, etc. On the other hand, the cost approach does not reflect the future economic benefits to be generated by the subject asset. In view of the above, the fair value of the milkable cows is developed through the application of an income approach technique known as multi-period excess earnings method ("MEEM"). MEEM is a derivative of the discounted cash flow method. Using this technique, Jones Lang LaSalle estimates the direct economic benefits attributed to the milking cows. Such economic benefits are then capitalised at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, the revenues for the milking cows are projected over their remaining useful lives. Key assumptions for the MEEM include the following:

Components of Cash inflow:	–	Revenue from raw milk sales
	–	Revenue from female and male calves born
	–	Revenue from sales of culled cows
Components of Cash outflow:	–	Feed cost
	–	Medicine and vaccination costs
	–	Labour cost and other direct costs
	–	Insemination cost
	–	Manufacturing and auxiliary costs
	–	Administrative cost

2. Raw milk prices . . . . The raw milk prices used as an assumption in the valuation process are based on our historical average selling prices, prospect of demand and supply of raw milk, as well as the analysis of prices obtained from markets where we operate as at the end of each reporting periods. The estimated fair value of milkable cows increases when the raw milk price increases. The increase of raw milk price also has positive impact on the imported heifer price as it usually drives a demand of heifers.

The source of the raw milk price as used in the assumption is the price obtained from Gansu and Qinghai market. The actual raw milk price is the purchase price of our Company from its self-operated dairy farms.

3.	Feed costs	The feed costs used as an assumption in the valuation process are based on our historical average feed costs per kg of raw milk at the end of each reporting period. The estimated fair value of milkable cows decreases when the feed costs per kg raw milk increases. An effective feed mix and a high level of farm management can help increase the milk yield and then reduce the feed costs per kg of raw milk produced.
4.	Culling rate	It is normally assumed that the number of milkable cows at the end of each reporting period will decrease in the projection period at certain culling rates due to natural or unnatural factors, including (i) we might cull young milkable cows with low milk production due to their limited economic value; (ii) most of the milkable cows that have reached or are over the fifth lactation period will be culled due to their old age and decreasing milk yield; and (iii) milkable cows might also be culled due to illness, difficult birth or other unnatural deaths. The estimated fair value of milkable cows decreases when the estimated culling rates increase. However, the dairy farms may also choose to proactively cull the cows with low milk yield to maintain higher milk yield and also to improve the genetics of next generations of cows. The actual culling rate for a period is a fraction of (i) the number of milkable cows culled, as the numerator; and (ii) the sum of the balance of milkable cows as at the opening of the period and the incremental number of milkable cows as for the period, as denominator. Due to limited operating history of cow feeding, only the average culling rates of the first three lactation periods were disclosed to reflect the assumptions we adopted and the actual culling rate of our Company.
5.	Projected lactation periods . .	The projected lactation periods used as an assumption in the valuation are assumed to be five to six lactation periods depending on the individual physical condition of the milkable cows. Typically, a milkable cow can be milked for five lactation periods. For a few milkable cows with high milk yield, their economic useful life can be longer and they can be milked for as many as six lactation periods. The estimated fair value of milkable cows increases when they have longer economic useful lives. The actual lactation periods are shorter than the assumption adopted in the valuation models due to limited operating history of cow feeding.
6.	Milk yield	The milk yield used as an assumption in the valuation process was forecasted based on historical milk yield of the milkable cows, their health conditions, and management and operation of the dairy farms. Milk yield per head per lactation period used in the valuation is calculated based on the total milk yield, average total feeding days, and the average milking days assured per lactation period.

7.	Discount rate	The Capital Asset Pricing Model was applied in the determination of the discount rate. The discount rate reflects the time value of money and a risk premium, representing compensation for the risk inherent in future cash flow that is uncertain. The estimated fair value decreases when discount rate increases. The discount rates applied in the valuation are in line with those adopted by industry peers, after taking into consideration different business growth stages of the Company and its peers. Parameters used in the Capital Asset Pricing Model included the risk free rates, equity risk premiums, beta coefficients of other listed dairy companies and specific risk premiums reflecting the business growth stage of the Company.
8.	Market price of 14 months old heifers	The fair value of 14-month old heifers are determined using their market price at the actively traded markets as reference. Historical purchase price of heifers by large-scale dairy farms in China ranged between RMB16,195 and RMB22,850 per head in 2013 and 2014. As our Company started to import 14-month old heifers from Australia in 2014, the price used in valuation is RMB22,000 and RMB16,000 for import species and local species, both prices are in line with the actual prices we recorded.
9.	Breeding costs	The breeding costs used as an assumption in valuation are based on the historical average feed costs per head during the growing stage at the end of each reporting periods. The estimated profit that would be required by a raiser is also applied in the valuation. The fair values of heifers are estimated by adding the estimated breeding costs to the market price of 14-month old heifers. The estimated fair value of the heifers older than 14-month old increases when the breeding costs and the estimated profit that would be required by a raiser increase. The fair values of heifers are estimated by subtracting the estimated breeding costs from the market price of 14-month old heifers. The estimated fair value of the calves and the heifers younger than 14-month old heifers decreases when the breeding costs and the estimated profit that would be required by a raiser increase. The breeding costs for our calves and heifers used as assumptions in the valuation are in line with the historical breeding costs we incurred. The average breeding costs per head for the breeding period in the assumptions for heifers older than 14 months old ranged from RMB7,209 to RMB8,695 as at 31 March 2014 and 2015. For calves and heifers between 7 months old and 14 months old, the average breeding costs per head ranged from RMB5,348 to RMB5,582, and the breeding costs per head of calves between newly born to 6 months old ranged from RMB4,061 to RMB4,644.

Inventories

During the Track Record Period, inventories were one of the principal components of our current assets. Our inventories consist primarily of (i) finished goods, (ii) feeds and other raw materials to raise dairy cows, and (iii) other materials for producing dairy products. According to our inventory policy, we typically keep approximately two to three months of raw materials except for certain perishable raw materials such as raw milk, which is consumed or delivered on the day of milking, and certain particular raw materials. With respect to feeds, we typically keep 12 months' stock of silage, six months of alfalfa and three months of concentrated feed. We also normally increase our inventory of packing materials and finished products before Chinese New Year in anticipation of the seasonal increase in sales and difficulties to procure raw materials during the Chinese New Year period.

The following table sets forth the balance of our inventories at the end of each reporting period:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Feeds and other materials to breed dairy cows	45,541	34,677	35,934	28,198
Other materials for producing dairy products	25,202	29,346	23,347	24,574
Finished goods	43,744	57,299	49,364	35,162
	114,487	121,322	108,645	87,934

The carrying amount of our inventories increased by RMB6.8 million, or 5.9%, from RMB114.5 million as at 31 December 2012 to RMB121.3 million as at 31 December 2013, primarily due to an increase in finished goods primarily comprising milk powder as a form of raw milk reserve and modified milk, offset by a decrease in feeds and other materials to breed dairy cows as a result of better inventory control. The carrying amount of our inventories decreased by RMB12.7 million, or 10.5%, from RMB121.3 million as at 31 December 2013 to RMB108.6 million as at 31 December 2014, primarily due to an increase in inventory of finished goods primarily comprising UHT milk in 2013 to prepare for the early Chinese New Year in January 2014. The carrying amount of our inventories decreased by RMB20.7 million, or 19.1%, from RMB108.6 million as at 31 December 2014 to RMB87.9 million as at 31 March 2015, primarily due to (i) a decrease in inventory of finished goods primarily comprising modified milk products as a result of the seasonal increase in sales during the Chinese New Year period, and (ii) a decrease in feeds and other materials to breed dairy cows as a result of the subsequent usage of feeds such as silage which we generally purchase in bulk in the third and fourth quarter each year. As at 31 July 2015, approximately RMB61.5 million, or 70.0%, of our inventories as at 31 March 2015, were subsequently utilised.

The following table sets forth our inventory turnover days during the Track Record Period:

	Year ended 31 December			Three months ended 31 March
	2012	2013	2014	2015
Inventory turnover days[1]	105	124	114	90

(1) Inventory turnover days are calculated using the average of opening balance and closing balance of inventory for a year divided by the sum of cost of sales after biological asset fair value adjustments and multiplied by 365 days (90 days in the case of three months ended 31 March 2015).

Our average inventory turnover days decreased from 124 days for the year ended 31 December 2013 to 114 days for the year ended 31 December 2014, primarily due to (i) an increase in inventory of goods at the end of 2013 to prepare for the early Chinese New Year in January 2014, and (ii) our improvement on production and raw material procurement planning. Our average inventory turnover days decreased from 114 days for the year ended 31 December 2014 to 90 days for the three months ended 31 March 2015, primarily due to a decrease in average inventory as a result of an increased sales during the Chinese New Year of 2015 and subsequent usage of feeds which we generally purchase in bulk in the third and fourth quarter each year.

Trade Receivables

The following table sets forth our trade receivables as at the dates indicated:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	38,975	35,604	22,463	22,593
Less: Impairment of trade receivables	(1,114)	(1,975)	(680)	(799)
TOTAL	**37,861**	**33,629**	**21,783**	**21,794**

Our trade receivables as at 31 December 2012, 2013 and 2014 and 31 March 2015 were approximately 13.7%, 10.3%, 5.5% and 6.3% of our total current assets as at the same dates, respectively.

Although our sales increased during the Track Record Period, our trade receivables decreased from RMB37.9 million as at 31 December 2012 to RMB33.6 million as at 31 December 2013 and further to RMB21.8 million as at 31 December 2014, primarily because we strengthen our receivable collection efficiency and reduced the settlement cycle with our customers. Our trade receivables remained relatively stable at RMB21.8 million as at 31 March 2015.

The following table sets forth an aging analysis of our trade receivables that are not individually nor collectively considered to be impaired as at the dates indicated:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Less than three months	32,107	26,436	17,509	20,657
More than three but less than six months	2,843	2,308	2,426	690
More than six months but less than one year	2,822	1,297	1,303	411
More than one year but less than two years	89	3,588	545	36
	37,861	33,629	21,783	21,794

The following table sets forth our average trade receivable turnover days during the Track Record Period:

	Year ended 31 December			Three months ended 31 March
	2012	2013	2014	2015
Average trade receivable turnover days(1)	30	28	19	13

(1) The average trade receivable turnover days are calculated by dividing the average of the opening and closing balances of trade receivables for the relevant period by the corresponding turnover for the period and then multiplying by 365 days for a year (90 days in the case of three months ended 31 March 2015).

Our average trade receivable turnover days decreased from 28 days for the year ended 31 December 2013 to 19 days for the year ended 31 December 2014, primarily because we strengthened our receivable collection policy and reduced the settlement cycle with our customers. Our trade receivable turnover days decreased from 19 days for the year ended 31 December 2014 to 13 days for the three months ended 31 March 2015, primarily because we further strengthened our receivable collection policy.

Trade receivables by sales channel

The following tables set forth an aging analysis of our trade receivables that are not individually nor collectively considered to be impaired from our distributors, sales agents and direct sales customers at the dates indicated:

	As at 31 December 2012			
	Less than three months	More than three months but less than six months	More than six months but less than one year	More than one year but less than two years
	RMB'000	RMB'000	RMB'000	RMB'000
Distributors	5,174	775	19	–
Sales agents	904	179	214	–
Direct sales	26,029	1,889	2,589	89
Total	**32,107**	**2,843**	**2,822**	**89**

	As at 31 December 2013			
	Less than three months	More than three months but less than six months	More than six months but less than one year	More than one year but less than two years
	RMB'000	RMB'000	RMB'000	RMB'000
Distributors	1,295	141	110	–
Sales agents	1,684	664	60	–
Direct sales	23,457	1,503	1,127	3,588
Total	**26,436**	**2,308**	**1,297**	**3,588**

	As at 31 December 2014			
	Less than three months	More than three months but less than six months	More than six months but less than one year	More than one year but less than two years
	RMB'000	RMB'000	RMB'000	RMB'000
Distributors	679	49	236	379
Sales agents	146	146	149	8
Direct sales	16,684	2,231	918	158
Total	**17,509**	**2,426**	**1,303**	**545**

	As at 31 March 2015			
	Less than three months	More than three months but less than six months	More than six months but less than one year	More than one year but less than two years
	RMB'000	RMB'000	RMB'000	RMB'000
Distributors	1,513	185	–	11
Sales agents	940	55	55	15
Direct sales	18,204	450	356	10
Total	**20,657**	**690**	**411**	**36**

We generally require distributors and sales agents to make advance payments in full before delivery of our products. With this requirement, we are able to maintain a better position in terms of our cash flow, minimise our efforts in collecting receivables from customers and reduce our exposure to bad debts. However, for certain distributors and sales agents, we grant credit limits up to certain amount to them with no specific credit period. The credit terms granted for each distributor or sales agent are based on, amongst others, their credit history, years of relationship and their financial condition. In direct sales of our dairy products, we usually grant our customers such as supermarkets with credit period of up to three months, or receive installment payments from our customers such as local schools and education bureaus with no definite credit period. The credit terms granted to each customers are based on, amongst others, its credit history, financial condition and ability to pay.

We monitor our credit risk exposure mainly through the controlling of credit limits granted to certain of our distributors, sales agents and customers such as local schools and education bureaus, as well as our credit assessment of such distributors, sales agents and customers. Upon our satisfaction with the credit limits and credit assessments, based on which we form the view that the risks of payment default by such distributors, sales agents and customers are remote, we will grant credit limits up to certain amount with no specific credit period to them. We believe that such credit terms will allow us to maintain our long-term relationship with credible certain distributors, sales agents and customers while managing our credit risks. We ensure the recoverability of our trade receivables bearing no specific credit period by implementing our credit control procedure, including, amongst others, (i) monthly review of our outstanding trade receivables bearing no specific credit period to identify those outstanding trade receivables exceeding our pre-approved credit limits, if any, (ii) periodically interview with our relevant distributors, sales agents and customers to identify the deterioration of their credibility, and (iii) suspension of our dairy product supply to the relevant distributors, sales agents and customers upon their default and sought their immediate payments. As at 31 March 2015, the amount of net trade receivables with no specific credit period was approximately RMB4.9 million and among which, RMB4.2 million, representing approximately 85.2% of our net trade receivables with no specific credit period were subsequently settled as at 31 July 2015.

Our trade receivables as at 31 December 2012, 2013, 2014 and 31 March 2015 were approximately 13.7%, 10.3%, 5.5% and 6.3% of our total current assets as at the relevant dates, respectively.

The Directors confirm that none of our net trade receivables as at 31 December 2012, 2013, 2014 and 31 March 2015 was considered past due and they believe that no impairment allowance is necessary in respect of these balances which are considered fully recoverable. As at the Latest Practicable Date, (i) our net trade receivables as at 31 December 2012 and 2013 had been fully settled; (ii) approximately RMB20.8 million, or 95.7%, of our net trade receivables as at 31 December 2014 had been settled and (iii) approximately RMB20.0 million, or 92.0%, of our net trade receivables as at 31 March 2015 had been settled.

The following table sets forth our average trade receivable turnover days by sales channel during the Track Record Period:

	Year ended 31 December			Three months ended 31 March
	2012	**2013**	**2014**	**2015**
Average trade receivable turnover days(1)				
Distributors	9	6	2	2
Sales agents	5	5	3	1
Direct sales	116	106	130	129
Total	**30**	**28**	**19**	**13**

(1) The average trade receivable turnover days are calculated by dividing the average of the opening and closing balances of trade receivables for the relevant period by the corresponding turnover for the period and then multiplying by 365 days for a year (90 days in the case of three months ended 31 March 2015). The average trade receivable turnover days for distributors, sales agents and direct sales customers for the year ended 31 December 2012 are calculated by dividing the closing balance of trade receivable by turnover for the period and then multiplying by 365 days for a year (90 days in the case of three months ended 31 March 2015).

During the Track Record Period, the range of our average trade receivable turnover days for distributors, sales agents and direct sales customers was 2-9 days, 1-5 days, 106-130 days, respectively. The average trade receivable turnover days for each sales channel were in line with our credit policy towards our distributors, sales agents and direct sales customers during the Track Record Period.

Trade and Bills Payables

The following table sets forth our trade and bills payables as at the dates indicated:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable for purchase of raw milk, packing material and auxiliary material	43,204	45,031	55,366	52,863
Trade payable for purchase of forage and veterinary medicine	6,290	7,562	13,781	7,759
Bills payable	–	–	40,912	5,089
TOTAL	**49,494**	**52,593**	**110,059**	**65,711**

Our trade and bills payables increased by RMB3.1 million, or 6.3%, from RMB49.5 million as at 31 December 2012 to RMB52.6 million as at 31 December 2013, primarily due to the growth and expansion of our business. Our trade payables increased by RMB57.5 million, or 109.3%, from RMB52.6 million as at 31 December 2013 to RMB110.1 million as at 31 December 2014, primarily due to the growth and expansion of our business. In addition, we had obtained a new short term financing channel in the form of bills payable extended to us by banks in 2014. Our trade and bills payable decreased by RMB44.3 million, or 40.3%, from RMB110.1 million as at 31 December 2014 to RMB65.7 million as at 31 March 2015, primarily due to the settlement of bills payable most of which were issued during the second half of 2014 and were due within six months upon issuance.

As at the Latest Practicable Date, approximately RMB64.2 million, or 92.4%, of our trade payables as at 31 March 2015 were settled.

The following table sets forth an aging analysis of our trade payables as at 31 December 2012, 2013, 2014 and 31 March 2015:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Less than three month	40,861	44,358	58,608	24,645
More than three but less than six months	3,478	2,097	42,218	34,042
More than six months but less than one year	1,213	1,446	3,466	4,303
More than one but less than two years	286	883	1,322	1,280
More than two years	3,656	3,809	4,445	1,441
	49,494	52,593	110,059	65,711

The following table sets forth our trade and bills payable turnover days during the Track Record Period:

	Year ended 31 December			Three months ended 31 March
	2012	2013	2014	2015
Trade and bills payable turnover days[(1)]	59	54	80	80

(1) The average trade payable turnover days are calculated by dividing the average of the opening and closing balances of trade payables for the relevant period by the cost of sales for the period and then multiplying by 365 days for a year (90 days in the case of three months ended 31 March 2015).

Our suppliers generally grant us a credit period of one to three months. Our average trade and bills payable turnover days increased from 54 days for the year ended 31 December 2013 to 80 days for the year ended 31 December 2014 primarily due to the short term financing in the form of bill payable extended to us by local banks in 2014. Our average trade and bills payable turnover days remained at 80 days for the three months ended 31 March 2015.

INDEBTEDNESS

The table below sets forth the Group's total outstanding indebtedness as of the dates indicated:

	At 31 December			As at 31 March	As at 31 July
	2012	2013	2014	2015	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Bank loans	338,000	453,000	450,000	450,000	437,500
Obligations under finance leases	11,501	14,196	10,268	8,722	6,843
Total	**349,501**	**467,196**	**460,268**	**458,722**	**444,343**

Bank Loans

Our bank loans during the Track Record Period were primarily short term, and all denominated in Renminbi. The following table sets forth a breakdown of our secured and unsecured bank loans as at the dates indicated:

	As at 31 December			As at 31 March	As at 31 July
	2012	2013	2014	2015	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current					
Secured short-term bank loans	80,000	120,000	251,500	251,500	301,500
Guaranteed short-term bank loans	10,000	40,000	50,000	50,000	10,000
Secured and guaranteed short-term bank loans	170,000	200,000	70,000	70,000	20,000
Credit short-term bank loans	–	–	–	–	30,000
Current portion of guaranteed long-term bank loans	6,000	6,500	5,000	5,000	5,500
TOTAL	**266,000**	**366,500**	**376,500**	**376,500**	**367,000**
Non-current					
Guaranteed long-term bank loans	33,000	51,000	44,500	44,500	42,000
Secured and guaranteed long-term bank loans	45,000	42,000	34,000	34,000	34,000
Less: current portion of guaranteed long-term bank loans	(6,000)	(6,500)	(5,000)	(5,000)	(5,500)
	72,000	**86,500**	**73,500**	**73,500**	**70,500**
TOTAL	**338,000**	**453,000**	**450,000**	**450,000**	**437,500**

The total outstanding amount of our bank loans increased by RMB115.0 million, or 34.0%, from RMB338.0 million as at 31 December 2012 to RMB453.0 million as at 31 December 2013, and then decreased by RMB3.0 million, or 0.7%, to RMB450.0 million as at 31 December 2014, and remained at RMB450.0 million as at 31 March 2015. The outstanding amount of our bank loans as at 31 December 2013 increased as compared to that as at 31 December 2012, primarily due to the increase in bank loans to finance our operations. As at 31 July 2015, we had total outstanding amount of bank loans of RMB437.5 million.

The annual interest rates of our fixed rate bank loans ranged from 6.0% to 6.9%, 6.0% to 7.5%, 5.6% to 8.1%, 5.6% to 8.1% and 5.1% to 8.0% for the years ended 31 December 2012, 2013 and 2014, for the three months ended 31 March 2015 and for the seven months ended 31 July 2015, respectively. The annual interest rates of our variable rate bank loans ranged from 6.8% to 7.5%, 6.6% to 7.0%, 6.2% to 6.8%, 5.6% to 6.5% and 5.1% to 5.9% for the years ended 31 December 2012, 2013 and 2014, for the three months ended 31 March 2015 and for the seven months ended 31 July 2015, respectively.

As at 31 December 2012, 2013, 2014, 31 March 2015 and 31 July 2015, approximately RMB165.0 million, RMB232.0 million, RMB254.0 million, RMB254.0 million and RMB274.0 million of our outstanding bank loans were secured by our Group's assets with an aggregate net book value of RMB487.9 million, RMB464.9 million, RMB590.0 million, RMB593.4 million and RMB610.2 million, respectively.

Mr. Ma Hongfu, our Controlling Shareholder, by himself or jointly with third parties guaranteed certain of our bank loans up to RMB252.0 million, RMB331.0 million, RMB188.5 million, RMB188.5 million and RMB76.0 million as at 31 December 2012, 2013 and 2014, 31 March 2015 and 31 July 2015, respectively. Some of these guaranteed loans have been fully repaid and the remaining outstanding guarantees provided by Mr. Ma Hongfu will be fully released before or upon the Listing. For more information, please see the section headed "Relationship with Controlling Shareholders".

There are no material covenants relating to our outstanding bank loans which would impact or restrict our ability to undertake additional debt or equity financing. Our Directors have confirmed that our Group has not had any material default with regard to our trade or other payables or any bank borrowings, and has not breached any covenants in our bank borrowings during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not experienced any difficulty in obtaining credit facilities or withdrawal of facilities, request for early repayment or default in payments. Except for short-term borrowings as described under "– Working Capital", our Directors have confirmed that we do not have any plan to raise additional external debt financing as of the Latest Practicable Date.

Except as disclosed above, as at 31 July 2015, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees. We confirm that, up to the Latest Practicable Date, there had not been any material adverse change in our indebtedness position since 31 July 2015.

Contingent Liabilities

As at the Latest Practicable Date, we did not have any material contingent liabilities that will have a material adverse effect on our financial position, liquidity or results of operation.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not enter into any off-balance sheet transactions or arrangements.

WORKING CAPITAL

The table below sets forth our current assets, current liabilities and net current liabilities as at the dates indicated:

	As at 31 December			As at 31 March	As at
	2012	2013	2014	2015	31 July 2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Inventories	114,487	121,322	108,645	87,934	61,866
Trade receivables	37,861	33,629	21,783	21,794	23,597
Deposits, prepayments and other receivables	27,944	32,593	23,866	20,277	34,803
Pledged deposit	6,255	6,271	26,748	8,842	18,331
Cash and cash equivalents	89,316	132,323	215,454	205,826	193,223
	275,863	326,138	396,496	344,673	331,820
Current liabilities					
Trade and bills payables	49,494	52,593	110,059	65,711	80,164
Receipts in advance	10,339	17,514	28,107	10,120	6,081
Accrued expenses and other payables	38,199	46,742	46,549	51,027	48,599
Non-current liabilities due within one year	4,627	7,386	13,865	10,332	10,640
Bank loans	266,000	366,500	376,500	376,500	367,000
Current taxation	2,821	5,985	11,808	12,553	8,771
	371,480	496,720	586,888	526,243	521,255
Net current liabilities	(95,617)	(170,582)	(190,392)	(181,570)	(189,435)

Our net current liabilities increased from RMB95.6 million as of 31 December 2012 to RMB170.6 million as at 31 December 2013, and to RMB190.4 million as of 31 December 2014. The increase in our net current liabilities during the Track Record Period primarily reflected our funding needs to purchase and breed dairy cows and to support our continuing investment in property, plant and equipment related to dairy farms and production facilities to expand our business, which was primarily financed through short-term bank loans. Our net current liabilities decreased from RMB190.4 million as of 31 December 2014 to RMB181.6 million as of 31 March 2015, primarily due to the settlement of bills payable which were issued in the second half of 2014 and were due within six months upon issuance, offset by the decrease in investing and pledged deposit. Our short-term loans increased significantly, totaling RMB266.0 million, RMB366.5 million, RMB376.5 million and RMB376.5 million as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively. Our net current liabilities remained relatively stable which amounted to RMB189.4 million as at 31 July 2015. As at 31 July 2015, we had short-term loans in an aggregate amount of RMB367.0 million. Our short-terms bank loans accounted for approximately 71.6%, 73.8%, 64.2%, 71.5% and 69.6% of our total current liabilities as at 31 December 2012, 2013, 2014, 31 March 2015 and 31 July 2015 respectively.

Our future cash requirements will depend on many factors, including our operating income, market acceptance of our products, services or other changing business conditions and future developments, including any potential investments or acquisitions we may decide to pursue. We may require additional cash to repay existing debt obligations or to re-finance our existing debts due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our Shareholders' interests in our Company. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our Shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may be adversely affected.

For the years ended 31 December 2012, 2013 and 2014, our Group has been able to generate an increasing amount of cash inflow from operations for each year. Our cash inflow from operations increased from RMB30.9 million for the year ended 31 December 2012 to RMB242.1 million for the year ended 31 December 2014 and our balance of cash and cash equivalents has increased from RMB89.3 million as at 31 December 2012 to RMB215.5 million as at 31 December 2014. For the three months ended 31 March 2015, our cash used in operating activities was RMB4.9 million. The cash outflow was primarily due to the settlement by banks of bills payable, most of which were issued during the second half of 2014 and were due within six months upon issuance despite our cash generated by our operations before change in working capital amounted to RMB36.4 million. Our balance of cash and cash equivalents was RMB205.8 million as at 31 March 2015. To secure the continuous provision of bank facilities, we have obtained pre-approval letters from our lending banks pursuant to which the banks agreed to conditionally renew the credit facilities under the same terms if we can repay the outstanding loans drawn down under these facilities in full when they become due and payable. The amount of the credit facilities stated in these letters aggregated approximately RMB432.0 million. Our Group is confident to meet the said condition to repay the outstanding loans in full when they become due because our Group has been maintaining sizeable balance of cash and cash equivalents during the year to cater for such purpose.

The amount of capital expenditure to be incurred in 2015 and 2016 is expected to be approximately RMB57.8 million and RMB234.2 million, respectively. Our Group's major capital expenditure and future development will be financed according to our plan as stated in the section headed "Future Plans and Use of Proceeds" in this prospectus. Other capital expenditure and future development plan other than those stated in the section headed "Future Plans and Use of Proceeds" in this prospectus will be financed by internal resources including but not limited to our Group's prevailing available cash and cash equivalents, anticipated cash from operations and bank loans.

Our Directors confirm that, taking into account of our current cash and cash equivalents, anticipated cash flow from operations, proceeds from the Global Offering and the confirmation of credit facilities based on the pre-approval letters obtained from the relevant lending banks, we will have sufficient working capital to meet our anticipated cash needs, including our working capital and capital expenditures requirements for at least the next 12 months from the date of this prospectus.

After due consideration and discussion with our management and based on the above, the Sole Sponsor has no reason to believe that we cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as at the dates indicated:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
Current ratio(1)	0.74	0.66	0.68	0.65
Net gearing ratio(2)	65.8%	77.9%	49.4%	49.4%
Quick ratio(3)	0.43	0.41	0.49	0.49
Return on equity(4)	14.7%	8.4%	14.1%	13.3%
Return on assets(5)	7.1%	3.6%	5.8%	5.7%

Notes:

(1) Current assets/current liabilities.

(2) (Debts including bank loans and obligations under finance leases – cash and cash equivalents as at the ending of the year/period)/total equity x 100%.

(3) (Current assets – inventory)/current liabilities.

(4) Net profit for the period after biological asset fair value adjustments/(total equity as at the beginning of the period + total equity as at the ending of the period)/2 x 100%. Net profit for the period after biological asset fair value adjustments is calculated on an annualised basis of 365/90 for the three months ended 31 March 2015.

(5) Net profit for the period after biological asset fair value adjustments/(total assets as at the beginning of the period + total assets as at the ending of the period)/2 x 100%. Net profit for the period after biological asset fair value adjustments is calculated on an annualised basis of 365/90 for the three months ended 31 March 2015.

Our current ratio decreased from 0.74 as at 31 December 2012 to 0.66 as at 31 December 2013, primarily due to the increase in our bank borrowings in connection with our expansion of our dairy farm business. Our current ratio slightly decreased from 0.68 as at 31 December 2014 to 0.65 as at 31 March 2015.

Our net gearing ratio increased from 65.8% as at 31 December 2012 to 77.9% as at 31 December 2013, primarily due to the increase in our bank borrowings in connection with our business growth. To support our growth, we borrowed significant amount of bank loans to fund our daily operations and capital expenditures for purchases of dairy cows, construction of Lanzhou Ruixing dairy farm and improvement and expansion of our production plants. Our net gearing ratio decreased from 77.9% as at 31 December 2013 to 49.4% as at 31 December 2014, primarily due to an increase in profit in 2014. Our net gearing ratio remained at 49.4% as at 31 March 2015.

Our quick ratio was 0.43 and 0.41 as at 31 December 2012 and 2013. Our quick ratio increased from 0.41 as at 31 December 2013 to 0.49 as at 31 December 2014, primarily due to a significant increase in cash and cash equivalents. Our quick ratio remained at 0.49 as at 31 March 2015.

Our return on equity decreased from 14.7% for the year ended 31 December 2012 to 8.4% for the year ended 31 December 2013, primarily due to significant decrease in our net profit in 2013 mainly attributable to the increase in our net finance costs and loss arising from changes in fair value less costs to sell of biological assets in 2013. Our return on equity increased from 8.4% for the year ended 31 December 2013 to 14.1% for the year ended 31 December 2014, primarily due to a significant increase in our net profit. Our return on equity slightly decreased to 13.3% as at 31 March 2015.

Our return on assets decreased from 7.1% for the year ended 31 December 2012 to 3.6% for the year ended 31 December 2013, and then increased to 5.8% for the year ended 31 December 2014. The decrease in 2013 was primarily due to a significant decrease in our net profit in 2013 mainly attributable to the increase in our net finance costs and loss arising from changes in fair value less costs to sell of biological assets in 2013. The increase in 2014 was primarily due to the increase in our net profit in 2014. Our return on assets slightly decreased to 5.7% as at 31 March 2015.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

To date, we have primarily financed our operations through cash from our operations and proceeds from bank loans. As at 31 March 2015, we had RMB205.8 million in cash and cash equivalents, all of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash on hand and demand deposits. In the future, we expect to continue to mainly rely on our cash flow from operations and bank loans to fund our working capital needs and will use the proceeds from the Global Offering to finance part of our business expansion.

The following table presents selected cash flow data from our consolidated cash flow statements for the periods indicated:

	Year ended 31 December			Three months ended 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at the beginning of the year	62,695	89,316	132,323	215,454
Net cash generated from/(used in) operating activities	30,903	103,772	242,096	(4,926)
Net cash generated from/(used in) investing activities	(126,430)	(144,082)	(121,285)	7,235
Net cash generated from/(used in) financing activities	122,148	83,317	(37,680)	(11,937)
Cash and cash equivalents at the end of the year/period	89,316	132,323	215,454	205,826

Operating Activities

Cash used in operating activities for the three months ended 31 March 2015 was RMB3.0 million and primarily consisted of profit before taxation of RMB19.0 million, as adjusted for non-cash and non-operating items and the effects of negative changes in working capital. Adjustment for non-cash and non-operating items primarily included RMB9.5 million of depreciation and amortisation expenses, RMB7.3 million of interest expenses on bank loans, and RMB4.3 million of loss arising from changes in fair value less costs to sell of biological assets. Negative changes in working capital primarily consisted of a decrease of RMB44.3 million in trade and bills payable resulting from bills payable, which were issued in the second half of 2014 and were due within six months upon issuance and a decrease of RMB18.0 million in receipts in advance for sales of products during 2015 Chinese New Year period which was offset by the decrease in inventories and deposits, prepayments and other receivables.

Cash generated from operating activities for the year ended 31 December 2014 was RMB244.9 million and primarily consisted of profit before taxation of RMB73.7 million, as adjusted for non-cash and non-operating items and the effects of positive changes in working capital. Adjustment for non-cash and non-operating items primarily included RMB33.8 million of depreciation and amortisation expenses, RMB26.8 million of interest expenses on bank loans, and RMB14.7 million of loss arising from changes in fair value less costs to sell of biological assets. Positive changes in working capital primarily consisted of an increase of RMB57.5 million in trade and bills payable, a decrease of RMB17.6 million in inventories due to late Chinese New Year holiday in 2015, which means that we could stock up inventories in early 2015 only while we had to stock up inventory in the end of 2013 for early Chinese New Year in January 2014, a decrease of RMB13.1 million in trade receivables because we strengthened our receivable collection policy and reduced the settlement cycle with our customers and an increase of RMB10.6 million in advanced payment from distributors as a result of improved enforcement of our policy in requiring distributors and sales agents to make advanced payments to us at the time when they place orders.

Cash generated from operating activities for the year ended 31 December 2013 was RMB105.3 million and primarily consisted of profit before taxation of RMB38.2 million, as adjusted for non-cash and non-operating items and the effects of positive changes in working capital and other activities. Adjustment for non-cash and non-operating items primarily included RMB31.2 million of depreciation and amortisation expenses, RMB25.8 million of interest expenses on bank loans and RMB10.5 million of loss arising from changes in fair value less costs to sell of biological assets, partially offset by RMB10.7 million of government grants amortisation. Positive changes in working capital primarily consisted of a decrease in trade receivables from customers of RMB3.4 million, an increase in trade and bills payable to our suppliers of RMB3.1 million and an increase in advanced payment from distributors of RMB7.2 million, partially offset by an increase in deposits, prepayments and other receivables of RMB4.8 million primarily for equipment parts and components used in our operations.

Cash generated from operating activities for the year ended 31 December 2012 was RMB31.1 million and primarily consisted of profit before taxation of RMB55.5 million, as adjusted for non-cash and non-operating items and the effects of negative changes in working capital. Adjustment for non-cash and non-operating items primarily included RMB22.5 million of depreciation and amortisation expenses and RMB16.2 million of interest expenses on bank loans. Negative changes in working capital primarily consisted of an increase of RMB50.2 million in inventories due to the increase in inventory of feeds as a result of the expansion of our dairy farming operations, and a decrease of RMB7.5 million in accrued expenses and other payables as a result of settlement of payables for equipment and materials, partially offset by a decrease of RMB4.0 million in deposits, prepayments and other receivables as a result of a decrease in receivable from third parties as the Group improved debts collection in 2012 and an increase in advanced payment from distributors of RMB4.2 million.

Investing Activities

Cash generated from investing activities was RMB7.2 million for three months ended 31 March 2015 and was primarily attributable to a decrease in pledged deposit of RMB17.9 million for bills payable resulting from the settlement of the bill payables which were issued in second half of 2014 and were due within six months upon issuance, cash received from government grants of RMB3.9 million and proceeds from disposal of biological assets of RMB2.4 million, partially offset by payments for purchase of property, plant and equipment of RMB12.5 million in connection with expansion of our diary farm operation and payments for breeding cost of calves and heifers of RMB6.4 million.

Cash used in investing activities was RMB121.3 million for the year ended 31 December 2014 and was primarily attributable to purchase of property, plant and equipment of RMB81.3 million primarily in connection with the construction of Lanzhou Ruixing dairy farm and the biofertilizer project in Qinghai Shengya dairy farm to dispose cow wastes, payments for breeding cost of calves and heifers of RMB22.2 million as a result of the expansion of our herd size, an increase in pledged deposit of RMB20.5 million for bills payable and payments for purchase of additional dairy cows of RMB14.9 million for the year ended 31 December 2014.

Cash used in investing activities was RMB144.1 million for the year ended 31 December 2013 and was primarily attributable to purchase of property, plant and equipment of RMB84.1 million primarily in connection with the construction of new dairy farms and the expansion of production equipment for the year ended 31 December 2013 as part of our continuous effort to expand our Cold Chain Liquid Milk Product manufacturing capability, payments for breeding cost of calves and heifers of RMB21.2 million as a result of the expansion of our herd size and payments for purchase of additional dairy cows of RMB12.4 million and net payments of RMB23.9 million relating to advances to third parties partially offset by cash received from government grants of RMB29.0 million.

Cash used in investing activities was RMB126.4 million for the year ended 31 December 2012 and was primarily attributable to purchase of property, plant and equipment of RMB99.1 million primarily in connection with the expansion of new dairy farms and production equipment in 2012 as part of our continuous effort to expand our Cold Chain Liquid Milk Product manufacturing capability, payments for breeding cost of calves and heifers of RMB14.8 million as a result of the expansion of our herd size and payments for purchase of additional dairy cows of RMB17.2 million, partially offset by cash received from government grants of RMB17.0 million.

Financing Activities

Cash used in financing activities was RMB11.9 million for the three months ended 31 March 2015 and was primarily attributable to interest of RMB7.3 million and cash paid relating to other financing activities of RMB4.7 million.

Cash used in financing activities was RMB37.7 million for the year ended 31 December 2014 and was primarily attributable to the repayments of banks loans of RMB374.5 million and interest of RMB27.8 million. These amounts were partially offset by proceeds from new bank loans of RMB371.5 million.

Cash generated from financing activities was RMB83.3 million for the year ended 31 December 2013 and was primarily attributable to proceeds from new bank loans of RMB384.0 million, partially offset by the repayments of banks loans of RMB269.0 million and interest of RMB26.0 million.

Cash generated from financing activities was RMB122.1 million for the year ended 31 December 2012 and was primarily attributable to proceeds from new bank loans of RMB345.0 million, partially offset by the repayments of banks loans of RMB199.0 million and interest of RMB17.0 million.

Capital Expenditures

During the Track Record Period, our capital expenditures were primarily related to acquisitions of property, plant and equipment, lease prepayments and purchase of dairy cows. The following table sets forth a breakdown of our capital expenditure for the periods indicated:

	Year ended 31 December			Three months ended 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	112,696	95,138	85,581	19,698
Lease prepayments	1,851	3,195	130	–
Purchase of dairy cows	17,174	9,773	17,483	–
TOTAL	**131,721**	**108,106**	**103,194**	**19,698**

We estimate that our total capital expenditures for the year ending 31 December 2015 and two years thereafter will increase as our business operations continue to expand. Our planned future capital expenditures in the foreseeable future primarily relate to purchase of dairy cows and purchase and upgrade of our production facilities. We anticipate that these capital expenditures will be financed primarily with our existing cash and cash equivalents, cash flow generated from operating activities, bank loans and proceeds from the Global Offering. Please refer to the section headed "Future Plans and Use of Proceeds" for further information.

Commitments

Operating Lease Commitments

We lease the land use rights of our dairy farms and office buildings under operating lease arrangements. The following table sets forth our future aggregate minimum lease payment receivables under non-cancellable operating leases as at the end of the relevant reporting periods:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,138	744	1,239	824
After one year but within five years	3,972	4,025	4,520	4,539
After five years	17,207	16,409	14,676	14,093
TOTAL	**22,317**	**21,178**	**20,435**	**19,456**

Capital Commitments

The following table sets forth the outstanding balance of capital commitments as at the end of the relevant reporting periods:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	–	23,625	3,724	9,106
Authorised but not contracted for	–	–	14,653	13,201
	–	23,625	18,377	22,307

The outstanding balance of capital commitments as of 31 December 2013 primarily reflected our contractual commitment for purchase of dairy cows. The outstanding balance of capital commitments as at 31 December 2014 primarily represented our capital commitments for the construction of Lanzhou Ruixing dairy farm. The outstanding balance of capital commitments as at 31 March 2015 primarily represented capital commitments for the construction of Lanzhou Ruixing dairy farm and our contractual commitment for processing and packaging equipment.

MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including credit risk and liquidity risk, interest rate risk, as well as changes in the selling prices for our main products and costs of raw materials. We manage our exposure to these and other market risks through regular operating and financial activities.

Credit Risk

Our credit risk is primarily attributable to trade receivables. Our management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk of our other financial assets, which comprise cash and bank balances, and deposits, prepayments and other receivables, arise from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within around three months from the date of billing, except for certain customers to whom specific credit period or credit limit are granted. Normally, the Group does not obtain collateral from customers.

Our credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. At 31 December 2012, 2013, 2014 and 31 March 2015, 1.3%, nil, nil and nil of the total trade receivables were due from our largest customer and 5.8%, 8.3%, nil and nil were due from the five largest customers within the dairy farming and dairy product production segments respectively. The total trade receivables due from the five largest customers increased from 5.8% as at 31 December 2012 to 8.3% as at 31 December 2013, primarily due to an increase in the number of local education bureau customers among our five largest customers and the fact that we usually grant indefinite credit periods to these education bureau customers. Due to the change to a less frequent governmental milk consumption requirement for students in certain areas in Gansu and Qinghai, we no longer have any education bureaus among our five largest customers since 2014. In addition, we have gradually tightened our credit policy offered to our customers in general. As a result, we did not record significant trade receivables from the five largest customers as at 31 December 2014 and 31 March 2015, respectively. The overall tightened credit limits granted to our distributors, sales agents and customers are our internal measures taken to effectively control our credit risk exposure. According to the Frost and Sullivan Report, there is no specific industry norms of payment credit terms granted by dairy companies to their customers and the practice with respect to credit policy varies case-by-case among different dairy companies.

Liquidity Risk

Our liquidity is primarily dependent on our ability to maintain adequate cash inflow from our operations to meet our debt obligations as they become due, and our ability to obtain external financing to meet our committed future capital expenditures.

We regularly monitor our current and expected liquidity requirements and our compliance with payment covenants to ensure that we maintain sufficient reserves of cash and adequate credit lines from major financial institutions to meet our liquidity requirements in the short and longer terms. However, although we believe we will be able to fund our outstanding commitments, we are subject to various risks and uncertainties in our ability to do so. We believe we are taking all necessary measures to maintain sufficient liquidity reserves to support the sustainability and growth of our business in the current circumstances and to repay our outstanding debt obligations when they become due.

Interest Rate Risk

Our interest rate risk related primarily to our interest bearing bank loans during the Track Record Period. The interest rates of some of our bank loans during the Track Record Period were floating interest rates, any upward fluctuations in interest rates could increase the cost of debts and directly affect our net profit and operating cash flow.

Commodity Price Risk

We are also exposed to commodity price risk from changes in the prices of our products, raw milk and the cost of raw materials and packaging materials. Fluctuation on commodity price of raw milk, raw materials and packaging materials due to various factors beyond our control, including increasing market demand, inflation, severe climatic and environmental conditions, currency fluctuations, changes in governmental and agricultural regulations and programmes and other factors, will have a significant impact on our earnings, cash flow as well as the value of our inventories. We have not historically entered into any commodity derivative instruments to hedge our potential commodity price changes. We also expect that our raw material prices will continue to fluctuate in the future.

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 its business and maximise shareholders' value. We manage our capital structure and make adjustment to it in 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. Consistent with others in the industry, we monitor capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by total equity. Our net gearing ratio was 65.8%, 77.9%, 49.4% and 49.4% as at 31 December 2012, 2013, 2014 and 31 March 2015, respectively.

VALUATION OF BIOLOGICAL ASSETS

The Independent Valuer

Dairy Cows

We have engaged Jones Lang LaSalle, an independent valuer, to determine the fair value of our dairy cows as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively. For the purposes of valuing our biological assets as at each valuation date, the key valuer team members are Mr. Simon M.K. Chan and Professor T.Y. Gao.

Qualification of JLL as the Independent Valuer

We have engaged Jones Lang LaSalle, a firm of independent qualified professional valuers, to determine the fair value of our dairy cows for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively. The key member of the Jones Lang LaSalle valuers are Mr. Simon M.K. Chan and Professor T.Y. Gao.

Mr. Simon Chan, regional director at Jones Lang LaSalle, is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Fellow of CPA Australia. He is also a Certified Valuation Analyst (CVA), a member of The International Association of Consultants, Valuers and Analysts (IACVA). Simon oversees the business valuation services of Jones Lang LaSalle and has over 15 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in China, Hong Kong, Singapore and the United States. Simon oversaw the valuation of biological assets for the initial public offerings and subsequent financial reports of China Modern Dairy Holdings Ltd (1117.HK), China Huishan Dairy Holdings Company Limited (6863.HK), and YuanShengTai Dairy Farm Limited (1431.HK). He also led the valuation of other biological assets, such as hogs, trees, rabbits and chickens, for financial reporting purpose of Hong Kong listed companies including Chenming Paper (1812.HK), China Mengniu Dairy Company Limited (2319.HK) and Kangda Food (834.HK), as well as numerous private companies.

Mr. 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 Utilisation 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 utilisation 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.

Based on market reputation and relevant background research, our Directors and the Sole Sponsor are satisfied that Jones Lang LaSalle is independent from us and is competent in conducting a valuation on our biological assets.

Based on market reputation and relevant background research, our Directors are satisfied that Jones Lang LaSalle is independent from us and are competent in conducting a valuation on our biological assets.

Valuation Method

Dairy cows

Calves and heifers

A market-based approach is adopted by Jones Lang LaSalle to value our calves and heifers, because recent market-based prices for heifers at a certain age exist near each reporting date and therefore the fair value of the calves and heifers is developed through the application of the market approach with reasonable adjustments to reflect age and potential milk yield differences.

Milkable cows

An income-based approach is adopted by Jones Lang LaSalle to value our milkable cows, primarily because there is no reliable market-based price for dairy cow at this stage. In general, raisers of dairy cows do not sell dairy cows that are milkable, as milking generate more profit in the long run than the sales of dairy cows. As a result, the fair value of the milkable cows is developed through the application of an income approach technique known as multi-period excess earnings method ("MEEM"). MEEM is a derivative of the discounted cash flow ("DCF") method. Using this technique, Jones Lang LaSalle estimates the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalised at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, 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 offset. The net income projection is then adjusted by certain economical capital charges. The capital charges include returns on the assets that are used or used up in the generation of the subject biological assets income projection. Examples of such assets include fixed assets, assembled workforce and working capital.

Our Directors and the Sole Sponsor held various discussions with Jones Lang LaSalle in relation to their methodologies and procedures required to prepare their valuation report. Our Directors and the Sole Sponsor further compared the valuation methodologies chosen with those used by the industry peers, and understood that the valuation methodology adopted by Jones Lang LaSalle is a common and customary valuation practice used for valuing the Group's biological assets. Our Directors and the Sole Sponsor are satisfied that the valuation methodologies chosen are appropriate and reasonable.

Key Assumptions and Inputs

Dairy cows

Key inputs for valuing our dairy cows are the number and classification of dairy cows. Based on maturity stages, our dairy cows are classified into calves and heifers and milkable cows. Different valuation approaches are adopted for calves and heifers and milkable cows.

Calves and heifers

The key inputs and assumptions for valuing our calves and heifers are the per head market price for 14 months old heifers, which were RMB15,000, RMB16,000 and RMB16,000 (local species), RMB22,000 (import species) and RMB16,000 (local species), RMB22,000 (import species) as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively.

Milkable cows

The key assumptions and inputs include the revenues from milking the dairy cows and the costs associated with the milkable cows. Jones Lang LaSalle also assumes that there will be no material change in the existing political, legal, technological, financial or economic condition which may adversely affect our business. In deriving the residual cash flow of the milkable cows, Jones Lang LaSalle has deducted returns on contributory assets, which represent charges for the use of contributory assets employed to support the milkable cows and help generate revenue. Our Directors confirmed, and the Sole Sponsor concurred, that the key bases and assumptions used by Jones Lang LaSalle in the valuation process are consistent with those used by the industry peers and are appropriate and reasonable.

The key assumptions and inputs for calculating the revenues from milking include the following:

- The number of and the respective estimated culling rates and calf birth rates for, milkable cows at different lactation stages.
- The milk yield rate as adjusted by an estimated spoilage rate at different lactation stages.
- The prices for raw milk produced by, and female and male calves given birth by, milkable cows at different lactation stages.

Based on the above assumptions, the total revenue from our milkable cows as forecasted in the valuation process as at 31 March 2015 is approximately RMB243.9 million.

The key assumptions and inputs for calculating the costs associated with raising the milkable cows include the following:

- feeds;
- salary, welfare and social insurance; and
- others.

Based on the above assumptions, the total costs in relation to our milkable cows as forecasted in the valuation process as at 31 March 2015 is approximately RMB151.5 million.

The Directors and the Sole Sponsor discussed with Jones Lang LaSalle in relation to their methodologies, procedures, key bases and assumptions and understand that Jones Lang LaSalle has conducted the biological asset valuation in accordance with International Accounting Standard 41 – Agriculture, issued by the International Accounting Standards Board and with reference to the International Valuation Standards, issued by the International Valuation Standards Council. The key assumptions, as detailed above, are made based on the historical actual operation performance of the Company. Jones Lang LaSalle has obtained and discussed with us regarding the historical actual operation data from us, and considered and reviewed whether they are appropriate and reasonable to be used in the valuation. Jones Lang LaSalle confirmed that their valuation procedures provide a reasonable basis for their opinion, the inputs used in the valuation technique are appropriate and reasonable. Both the Sole Sponsor and Jones Lang LaSalle have obtained and reviewed, on a sampling basis, the supporting documents which recorded operating data of milkable cows, including milk yield, movement in the quantity of dairy cows by age group and calving activities. Our Directors and the Sole Sponsor confirm that the key bases and assumptions adopted are consistent with industry practice and in line with the actual figures during the Track Record Period.

Sensitivity Analysis

The following tables illustrate the sensitivity of the estimated fair value of milkable cows that would arise if the key inputs had changed as at 31 March 2015, assuming all other variables remained constant.

Milk price sensitivity

Assumed Milk Price:	4.1	RMB/kg						
% Change in Milk Price	10.0%	5.0%	2.0%	1.0%	–1.0%	–2.0%	–5.0%	–10.0%
Corresponding Valuation Result (RMB'000)	67,286	60,723	56,785	55,473	52,848	51,535	47,598	41,035
Change in Valuation Result (RMB'000)	13,126	6,563	2,625	1,313	(1,312)	(2,625)	(6,562)	(13,125)
% Change in Valuation Result	24.2%	12.1%	4.8%	2.4%	(2.4%)	(4.8%)	(12.1%)	(24.2%)

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

Discount rate sensitivity

Assumed Discount Rate:	12.8%							
% Change in Discount Rate	5.0%	3.0%	2.0%	1.0%	–1.0%	–2.0%	–3.0%	–5.0%
Corresponding Valuation Result (RMB'000)	49,166	51,056	52,053	53,087	55,275	56,432	57,636	60,188
Change in Valuation Result (RMB'000)	(4,994)	(3,104)	(2,107)	(1,073)	1,115	2,272	3,476	6,028
% Change in Valuation Result	(9.22)%	(5.73)%	(3.89)%	(1.98)%	2.06%	4.19%	6.42%	11.13%

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

Feed cost sensitivity

Assumed Feed Costs:	2.30	RMB/kg						
% Change in Feed Costs	10.0%	5.0%	2.0%	1.0%	–1.0%	–2.0%	–5.0%	–10.0%
Corresponding Valuation Result (RMB'000)	46,609	50,385	52,650	53,405	54,915	55,671	57,936	61,712
Change in Valuation Result (RMB'000)	(7,551)	(3,775)	(1,510)	(755)	755	1,511	3,776	7,552
% Change in Valuation Result	(13.9%)	(7.0%)	(2.8%)	(1.4%)	1.4%	2.8%	7.0%	13.9%

The estimated fair value of the milkable cows increases when the feed costs decrease, and decreases when the feed costs increase.

Heifer price sensitivity

Assumed Heifer Price:	16,000 (local) 22,000 (import)	RMB						
% Change in Heifer Price	10.00%	5.00%	2.00%	1.00%	–1.00%	–2.00%	–5.00%	–10.00%
Corresponding Valuation Result (RMB'000)	57,531	55,845	54,834	54,497	53,823	53,486	52,475	50,790
Change in Valuation Result(RMB'000)	3,371	1,685	674	337	(337)	(674)	(1,685)	(3,370)
% Change in Valuation Result	6.2%	3.1%	1.3%	0.6%	(0.6%)	(1.2%)	(3.1%)	(6.2%)

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

Stock-take and Internal Control

Stock-take

We have established a standard protocol for stock take consisting of periodic stock take to ensure the physical existence of our dairy cows and accuracy of relevant data and information. Each of our dairy farms is required to perform a full stock take on a quarterly basis to ensure the relevant information such as headcount and age-grouping are accurately reflected in our dairy farm electronic management records and submit a detailed report to the record keeping department at our headquarters. The dairy cow officers, staff of finance department and the heads of relevant departments are required to confirm the result of the quarterly stock take.

Internal Control and Management System

We have adopted a policy for dairy cow management. Our dairy cow management policy covers among other things, the relevant accounting policies, transferring among age groups, purchase and disposal of dairy cows, breeding, record keeping and stock take. To facilitate the implementation of our dairy cow management policy, we keep comprehensive record of our dairy cows herd.

DIVIDEND POLICY

We may distribute dividends by way of cash or share. A decision to declare and pay any dividends would require Shareholders' approval at general meetings and will be in their sole discretion, but no dividend shall be declared in excess of the amount recommended by our Board. In addition, any final dividend for a financial year will depend on a number of factors, including, among other things, our result of operations, cash flow, financial condition, Shareholders' interests, general business conditions and strategies, capital requirements, the payment by our subsidiaries of cash dividends to us, and other factors the Board may deem relevant.

According to PRC law and our Articles of Association, we will pay dividends out of our profit after taxation only after we have made the following allocations:

- recovery of accumulated losses, if any;

- allocations to the statutory common reserve fund equivalent to 10% of our profit after taxation, as determined under PRC GAAP; and

- allocations that are approved by the shareholders in a shareholders' meeting, if any, to any common reserve fund.

The minimum allocations to the statutory common reserve funds are 10% of our profit after taxation, as determined under the PRC Company Law. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory common reserve fund will be required. Our profit distributable for the above-mentioned allocations and our dividend distribution shall be our profit after taxation as determined by PRC GAAP or IFRSs, whichever is lower. All of our Shareholders have equal rights to dividends and distributions in the form of stock or cash. For shareholders of our H Shares, cash dividend payments, if any, will be declared in RMB and paid in Hong Kong dollars.

During the Track Record Period, we did not declare or pay any dividends to our Shareholders as we had reinvested our distributable profits for the further expansion of our business and operations. If any distributable profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. We cannot assure you that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all.

DISTRIBUTABLE RESERVES

As at 31 March 2015, we had distributable reserves of RMB157.3 million, which are available for distribution to our equity shareholders.

LISTING EXPENSES

As at 31 March 2015, we incurred approximately RMB9.5 million of listing expenses for the Global Offering, of which approximately RMB7.2 million and RMB1.7 million were charged to the consolidated statements of profit or loss for the year ended 31 December 2014 and the three months ended 31 March 2015, respectively, as administrative expenses. The remaining RMB0.6 million was recognised as deferred expenses, which is expected to be charged against equity upon successful Listing under the relevant accounting standards. We expect to further incur listing expenses of RMB23.1 million in connection with the Global Offering, of which an estimated amount of RMB11.4 million is expected to be recognised as administrative expenses and the remaining amount of RMB11.7 million is expected to be recognised directly as a deduction from equity upon the Listing.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 March 2015. This statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at 31 March 2015 or at any future dates.

	Adjusted consolidated net tangible assets attributable to equity shareholders of our Company as at 31 March 2015(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets(3)	Unaudited pro forma adjusted consolidated net tangible assets per Share(4)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the Offer Price of HK$4.98 per Share	512,130	121,847	633,977	4.51	5.49
Based on the Offer Price of HK$7.83 per Share	512,130	201,641	713,771	5.08	6.18

Notes:

(1) The adjusted consolidated net tangible assets attributable to the equity shareholders of our Company as at 31 March 2015 is derived from the Accountants' Report set out in Appendix I to this prospectus, which is based on the consolidated total equity attributable to the equity shareholders of the Company as at 31 March 2015 of RMB512,130,000.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$4.98 or HK$7.83 per Share, being the low or high of the stated offer price range, after deduction of the estimated underwriting fees and related fees and expenses of RMB21.9 million and RMB24.4 million based on the Offer Price of HK$4.98 or HK$7.83 respectively payable by the Company (taking into account the effect of listing-related expenses of approximately RMB9.5 million that have been accounted for prior to 31 March 2015 and take no account of any Shares which may be issued upon exercise of the Over-allotment Option). The estimated net proceeds from the Global Offering are translated at the exchange rate of RMB0.82163 to HK$1.00, being the PBOC rate prevailing on 21 September 2015.

(3) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group subsequent to 31 March 2015.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 140,500,000 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 Over-allotment Option. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.82163 to HK$1.00, being the PBOC rate prevailing on 21 September 2015.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the subsections headed "– Listing Expenses" in this section, we confirm that there has been no material adverse change in our financial or trading position since 31 March 2015 (being the date on which our Company's latest audited consolidated financial results were prepared, as set out in the Accountants' Report in Appendix I to this prospectus).

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

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

NO SIGNIFICANT INTERRUPTIONS

Our Directors confirm that there have been no interruptions in our business that may have a material adverse effect on our financial position and results of operations in the 12 months period prior to the Latest Practicable Date.

FUTURE PLANS

See the subsection headed "Business – Our Strategies" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the Global Offering (after deducting underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering) will be approximately HK$185.5 million (equivalent to approximately RMB152.4 million), assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK$6.41 per H Share, being the mid-point of the indicative Offer Price range stated in this prospectus.

If the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK$32.8 million, assuming an Offer Price of HK$6.41 per H Share, being the mid-point of the Offer Price range stated in this prospectus.

If the Offer Price is set at HK$7.83 per H Share (being the high end of the Offer Price range), and assuming that the Over-allotment Option is not exercised, the net proceeds from the Global Offering will increase by approximately HK$48.4 million.

If the Offer Price is set at HK$4.98 per H Share (being the low end of the Offer Price range), and assuming that the Over-allotment Option is not exercised, the net proceeds from the Global Offering will decrease by approximately HK$48.7 million.

We currently intend to apply these net proceeds for the following purposes:

- Approximately 32%, or HK$59.4 million (equivalent to approximately RMB48.8 million), of the net proceeds from the Global Offering will be used to finance a portion of the funds required to build 3,000 community milk booths in Gansu as part of our effort to expand Cold Chain Liquid Milk Products distribution network. We plan to use the funds for the construction of milk booths and the purchase and installation of equipment. In terms of timing of the investment, we plan to invest HK$28.5 million in 2016 and HK$30.9 million in 2017;

- Approximately 30%, or HK$55.7 million (equivalent to approximately RMB45.8 million), of the net proceeds from the Global Offering will be used to finance a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand, of which approximately 3,000 are expected to be imported in 2016 and approximately 2,000 are expected to be imported in 2017;

- Approximately 20%, or HK$37.1 million (equivalent to approximately RMB30.5 million), of the net proceeds from the Global Offering will be used to promote our brands. We plan to invest HK$26.0 million, HK$7.4 million and HK$3.7 million to promote our Yongdaobu (永道布) brand, Zhuangyuan Ranch (莊園牧場) brand and Shenghu (聖湖) brand, respectively;

- Approximately 8%, or HK$14.8 million (equivalent to approximately RMB12.2 million), of the net proceeds from the Global Offering will be used for the construction of our new technology centre to conduct product development activities. We plan to invest HK$8.9 million in construction and renovation, and HK$5.9 million in the purchase and installation of equipment. In terms of timing of the investment, we plan to invest HK$10.4 million in 2016 and HK$4.4 million in 2017, and

- Approximately 10%, or HK$18.6 million (equivalent to approximately RMB15.3 million), of the net proceeds from the Global Offering will be used for general working capital of our Group.

The above allocation of the net proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range stated in this prospectus. In the event that the Over-allotment Option is exercised in full, we intend to apply the additional net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments as permitted by the relevant laws and regulations. Our PRC legal adviser is of the view that there is no legal impediment in remittance of the net proceeds from the Global Offering to the PRC provided that relevant registration with SAFE for the Listing is completed within 15 working days after the Global Offering. We will comply with the PRC laws in respect of foreign exchange registration and proceeds remittance.

THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement with one cornerstone investor (the "**Cornerstone Investor**"), pursuant to which the Cornerstone Investor agreed to subscribe, or cause his designated entities to subscribe, for such number of our Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of approximately HK$42.0 million (the "**Cornerstone Placing**") at the Offer Price. Details of the actual number of H Shares to be allocated to the Cornerstone Investor will be disclosed in the allotment results announcement to be issued by our Company on or around 14 October 2015.

Assuming an Offer Price of HK$4.98 (being the low end of the Offer Price range set out in this prospectus), the total number of H Shares subscribed by the Cornerstone Investor would be approximately 8,433,500, representing approximately (i) 24.01% of the H Shares, assuming that the Over-allotment Option is not exercised; (ii) 6.00% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised; and (iii) 5.79% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$6.41 (being the approximate mid-point of the Offer Price range set out in this prospectus), the total number of H Shares subscribed by the Cornerstone Investor would be approximately 6,552,000, representing approximately (i) 18.65% of the H Shares, assuming that the Over-allotment Option is not exercised; (ii) 4.66% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised; and (iii) 4.49% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$7.83 (being the high end of the Offer Price range set out in this prospectus), the total number of H Shares subscribed by the Cornerstone Investor would be approximately 5,363,500, representing approximately (i) 15.27% of the H Shares, assuming that the Over-allotment Option is not exercised; (ii) 3.82% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised; and (iii) 3.68% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

The Cornerstone Investor has agreed that, if the requirement pursuant to Rule 8.08(3) of the Listing Rules, in which no more than 50% of the H Shares in public hands on the Listing Date can be beneficially owned by the three largest public Shareholders cannot be satisfied, the Sole Global Coordinator and our Company have the right to adjust the allocation of the number of H Shares to be purchased by the Cornerstone Investor in their sole and absolute discretion to satisfy the requirement pursuant to Rule 8.08(3) of the Listing Rules.

The Cornerstone Placing will form part of the International Offering and the Cornerstone Investor will not subscribe for any Offer Share under the Global Offering (other than and pursuant to the cornerstone investment agreement). The Offer Shares to be subscribed for by the Cornerstone Investor will rank pari passu in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company.

Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any board representation in our Company, nor will the Cornerstone Investor become a substantial shareholder of the Company. The Offer Shares to be subscribed for by the Cornerstone Investor will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed "Structure and Conditions of the Global Offering – The Hong Kong Public Offering" in this prospectus.

THE CORNERSTONE INVESTOR

We set out below a brief description of the Cornerstone Investor under the Cornerstone Placing:

Mr. Hu Keliang

Mr. Hu Keliang ("**Mr. Hu**") is an individual Cornerstone Investor, who is a businessman. Mr. Hu is the chairman and the controlling shareholder of Xi'an Dongfang in which Mr. Hu holds approximately 49.17% equity interest. Xi'an Dongfang is an affiliate of our Company and was one of our five largest customers in 2013. Sales to Xi'an Dongfang in 2013 accounted for approximately 2.2% of our total turnover for the year ended 31 December 2013. For details of the business activities of Xi'an Dongfang, please refer to the section headed "History and Development — Acquisition of Minority Interest."

To the best knowledge of our Company, Mr. Hu is an Independent Third Party, and is not our connected person or an existing shareholder of our Group.

CONDITIONS PRECEDENT

The subscription of the Cornerstone Investor is subject to, among other things, the satisfaction that:

(a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement shall have been entered into and become effective and all of the conditions precedent to completion set forth therein shall have been satisfied (or waived by the relevant parties) by no later than the time and date as specified in these Underwriting Agreements;

(b) the Listing Committee having granted the approval for the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange; and

(c) the respective representations, warranties, undertakings, acknowledgements and confirmations of the relevant Cornerstone Investor under the relevant cornerstone investment agreement are accurate and true in all material respects and not misleading in any material respect and that there is no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON DISPOSAL OF H SHARES BY THE CORNERSTONE INVESTOR

The above Cornerstone Investor has agreed and undertaken to our Company and the Sole Global Coordinator that unless it has obtained the prior written consent of our Company and the Sole Global Coordinator to do otherwise, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, effect any disposal (as defined in the cornerstone investment agreement) of any of the H Shares subscribed for by it pursuant to the cornerstone investment agreement.

HONG KONG UNDERWRITERS

Sole Global Coordinator

GF Securities (Hong Kong) Brokerage Limited

Joint Bookrunners

GF Securities (Hong Kong) Brokerage Limited

China Securities (International) Corporate Finance Company Limited

Haitong International Securities Company Limited

AMTD Asset Management Limited

Joint Lead Managers

RHB OSK Securities Hong Kong Limited

Changjiang Securities Brokerage (HK) Limited

Co-Lead Managers

Convoy Investment Services Limited

SBI China Capital Financial Services Limited

CNI Securities Group Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the H Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. The Sole Global Coordinator (on behalf of the Hong Kong Underwriters) shall be entitled to terminate the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement by giving notice in writing to our Company, if it sees fit upon the occurrence of any of the following events:

(a) there has come to the notice of the Sole Global Coordinator:

(i) any material breach of any of the warranties, obligations or undertakings imposed upon our Company or any of our Controlling Shareholders to any provision of the Underwriting Agreements; or

(ii) any statement contained in this prospectus, the Application Forms, announcement or the formal notice (the "Offer Document") to be published by our Company in connection with the Hong Kong Public Offering, was or has become or been discovered to be untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Sole Global Coordinator, fair and honest and based on reasonable assumptions, when taken as a whole; or

(iii) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or

(iv) any event, act or omission which gives or is likely to give rise to any material liability of our Company under the Hong Kong Underwriting Agreement pursuant to the indemnity provisions of the Hong Kong Underwriting Agreement; or

(v) any change or development involving a prospective adverse change in the business, assets, liabilities, conditions, business affairs, prospects, profit, losses or the financial or trading position or performance or management of our Group considered by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole and absolute opinion to be so material and adverse as to make it impracticable or inadvisable to proceed with the Global Offering; or

(vi) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom; or

(vii) approval by the Listing Committee of the listing of, and permission to deal in, the H Shares (including any additional H Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted (other than subject to customary conditions) or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

(b) there shall develop, occur, exist or come into effect:

(i) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional, international, political, economic, legal, military, industrial, financial, regulatory, currency, or market conditions (including, without limitation, any moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency, or any interruption in monetary or trading or securities settlement or clearance services or procedures or matters) in or affecting the Relevant Jurisdictions (as defined below); or

(ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any of Hong Kong, the PRC, the United States or the European Union (or any member thereof) (the "Relevant Jurisdictions"); or

(iii) any event, or series of events, beyond the reasonable control of the Hong Kong Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza (H5N1 and H7N9), Swine Flu (H1N1) or such related or mutated forms) or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions; or

(iv) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions or any other relevant jurisdiction, declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, in or affecting any of the Relevant Jurisdictions; or

(v) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for the United States or the European Union (or any member thereof) on any of the other Relevant Jurisdictions; or

(vi) a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(vii) the commencement by any governmental, regulatory or political body or organisation of any action against an executive Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or

(viii) material non-compliance by our Company with this prospectus (and/or any other documents used in connection with the subscription and purchase of the Offer Shares) or any aspect of the Global Offering with the Hong Kong Listing Rules or any other laws applicable to the Global Offering; or

(ix) a valid demand by any creditor for repayment or payment of any material indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

(x) any material litigation or claim being threatened or instigated against any member of our Group; or

(xii) any contravention by any Controlling Shareholders as warrantor, any member of our Group or any Director of the Companies (Winding up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the PRC Company Law, the SFO or any of the Hong Kong Listing Rules.

UNDERTAKINGS TO THE HONG KONG STOCK EXCHANGE UNDER THE HONG KONG LISTING RULES

Undertakings by us

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further H Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of H Shares or securities will be completed within six months from the Listing Date), except for the circumstances as permitted by Rule 10.08(1) to (5) of the Hong Kong Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Hong Kong Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and our Company respectively that, except pursuant to the Global Offering and the Over-allotment Option as described and contained in this prospectus, it/he shall not and shall procure that the relevant registered shareholder(s) shall not:

(a) in the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it/he is shown by this prospectus to be the beneficial owners; or

(b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it/he is shown by this prospectus to be the beneficial owners if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined in the Hong Kong Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Hong Kong Listing Rules, each of our Controlling Shareholders has also undertaken to the Hong Kong Stock Exchange and our Company respectively that, within the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he will:

(a) when it/he pledges or charges any Shares beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan pursuant to Note 2 to Rule 10.07(2) of the Hong Kong Listing Rules, immediately inform us in writing of such pledge or charge together with the number of Shares so pledged or charged; and

(b) when it/he receive indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

Undertakings by us

Except pursuant to the Global Offering and the Over-allotment Option or with the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the

"First Six-Month Period"), we have, pursuant to the Hong Kong Underwriting Agreement, undertaken to the Sole Global Coordinator and the Hong Kong Underwriters that:

(a) our Company will not, and will procure that our subsidiaries will not, offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any options, warrants or other rights to purchase or subscribe for, make any share sale, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of its share capital, debt capital or any securities of our Group or any interest therein (including but not limited to any warrants and securities convertible into or exercisable or exchangeable for or that represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable) provided that this shall not apply to the subsidiaries of the Company if the above is conducted in the ordinary course of their business;

(b) our Company will not enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital, debt capital or other securities of our Company or any interest therein;

(c) our Company will not, and will procure that our subsidiaries will not, enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or

(d) our Company will not, and will procure that our subsidiaries will not, publicly announce any intention to enter into any transaction described in paragraph (a), (b) or (c) above;

whether any of the foregoing transactions described in paragraph (a), (b) or (c) above is to be settled by delivery of share capital or such other securities, in cash or otherwise; and

(e) our Company will ensure that if any of the transactions in paragraph (a), (b) or (c) above is entered into or agreed to be entered into during the period of six months immediately following the expiry of the First Six-Month Period (the "Second Six-Month Period"), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken to our Company and the Hong Kong Underwriters that without prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) that:

(a) at any time during the First Six-Month Period, he/it shall not, and shall procure that the relevant registered holder(s) shall not, without the prior written consent of the Sole Global Coordinator and unless otherwise in compliance with the requirements of the Hong Kong Listing Rules, (i) offer, accept subscription for, sell, pledge, mortgage, charge, sell any option or contract to purchase, purchase any option, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any share sale, lend or otherwise transfer or dispose of, either directly or indirectly, any of the share capital of our Company or any securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or interest therein); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital, debt capital or other securities of our Company or any interest therein; (iii) enter or agree to enter into, conditionally or unconditionally, or effect any of the transaction with the same economic effect as any transaction referred to in (i) or (ii) above; or (iv) publicly announce any intention to enter into or effect any of the transaction referred to in (i), (ii) or (iii) above;

whether any of the foregoing transactions described in paragraph (i), (ii) or (iii) above is to be settled by delivery of share or such other securities, in cash or otherwise; and

(b) at any time during the Second Six-Month Period, he/it shall not, and shall procure that the relevant registered holder(s) shall not, without the prior written consent of the Sole Global Coordinator and/or otherwise in compliance with the Hong Kong Listing Rules, enter into any of the foregoing transactions in paragraph (a) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder of our Company or would together with the other Controlling Shareholders cease to be, or regarded as, Controlling Shareholders of our Company; and

(c) at any time before the expiry of the Second Six-Month Period, in the event that he/it enters into any transaction referred to in paragraph (a) above or publicly announces an intention to enter into such transactions, he/it shall take all reasonable steps to ensure that such action shall not create a disorderly or false market for any Shares or other securities of our Company.

Each of our Controlling Shareholders has further undertaken jointly and severally that during the first twelve months from the Listing Date, he/it will:

(i) when he/it pledges or charges any Shares or other securities or interests in the securities of our Company in respect of which he/it is the beneficial owner, immediately inform our Company, the Sole Sponsor and the Sole Global Coordinator in writing of such pledges or charges together with the number of Shares or other securities of our Company and nature of interest so pledged or charged; and

(ii) when he/it receives any indication, whether verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sole Sponsor and the Sole Global Coordinator in writing of such indications.

We will inform the Stock Exchange as soon as we have been informed of any of the above matters (if any) by our Controlling Shareholders and disclose such matters by way of a press announcement in accordance with Rule 2.07C of the Hong Kong Listing Rules.

THE INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, *inter alia*, the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will severally agree to subscribe or purchase or procure subscribers or purchasers for the International Offering Shares being offered pursuant to the International Offering.

Our Company will grant to the Sole Global Coordinator the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the Price Determination Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 5,269,500 additional H Shares, representing 15% of the number of Offer Shares initially offered under the Global Offering, at the same price per Share under the International Offering to cover over-allocations (if any) in the International Offering.

UNDERWRITING COMMISSIONS AND EXPENSES

The Hong Kong Underwriters will receive an underwriting commission at the rate of 3.0% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offer and the International Underwriters will receive an underwriting commission at the rate of 3% of the aggregate Offer Price payable for the International Offer Shares that are placed by the International Underwriters (including the H Shares to be issued pursuant to the Over-allotment Option, if any). In each case, the Underwriters will pay any sub-underwriting commissions out of the underwriting commissions they receive. In addition, our Company may, at its sole and absolute discretion, pay to all or any of the Underwriters a discretionary incentive fee of up to 2% of the aggregate Offer Price payable for the Offer Shares (excluding the H Shares to be issued pursuant to the exercise of the Over-allotment Option, if any). The underwriting commission, together with the Hong Kong Stock Exchange listing fees, the Hong Kong Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Global Offering, is currently estimated to be approximately HK$39.7 million in aggregate (based on an Offer Price of HK$6.41 per Offer Share, being the mid-point of the indicative Offer Price range of HK$4.98 and HK$7.83 per Offer Share and based on the assumption that the Over-allotment Option is not exercised) and is paid or payable by our Company.

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. GF Capital is the Sole Sponsor and GF Securities is the Sole Global Coordinator.

The Global Offering consists of (subject to reallocation and the Over-allotment Option):

- the Hong Kong Public Offering of 3,513,000 H Shares (subject to reallocation as mentioned below) in Hong Kong as described below under the section headed "Structure and Conditions of the Global Offering – The Hong Kong Public Offering"; and

- the International Offering of 31,617,000 H Shares (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S of the U.S. Securities Act as described below under the section headed "Structure and Conditions of the Global Offering – The International Offering".

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the U.S. Securities Act. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The Offer Shares will represent 25% of the enlarged registered share capital of our Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent 28.75% of the enlarged registered share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as described in the section headed "Structure and Conditions of the Global Offering – Over-allotment Option".

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the section headed "Structure and Conditions of the Global Offering – Pricing and Allocation".

PRICING AND ALLOCATION

Offer Price range

The Offer Price will be not more than HK$7.83 per Offer Share and is expected to be not less than HK$4.98 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price Payable on Application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK$7.83 per Hong Kong Public Offer Share plus a 1% brokerage fee, a 0.0027% SFC transaction levy and a 0.005% Hong Kong Stock Exchange trading fee, amounting to a total of HK$3,954.46 for one board lot of 500 Offer Shares. Each Application Form includes a table showing the exact amount payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK$7.83, appropriate refund payments (including the brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. See the subsection headed "How to apply for Hong Kong Public Offer Shares – Refund of application monies" in this prospectus.

DETERMINING THE OFFER PRICE

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the H Shares in the International Offering. Prospective investors will be required to specify the number of H Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about Thursday, 8 October 2015.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Thursday, 8 October 2015, and in any event, no later than Monday, 12 October 2015.

If, for any Reason, our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Monday, 12 October 2015, the Global Offering will not proceed and will lapse.

Reduction in Offer Price Range and/or Number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (for itself and on behalf of the Underwriters) considers it appropriate and together with our Company's consent, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in The Standard (in English) and Hong Kong Economic Times (in Chinese) notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the indicative Offer Price range and/or number of Offer Shares is so reduced.

Allocation

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell the Offer Shares after Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of the Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. The allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

Announcement of Final Offer Price and Basis of Allocations

The applicable final Offer Price, the level of indications of interest in the International Offering and the basis of allocations of the Hong Kong Public Offer Shares are expected to be announced on Wednesday, 14 October 2015 in The Standard (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the websites of the Stock Exchange (**www.hkexnews.hk**) and on the website of our Company (**http://www.lzzhuangyuan.com**).

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC or by applying online through the **White Form eIPO** Service Provider under the **White Form eIPO** service, will be made available through a variety of channels as described in the subsection headed "How to apply for Hong Kong Public Offer Shares – Publication of results" in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering and the exercise of the Over-allotment Option;
- the Offer Price having been duly agreed on or about the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the International Underwriting Agreement and the Hong Kong Underwriting Agreement having become unconditional and not having been terminated in accordance with their respective terms,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will cause to be published by us in The Standard (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection headed "How to Apply for Hong Kong Public Offer Shares – Refund of Application Monies" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H share certificates for the Offer Shares are expected to be issued on Wednesday, 14 October 2015 but will only become valid certificates of title at 8:00 a.m. on Thursday, 15 October 2015 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the subsection headed "Underwriting – Underwriting Arrangements and Expenses – the Hong Kong Public Offering – Grounds for Termination" in this prospectus has not been exercised.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 3,513,000 H Shares at the Offer Price, representing 10% of the 35,130,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Offer Shares offered under the Hong Kong Public Offering will represent approximately 2.5% of the total issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions set out in the subsection headed "Structure and conditions of the Global Offering – Conditions of the Hong Kong Public Offering" above.

Allocation

For allocation purposes only, the Hong Kong Public Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 1,756,500 Hong Kong Public Offer Shares and Pool B will comprise 1,756,500 Hong Kong Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 1,756,500 Hong Kong Public Offer Shares (being 50% of the initial number of Hong Kong Public Offer Shares).

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Public Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than

50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 10,539,000, 14,052,000 and 17,565,000 H Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B equally.

If the Hong Kong Public Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Applications

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for H Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The number of Offer Shares to be initially offered for subscription by our Company under the International Offering will be 31,617,000 H Shares, representing 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the International Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transaction in reliance on Regulation S of the U.S. Securities Act. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the subsection headed "– Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell its H Shares after Listing. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

OVER-ALLOTMENT OPTION

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging of Application Forms under the Hong Kong Public Offering. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company may be required to issue up to 5,269,500 H Shares, representing 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any. The Sole Global Coordinator may also cover any over-allocations by purchasing Offer Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, regulations and rules.

STABILISATION AND OVER-ALLOTMENT

Stabilisation is a practice used by Underwriters in some markets to facilitate the distribution of securities. To stabilise, the Underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, GF Securities, as the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by the applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Offer Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be sold under the Over-allotment Option, amounting to 5,269,500 Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering.

Stabilising action will be entered into in accordance with the laws, regulations and rules in place in Hong Kong on stabilisation. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the H Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimising any reduction in the market price of the Offer Shares; (v) selling or agreeing to sell any H Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the H Shares should note that:

- the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the H Shares;

- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;

- liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the H Shares;

- no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the last business day immediately before the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Offer Shares, and therefore the price of the H Shares, may fall;

- the price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and

- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 5,269,500 additional H Shares and cover such over-allocations by exercising the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed the Offer Price, or a combination of these means.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Offer Shares to be admitted into CCASS. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Offer Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

UNDERWRITING AGREEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to International Offering on around the Price Determination Date. These underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarised in the section "Underwriting" to this prospectus.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 15 October 2015, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 15 October 2015. The Offer Shares will be traded in board lots of 500 H Shares each and the stock code will be 1533.

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its sole discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Public Offer Shares.

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you:

- are an existing beneficial owner of Domestic Shares and H Shares in our Company and/or any its subsidiaries;
- are a Director, Supervisor or chief executive officer of our Company and/or any of its subsidiaries;
- are an associate (as defined in the Hong Kong Listing Rules) of any of the above;
- are a connected person (as defined in the Hong Kong Listing Rules) of our Company or who will become a connected person of our Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

(a) Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

(b) Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 30 September 2015 until 12:00 noon on Thursday, 8 October 2015 from:

(i) any of the following offices of the Hong Kong Underwriters:

(a) **GF Securities (Hong Kong) Brokerage Limited** at 29-30/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

(b) **China Securities (International) Corporate Finance Company Limited** at 18/F Two Exchange Square, 8 Connaught Place Central, Hong Kong

(c) **Haitong International Securities Company Limited** at 22/F Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

(d) **AMTD Asset Management Limited** at Rooms 2501-2503, 25/F World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong

(e) **RHB OSK Securities Hong Kong Limited** at 12/F, World-Wide House, 19 Des Voeux Road Central, Hong Kong

(f) **Changjiang Securities Brokerage (HK) Limited** at Suite 1908 19/F Cosco Tower, 183 Queen's Road Central, Hong Kong

(g) **Convoy Investment Services Limited** at 24C, @ Convoy, 169 Electric Road, North Point, Hong Kong

(h) **SBI China Capital Financial Services Limited** at Unit A2 32/F United Centre, 95 Queensway, Hong Kong

(i) **CNI Securities Group Limited** at 10/F, Sun's Group Centre, 200 Gloucester Road, Wan Chai, Hong Kong

(ii) any of the following branches of Bank of China (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	Central District (Wing On House) Branch	71 Des Voeux Road Central
	Causeway Bay Branch	505 Hennessy Road, Causeway Bay
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
Kowloon	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
	East Point City Branch	Shop 101, East Point City, Tseung Kwan O
New Territories	City One Sha Tin Branch	Shop Nos. 24–25, G/F, Fortune City One Plus, No. 2 Ngan Shing Street, Sha Tin
	Yuen Long (Hang Fat Mansion) Branch	8–18 Castle Peak Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 30 September 2015 until 12:00 noon on Thursday, 8 October 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

(c) Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of China (Hong Kong) Nominees Limited — Lanzhou Zhuangyuan Pasture Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank(s) listed above, at the following times:

Wednesday, 30 September 2015	–	9:00 a.m. to 5:00 p.m.
Friday, 2 October 2015	–	9:00 a.m. to 5:00 p.m.
Saturday, 3 October 2015	–	9:00 a.m. to 1:00 p.m.
Monday, 5 October 2015	–	9:00 a.m. to 5:00 p.m.
Tuesday, 6 October 2015	–	9:00 a.m. to 5:00 p.m.
Wednesday, 7 October 2015	–	9:00 a.m. to 5:00 p.m.
Thursday, 8 October 2015	–	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 8 October 2015, the last application day or such later time as described in the subsection headed "Effect of bad weather on the opening of the application lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our H Share Registrar, the receiving bank(s), the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company’s register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

(a) General

Individuals who meet the criteria in the paragraph headed "Who can apply" in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

(b) Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 30 September 2015 until 11:30 a.m. on Thursday, 8 October 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 8 October 2015 or such later time under the subsection headed "Effects of bad weather on the opening of the application lists" in this section.

(c) No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

(d) Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

(e) Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider will contribute HK$2 for each "Lanzhou Zhuangyuan Pasture Co., Ltd." **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of "Source of Dong Jiang – Hong Kong Forest" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

(i) General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application** instructions through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System at (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square,
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our H Share Registrar.

(ii) Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Companies Ordinance and the Articles of Association;

- agree with our Company, for itself and for the benefit of each shareholder of our Company and each director, supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of our Company and each director, supervisor, manager and other senior officer of our Company, with each CCASS Participant giving electronic application instructions):

  (a) to refer all differences and claims arising from the Articles of Association of our Company or any rights or obligations conferred or imposed by the Companies Ordinance or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association of our Company;

  (b) that any award made in such arbitration shall be final and conclusive; and

  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with our Company (for our Company itself and for the benefit of each shareholder of our Company) that H shares in our Company are freely transferable by their holders;

- authorise our Company to enter into a contract on its behalf with each director and officer of our Company whereby each such director and officer undertakers to observe and comply with his obligations to shareholders stipulated in the Articles of Association of our Company; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

(iii) Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

(iv) Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Public Offer Shares. Instructions for more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

(v) Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic applications at the following times on the following dates:

Wednesday, 30 September 2015	–	9:00 a.m. to 8:30 p.m. [(1)]
Friday, 2 October 2015	–	8:00 a.m. to 8:30 p.m. [(1)]
Saturday, 3 October 2015	–	8:00 a.m. to 1:00 p.m. [(1)]
Monday, 5 October 2015	–	8:00 a.m. to 8:30 p.m. [(1)]
Tuesday, 6 October 2015	–	8:00 a.m. to 8:30 p.m. [(1)]
Wednesday, 7 October 2015	–	8:00 a.m. to 8:30 p.m. [(1)]
Thursday, 8 October 2015	–	8:00 a.m. [(1)] to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 30 September 2015 until 12:00 noon on Thursday, 8 October 2015 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 8 October 2015, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" below.

(vi) No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

(vii) Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic **application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

(viii) Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our H Share Registrar, the receiving bank(s), the Sole Global Coordinator, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet

System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 8 October 2015.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

The term "unlisted company" means a company with no equity securities listed on the Hong Kong Stock Exchange. "Statutory control" means you (i) control the composition of the board of directors of the company; (ii) control more than half of the voting power of the company; or (iii) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profit or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Domestic Shares and H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Hong Kong Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and Conditions of the Global Offering – Pricing and Allocation – Price Payable on Application".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 8 October 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 8 October 2015 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Wednesday, 14 October 2015 in The Standard (in English) and Hong Kong Economic Times (in Chinese) and on our Company's website at **http://www.lzzhuangyuan.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **http://www.lzzhuangyuan.com** and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than Wednesday on 14 October 2015;
- from the designated results of allocations website of our H Share Registrar at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m., Wednesday on 14 October 2015 to 12:00 midnight, Tuesday, 20 October 2015;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 14 October 2015 to Saturday, 17 October 2015;

- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 14 October 2015 to Friday, 16 October 2015 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** Service Provider you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$7.83 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering set out in the section headed "Structure and Conditions of the Global Offering – Conditions of the Hong Kong Public Offering" in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 14 October 2015.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Domestic Shares and H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Wednesday, 14 October 2015. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 15 October 2015 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 5:00 p.m. on Wednesday, 14 October 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorised any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified on your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 14 October 2015 by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 14 October 2015 by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 14 October 2015 or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

  For Hong Kong Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 14 October 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 a.m. on Wednesday, 14 October 2015, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates, e-Refund payment instructions or refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 14 October 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

(a) Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

(b) Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) (subject to their becoming valid certificates of title provided that the Hong Kong Public Offering has become unconditional and not having been terminated at 8:00 a.m. (Hong Kong time) on Thursday, 15 October 2015) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 14 October 2015, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "Publication of Results" above on Wednesday, 14 October 2015. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 14 October 2015 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 14 October 2015. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on 5:00 p.m. on Wednesday, 14 October 2015.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

30 September 2015

The Directors
Lanzhou Zhuangyuan Pasture Co., Ltd.

GF Capital (Hong Kong) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Lanzhou Zhuangyuan Pasture Co., Ltd. (the "Company") and its subsidiaries (together the "Group") which comprise the consolidated statements of financial position of the Group and the statement of financial position of the Company as at 31 December 2012, 2013 and 2014 and 31 March 2015 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the prospectus of the Company dated 30 September 2015 (the "Prospectus").

The Company was established in the People's Republic of China ("PRC") on 25 April 2000 with limited liability under the PRC Company Law and converted into a joint stock limited liability company on 19 April 2011. The registered office of the Company is located at Lanzhou, Gansu province, the PRC. During the Relevant Periods, the Group is principally engaged in dairy farming and manufacturing and sales of dairy products in the PRC.

All companies comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 36 of Section B. The statutory financial statements of these companies were prepared in accordance with China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

The directors of the Company have prepared the consolidated financial statements for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 March 2015.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group and the Company as at 31 December 2012, 2013 and 2014 and 31 March 2015 and of the Group's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the three months ended 31 March 2014, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION

1 CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Section B Note	Years ended 31 December			Three months ended 31 March	
		2012	2013	2014	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	2, 3	420,417	463,524	545,239	117,958	145,411
Cost of sales	3, 5(a)	(304,957)	(345,925)	(369,202)	(84,850)	(98,311)
Gross profit		115,460	117,599	176,037	33,108	47,100
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	5(b)	3,214	5,692	4,918	1,257	1,295
Loss arising from changes in fair value less costs to sell of biological assets	5(c)	(2,663)	(10,471)	(14,674)	(4,864)	(4,313)
Other net income	4	14,204	13,841	15,718	2,573	3,340
Distribution costs		(25,154)	(24,058)	(33,846)	(7,221)	(7,499)
Administrative expenses		(33,586)	(38,960)	(48,110)	(9,648)	(14,058)
Profit from operations		71,475	63,643	100,043	15,205	25,865
Net finance costs	5(d)	(15,946)	(25,396)	(26,351)	(6,474)	(6,840)
Profit before taxation	3, 5	55,529	38,247	73,692	8,731	19,025
Income tax	6(a)	(1,219)	(3,608)	(8,283)	(698)	(2,310)
Profit for the year/period		54,310	34,639	65,409	8,033	16,715
Attributable to:						
Equity shareholders of the Company		54,310	34,639	65,409	8,033	16,715
Profit for the year/period		54,310	34,639	65,409	8,033	16,715
Earnings per share						
– Basic and diluted (RMB)	10	0.52	0.33	0.62	0.08	0.16

The accompanying notes form part of the Financial Information.

2 CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/period	54,310	34,639	65,409	8,033	16,715
Total comprehensive income for the year/period	54,310	34,639	65,409	8,033	16,715
Attributable to:					
Equity shareholders of the Company	54,310	34,639	65,409	8,033	16,715
Total comprehensive income for the year/period	54,310	34,639	65,409	8,033	16,715

The accompanying notes form part of the Financial Information.

3 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Section B Note	At 31 December 2012	At 31 December 2013	At 31 December 2014	At 31 March 2015
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	11	512,198	570,535	618,848	627,728
Available-for-sale financial assets	13	44	33,720	33,720	33,720
Lease prepayments	14	12,803	15,152	14,376	14,146
Biological assets	15	60,985	79,578	103,264	104,467
Deferred tax assets	28(b)	2,281	3,400	3,776	4,156
Other non-current assets	16	8,528	32,475	31,009	29,581
		596,839	734,860	804,993	813,798
Current assets					
Inventories	17	114,487	121,322	108,645	87,934
Trade receivables	18	37,861	33,629	21,783	21,794
Deposits, prepayments and other receivables	19	27,944	32,593	23,866	20,277
Pledged deposit	20	6,255	6,271	26,748	8,842
Cash and cash equivalents	20	89,316	132,323	215,454	205,826
		275,863	326,138	396,496	344,673
Current liabilities					
Trade and bills payables	21	49,494	52,593	110,059	65,711
Receipts in advance	22	10,339	17,514	28,107	10,120
Accrued expenses and other payables	23	38,199	46,742	46,549	51,027
Non-current liabilities due within one year	24	4,627	7,386	13,865	10,332
Bank loans	25(a)	266,000	366,500	376,500	376,500
Current taxation	28(a)	2,821	5,985	11,808	12,553
		371,480	496,720	586,888	526,243
Net current liabilities		(95,617)	(170,582)	(190,392)	(181,570)
Total assets less current liabilities		501,222	564,278	614,601	632,228

The accompanying notes form part of the Financial Information.

	Section B Note	At 31 December 2012	At 31 December 2013	At 31 December 2014	At 31 March 2015
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities					
Bank loans	25(b)	72,000	86,500	73,500	73,500
Deferred income	26	25,708	38,922	40,171	42,038
Obligations under finance leases	27	8,147	8,850	4,012	3,141
Other long-term payables		–	–	1,503	1,419
		105,855	134,272	119,186	120,098
NET ASSETS		395,367	430,006	495,415	512,130
CAPITAL AND RESERVES					
Share capital	29	105,370	105,370	105,370	105,370
Reserves	29	289,997	324,636	390,045	406,760
Total equity attributable to equity shareholders of the Company		395,367	430,006	495,415	512,130
TOTAL EQUITY		395,367	430,006	495,415	512,130

The accompanying notes form part of the Financial Information.

4 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Section B Note	At 31 December 2012	At 31 December 2013	At 31 December 2014	At 31 March 2015
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	11	148,410	163,353	166,753	174,912
Investments in subsidiaries	12	50,000	210,000	210,000	210,000
Available-for-sale financial assets	13	44	33,720	33,720	33,720
Lease prepayments	14	7,391	10,432	10,279	10,240
Deferred tax assets	28(b)	2,281	2,751	3,041	3,420
Other non-current assets	16	8,528	31,595	30,609	29,301
		216,654	451,851	454,402	461,593
Current assets					
Inventories	17	45,053	47,846	51,279	41,488
Trade receivables	18	40,085	59,846	67,538	68,457
Deposits, prepayments and other receivables	19	368,336	233,588	276,768	289,436
Pledged deposit	20	6,255	6,271	26,748	8,842
Cash and cash equivalents	20	32,317	62,152	106,677	80,531
		492,046	409,703	529,010	488,754
Current liabilities					
Trade and bills payable	21	38,758	50,337	124,734	88,741
Receipts in advance	22	4,809	12,262	24,710	8,066
Accrued expenses and other payables	23	18,994	30,445	26,075	31,002
Non-current liabilities due within one year	24	2,273	4,369	7,276	6,032
Bank loans	25(a)	250,000	335,000	320,000	320,000
Current taxation	28(a)	2,821	4,955	10,506	10,422
		317,655	437,368	513,301	464,263
Net current assets/(liabilities)		174,391	(27,665)	15,709	24,491
Total assets less current liabilities		391,045	424,186	470,111	486,084

The accompanying notes form part of the Financial Information.

	Section B Note	At 31 December 2012	At 31 December 2013	At 31 December 2014	At 31 March 2015
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities					
Bank loans	25(b)	45,000	42,000	34,000	34,000
Deferred income	26	11,075	11,410	11,867	13,982
Obligations under finance leases	27	4,396	6,946	4,012	3,141
		60,471	60,356	49,879	51,123
NET ASSETS		330,574	363,830	420,232	434,961
CAPITAL AND RESERVES					
Share capital	29	105,370	105,370	105,370	105,370
Reserves	29	225,204	258,460	314,862	329,591
TOTAL EQUITY		330,574	363,830	420,232	434,961

The accompanying notes form part of the Financial Information.

5 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company				
	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Section B Note 29(b))	(Section B Note 29(c)(i))	(Section B Note 29(c)(ii))		
At 1 January 2012	105,370	155,590	2,848	77,249	341,057
Changes in equity for 2012					
Profit for the year	–	–	–	54,310	54,310
Total comprehensive income	–	–	–	54,310	54,310
Appropriation to reserves	–	–	3,895	(3,895)	–
At 31 December 2012	105,370	155,590	6,743	127,664	395,367

	Attributable to equity shareholders of the Company				
	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Section B Note 29(b))	(Section B Note 29(c)(i))	(Section B Note 29(c)(ii))		
At 1 January 2013	105,370	155,590	6,743	127,664	395,367
Changes in equity for 2013					
Profit for the year	–	–	–	34,639	34,639
Total comprehensive income	–	–	–	34,639	34,639
Appropriation to reserves	–	–	3,326	(3,326)	–
At 31 December 2013	105,370	155,590	10,069	158,977	430,006

	Attributable to equity shareholders of the Company				
	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Section B Note 29(b))	(Section B Note 29(c)(i))	(Section B Note 29(c)(ii))		
At 1 January 2014	105,370	155,590	10,069	158,977	430,006
Changes in equity for 2014					
Profit for the year	–	–	–	65,409	65,409
Total comprehensive income	–	–	–	65,409	65,409
Appropriation to reserves	–	–	5,640	(5,640)	–
At 31 December 2014	105,370	155,590	15,709	218,746	495,415

The accompanying notes form part of the Financial Information.

	Attributable to equity shareholders of the Company				
	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Section B Note 29(b))	(Section B Note 29(c)(i))	(Section B Note 29(c)(ii))		
At 1 January 2015	105,370	155,590	15,709	218,746	495,415
Changes in equity					
Profit for the period	–	–	–	16,715	16,715
Total comprehensive income	–	–	–	16,715	16,715
Appropriation to reserves	–	–	1,473	(1,473)	–
At 31 March 2015	105,370	155,590	17,182	233,988	512,130

	Attributable to equity shareholders of the Company				
	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Section B Note 29(b))	(Section B Note 29(c)(i))	(Section B Note 29(c)(ii))		
At 1 January 2014	105,370	155,590	10,069	158,977	430,006
Changes in equity					
Profit for the period (unaudited)	–	–	–	8,033	8,033
Total comprehensive income (unaudited)	–	–	–	8,033	8,033
Appropriation to reserves (unaudited)	–	–	834	(834)	–
At 31 March 2014 (unaudited)	105,370	155,590	10,903	166,176	438,039

The accompanying notes form part of the Financial Information.

6 CONSOLIDATED CASH FLOW STATEMENTS

	Section B Note	Years ended 31 December			Three months ended 31 March	
		2012	2013	2014	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities						
Profit before taxation		55,529	38,247	73,692	8,731	19,025
Adjustments for:						
Depreciation and amortisation	5(f)	22,485	31,230	33,843	8,315	9,505
Interest income	5(d)	(244)	(445)	(469)	(225)	(418)
Interest expenses	5(d)	16,190	25,841	26,820	6,699	7,258
Government grants recognised and amortised in profit or loss	4	(8,983)	(10,680)	(8,529)	(646)	(1,879)
Impairment/(reversal of impairment) of trade receivables	18(b)	392	861	(1,295)	(983)	119
Impairment/(reversal of impairment) of deposits, prepayments and other receivables	19	423	2,886	(476)	48	(218)
Loss arising from the changes in fair value less costs to sell of biological assets	5(c)	2,663	10,471	14,674	4,864	4,313
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	5(b)	(3,214)	(5,692)	(4,918)	(1,257)	(1,295)
Net loss on disposal of property, plant and equipment	4	602	3,294	–	–	–
Changes in working capital:						
(Increase)/decrease in inventories		(50,164)	(1,143)	17,595	3,995	22,006
(Increase)/decrease in trade receivables		(5,866)	3,371	13,141	(1,831)	(130)
Decrease/(increase) in deposits, prepayments and other receivables		4,007	(4,844)	5,428	6,629	3,807
Increase/(decrease) in trade and bills payable		634	3,099	57,466	6,086	(44,348)
Increase/(decrease) in receipts in advance		4,177	7,175	10,593	(12,438)	(17,987)
(Decrease)/increase in accrued expenses and other payables		(7,537)	1,664	7,367	747	(2,739)
Cash generated from/(used in) operations		31,094	105,335	244,932	28,734	(2,981)
PRC income tax paid	28(a)	(191)	(1,563)	(2,836)	(1,869)	(1,945)
Net cash generated from/(used in) operating activities		30,903	103,772	242,096	26,865	(4,926)

The accompanying notes form part of the Financial Information.

	Section B Note	Years ended 31 December 2012	2013	2014	Three months ended 31 March 2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Investing activities						
Payment for acquisition of available-for-sale financial assets		–	(33,676)	–	–	–
Payments for purchase of property, plant and equipment		(99,052)	(84,099)	(81,280)	(21,237)	(12,481)
Payments relating to advances to third parties		(40,508)	(54,915)	(15,888)	(3,600)	(10)
Lease prepayments		(1,851)	(3,195)	(130)	(21)	–
(Increase)/decrease in pledged deposit		(6,195)	(16)	(20,477)	(5)	17,906
Payments for purchase of biological assets		(17,174)	(12,398)	(14,858)	–	–
Payments for breeding cost of calves and heifers (breeding costs of calves and heifers capitalised other than depreciation and amortisation)		(14,791)	(21,150)	(22,191)	(4,313)	(6,399)
Proceeds from disposal of property, plant and equipment		838	46	–	–	–
Proceeds from disposal of biological assets		3,049	4,868	6,796	1,175	2,427
Cash received from government grants		17,030	29,040	8,920	1,422	3,936
Proceeds relating to advances to third parties		31,980	30,968	17,354	4,353	1,438
Interest received		244	445	469	225	418
Net cash (used in)/generated from investing activities		(126,430)	(144,082)	(121,285)	(22,001)	7,235
Financing activities						
Proceeds from new bank loans		345,000	384,000	371,500	40,000	40,000
Repayments of bank loans		(199,000)	(269,000)	(374,500)	(60,000)	(40,000)
Interest paid		(16,956)	(26,016)	(27,802)	(6,822)	(7,258)
Cash paid relating to other financing activities		(6,896)	(5,667)	(6,878)	(639)	(4,679)
Net cash generated from/(used in) financing activities		122,148	83,317	(37,680)	(27,461)	(11,937)
Net increase/(decrease) in cash and cash equivalents		26,621	43,007	83,131	(22,597)	(9,628)
Cash and cash equivalents at the beginning of the year/period		62,695	89,316	132,323	132,323	215,454
Cash and cash equivalents at the end of the year/period	20	89,316	132,323	215,454	109,726	205,826

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations issued by the IASB. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2015. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2015 are set out in note 35.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the three months ended 31 March 2014 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand unless otherwise indicated, and is prepared on the historical cost basis except for biological assets and agricultural produce are stated at their fair value as explained in note 1(j) below.

(c) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 March 2015. The directors are of opinion that, based on a detailed review of the working capital forecast of the Group for the period ending 31 December 2016, the Group will have necessary liquid funds to finance its working capital expenditure requirements for a reasonable period of time (see note 30(b)).

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 33.

(e) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative equity interest, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire equity interest in that subsidiary, with a resulting gain or loss being recognised in the profit or loss. Any equity interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss (see note 1(i) (ii)), unless the investment is classified as held-for-sale (or included in a disposal group that is classified as held for sale).

(f) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below.

These investments are classified as available-for-sale securities as they do not fall into any other categories. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statements of financial position at cost less impairment losses (see note 1(i)). Dividend income from equity securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 1(s)(iii).

When the investments are derecognised or impaired (see note 1(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/ derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (see note 1(i) (ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

Gains or losses arising from the disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of disposal.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Plant and buildings	30 years
– Machinery and equipment	5-10 years
– Motor vehicles	4 years
– Office and electronic equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at each reporting period end date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, for trade and other current receivables, the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the receivable's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these receivables), where the effect of discounting is material. This assessment is made collectively where the receivables share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for receivables which are assessed for impairment collectively are based on historical loss experience for receivables with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the receivable's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of receivables whose recoveries are considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting period end date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– lease prepayments; and

– investments in subsidiaries in the Company's statement of financial position.

If such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Biological assets

Biological assets comprise dairy cows which are divided into three groups of calves, heifers and milkable cows, which are raised or grown by the Group for the purposes of producing raw milk.

Biological assets are measured on initial recognition and at the end of each reporting period at their fair values less costs to sell. Any resultant gain or loss arising on initial recognition and from changes in fair value less costs to sell is charged to the profit or loss for the period in which the gain or loss arises.

The feeding costs and other related costs such as staff costs, depreciation and amortisation expenses and utilities cost incurred for raising calves and heifers are capitalised until they begin to produce milk and transfer to the group of milkable cows. Such costs incurred for milkable cows are also capitalised while upon milking, the costs incurred to bring the raw milk are transferred to inventories (see note 1(k) below).

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition method.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Agricultural produce harvested from the Group's biological assets are raw milk. Upon harvest, agricultural produce are initially recognised as inventories at their fair values less costs to sell at the point of harvest, which are determined based on their market prices quoted in the local area. Any resultant gain or loss arising on initial recognition of such fair values (i.e. the difference between the fair values less costs to sell of the agricultural produce at the point of harvest and the breeding costs) is recognised in the profit or loss in the period of harvest. Upon subsequent sales, such amount of the inventories initially recognised is charged to the cost of sales in the profit or loss.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for impairment of doubtful debts (see note 1(i)(i)), except where the receivables are interest-free loan made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 1(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting period end date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting period end date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting period end date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related significant risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Government grants

Government grants are recognised in the statements of financial position initially as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grants, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are incurred.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or completed.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 TURNOVER

The principal activities of the Group are dairy farming, manufacture and sale of liquid milk products and other dairy products.

Turnover mainly represents the sales amount of products supplied to customers. The amount of each significant category of revenue recognised in turnover during the Relevant Periods is as follows:

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Liquid milk products	388,393	414,954	510,525	105,831	141,756
Others *(Note)*	32,024	48,570	34,714	12,127	3,655
Total	420,417	463,524	545,239	117,958	145,411

Note: Other revenue mainly represents sales from milk beverage, milk tea powder, raw milk and milk powder.

The Group's customer base is diversified. During the Relevant Periods, there was no single customer who accounted for 10% or more of the Group's revenue.

3 Segment reporting

The Group manages its business by lines of products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments, which are Dairy Farming and Dairy Products Production. Each reportable segment is a separate business unit which offers different products, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

– Dairy Farming – breeding dairy cows to produce and sell raw milk.

– Dairy Products Production – producing and selling Pasteurised Milk, Ultra High Temperature Milk ("UHT Milk"), Modified Milk, Yogurt and Other Dairy Products.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all assets with the exception of deferred tax assets. Segment liabilities include all current and non-current liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reportable segment cost of sales does not include "gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest".

The measure used for reportable segment gross profit does not include "gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest".

The measure used for reportable segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including interest income and interest expenses, and "depreciation and amortisation" is regarded as including the depreciation and amortisation of and the impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' remuneration and the gains and losses arising from the changes in fair value (including the changes arising from biological assets and agricultural produce) as management believes that such adjusted information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition to receiving segment information concerning the above items, management is provided with segment information concerning interest income, interest expenses, depreciation and amortisation expenses and additions to non-current segment assets related to each segment in their operations. There are transfers of the raw milk produced by Dairy Farming segment to Dairy Products Production segments. The pricing is determined with reference to market price.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the Relevant Periods is set out below:

	Year ended 31 December 2012		
	Dairy Farming	**Dairy Products Production**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Revenue			
Revenue from external customers	1,367	419,050	420,417
Inter-segment revenue	61,411	–	61,411
Reportable segment revenue	62,778	419,050	481,828
Cost of sales			
Cost of sales related to revenue from external customers	1,238	307,164	308,402
Inter-segment cost of sales	54,752	–	54,752
Reportable segment cost of sales	55,990	307,164	363,154
Reportable segment gross profit	6,788	111,886	118,674
Reportable segment profit (adjusted EBITDA)	19,301	77,322	96,623
Interest income	47	197	244
Interest expenses	–	16,190	16,190
Depreciation and amortisation	8,589	13,896	22,485
Reportable segment assets	456,261	810,257	1,266,518
Additions to non-current segment assets during the year	82,085	58,164	140,249
Reportable segment liabilities	422,328	451,104	873,432

	Year ended 31 December 2013		
	Dairy Farming	Dairy Products Production	Total
	RMB'000	RMB'000	RMB'000
Revenue			
Revenue from external customers	199	463,325	463,524
Inter-segment revenue	71,125	–	71,125
Reportable segment revenue	71,324	463,325	534,649
Cost of sales			
Cost of sales related to revenue from external customers	189	348,202	348,391
Inter-segment cost of sales	62,967	–	62,967
Reportable segment cost of sales	63,156	348,202	411,358
Reportable segment gross profit	8,168	115,123	123,291
Reportable segment profit (adjusted EBITDA)	20,907	84,437	105,344
Interest income	118	327	445
Interest expenses	946	24,895	25,841
Depreciation and amortisation	11,079	20,151	31,230
Reportable segment assets	564,590	827,840	1,392,430
Additions to non-current segment assets during the year	43,171	88,882	132,053
Reportable segment liabilities	372,090	593,734	965,824

	Year ended 31 December 2014		
	Dairy Farming	Dairy Products Production	Total
	RMB'000	RMB'000	RMB'000
Revenue			
Revenue from external customers	871	544,368	545,239
Inter-segment revenue	93,506	–	93,506
Reportable segment revenue	94,377	544,368	638,745
Cost of sales			
Cost of sales related to revenue from external customers	844	372,153	372,997
Inter-segment cost of sales	84,793	–	84,793
Reportable segment cost of sales	85,637	372,153	457,790
Reportable segment gross profit	8,740	172,215	180,955
Reportable segment profit (adjusted EBITDA)	28,831	119,729	148,560
Interest income	75	394	469
Interest expenses	2,017	24,803	26,820
Depreciation and amortisation	10,996	22,847	33,843
Reportable segment assets	581,194	935,084	1,516,278
Additions to non-current segment assets during the year	59,543	42,185	101,728
Reportable segment liabilities	387,312	637,327	1,024,639

	Three months ended 31 March 2014		
	Dairy Farming	Dairy Products Production	Total
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue			
Revenue from external customers	790	117,168	117,958
Inter-segment revenue	21,306	–	21,306
Reportable segment revenue	22,096	117,168	139,264
Cost of sales			
Cost of sales related to revenue from external customers	724	85,257	85,981
Inter-segment cost of sales	18,918	–	18,918
Reportable segment cost of sales	19,642	85,257	104,899
Reportable segment gross profit	2,454	31,911	34,365
Reportable segment profit (adjusted EBITDA)	7,566	20,818	28,384
Interest income	11	214	225
Interest expenses	465	6,234	6,699
Depreciation and amortisation	2,767	5,548	8,315
Reportable segment assets	517,771	799,934	1,317,705
Additions to non-current segment assets during the period	1,403	24,986	26,389
Reportable segment liabilities	325,791	557,178	882,969

	Three months ended 31 March 2015		
	Dairy Farming	**Dairy Products Production**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Revenue			
Revenue from external customers	–	145,411	145,411
Inter-segment revenue	20,394	–	20,394
Reportable segment revenue	20,394	145,411	165,805
Cost of sales			
Cost of sales related to revenue from external customers	–	98,417	98,417
Inter-segment cost of sales	18,993	–	18,993
Reportable segment cost of sales	18,993	98,417	117,410
Reportable segment gross profit	1,401	46,994	48,395
Reportable segment profit (adjusted EBITDA)	4,648	35,035	39,683
Interest income	33	385	418
Interest expenses	578	6,680	7,258
Depreciation and amortisation	2,578	6,927	9,505
Reportable segment assets	608,514	896,472	1,504,986
Additions to non-current segment assets during the period	5,906	12,364	18,270
Reportable segment liabilities	417,582	579,430	997,012

(b) Reconciliations of reportable segment revenue, cost of sales, gross profit, profit, assets and liabilities

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue					
Reportable segment revenue	481,828	534,649	638,745	139,264	165,805
Elimination of inter-segment revenue . . .	(61,411)	(71,125)	(93,506)	(21,306)	(20,394)
Consolidated turnover	420,417	463,524	545,239	117,958	145,411

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of sales					
Reportable segment cost of sales	363,154	411,358	457,790	104,899	117,410
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	3,214	5,692	4,918	1,257	1,295
Elimination of inter-segment cost of sales	(61,411)	(71,125)	(93,506)	(21,306)	(20,394)
Consolidated cost of sales .	304,957	345,925	369,202	84,850	98,311

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Gross profit					
Reportable segment gross profit	118,674	123,291	180,955	34,365	48,395
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	(3,214)	(5,692)	(4,918)	(1,257)	(1,295)
Consolidated gross profit . .	115,460	117,599	176,037	33,108	47,100

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit					
Reportable segment profit	96,623	105,344	148,560	28,384	39,683
Interest income	244	445	469	225	418
Interest expenses	(16,190)	(25,841)	(26,820)	(6,699)	(7,258)
Depreciation and amortisation	(22,485)	(31,230)	(33,843)	(8,315)	(9,505)
Loss arising from the changes in fair value less costs to sell of biological assets	(2,663)	(10,471)	(14,674)	(4,864)	(4,313)
Consolidated profit before taxation	55,529	38,247	73,692	8,731	19,025

	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Reportable segment assets	1,266,518	1,392,430	1,516,278	1,504,986
Deferred tax assets	2,281	3,400	3,776	4,156
Elimination between segments	(396,097)	(334,832)	(318,565)	(350,671)
Consolidated total assets	872,702	1,060,998	1,201,489	1,158,471

	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities				
Reportable segment liabilities	873,432	965,824	1,024,639	997,012
Elimination between segments	(396,097)	(334,832)	(318,565)	(350,671)
Consolidated total liabilities	477,335	630,992	706,074	646,341

(c) Geographic information

Since all the revenue from external customers is derived from the customers located in mainland China and the non-current assets are mainly obtained and all located in mainland China while all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, there is no information separated by different geographical locations within mainland China provided to the Group's management.

4 OTHER NET INCOME

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Government grants	8,983	10,680	8,529	646	1,879
Net income from sales of materials	3,267	4,031	4,334	931	887
Net loss on disposal of property, plant and equipment	(602)	(3,294)	–	–	–
Others	2,556	2,424	2,855	996	574
Total	14,204	13,841	15,718	2,573	3,340

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Cost of sales

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Breeding costs to produce raw milk *(Note 15(b))**	26,801	40,955	50,914	11,315	11,354
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest *(Note 5(b))*	3,214	5,692	4,918	1,257	1,295
Production costs incurred for dairy products*	274,942	299,278	313,370	72,278	85,662
Cost of inventories sold	304,957	345,925	369,202	84,850	98,311

* Breeding costs to produce raw milk and production costs incurred include, in aggregate, RMB27,516,000, RMB35,348,000, RMB38,899,000, RMB9,091,000 (unaudited) and RMB11,607,000 for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, respectively, relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately in notes 5(e) and 5(f) for each of these types of expenses.

(b) Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	3,214	5,692	4,918	1,257	1,295
Included in:					
– cost of sales *(Note 5(a))*	3,214	5,692	4,918	1,257	1,295
Total gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	3,214	5,692	4,918	1,257	1,295

(c) Loss arising from changes in fair value less costs to sell of biological assets

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Loss arising from changes in fair value less costs to sell of biological assets *(Note 15(b))*	(2,663)	(10,471)	(14,674)	(4,864)	(4,313)

(d) Finance costs

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income	(244)	(445)	(469)	(225)	(418)
Interest expenses on bank loans					
– Interest on bank loans wholly repayable within five years	12,143	23,246	23,695	5,760	6,724
– Interest on bank loans wholly repayable over five years	4,139	1,965	3,380	851	399
Finance charges on obligations under finance leases	674	805	727	211	135
Less: interest expenses capitalised	(766)	(175)	(982)	(123)	–
Total	15,946	25,396	26,351	6,474	6,840

(e) Staff costs

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Salaries, bonuses and allowances	21,696	22,134	28,237	6,256	8,442
Pension insurance *(Note (i))*	1,584	1,511	2,315	484	570
Other social insurances *(Note (ii))*	1,493	1,405	2,183	462	544
Fees charged for hiring workers from labour dispatching companies	2,061	2,230	563	282	119
Staff welfare	951	1,320	1,176	411	309
Total	27,785	28,600	34,474	7,895	9,984

Notes:

(i) The employees of the subsidiaries of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the PRC subsidiaries are required to contribute to the schemes according to the relevant national and local social welfare laws and regulations. Employees of the PRC subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

(ii) Pursuant to the relevant laws and regulations of the PRC, employees of the PRC subsidiaries participate in the social insurance system established and managed by local government organisations. The Group make social insurance contributions, including contributions to basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and etc., as well as contributions to housing fund, at the applicable benchmarks and rates stipulated by the local government for the benefit of their employees.

(f) Other items

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Depreciation and amortisation	22,485	31,230	33,843	8,315	9,505
Auditors' remuneration – audit services	300	1,550	1,174	–	240

6 INCOME TAX

(a) Income tax in the consolidated statements of profit or loss represents:

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Current taxation:					
PRC income tax *(Note 28(a))*	1,590	4,727	8,659	601	2,690
Deferred taxation:					
Origination and reversal of temporary differences *(Note 28(b))*	(371)	(1,119)	(376)	97	(380)
Total	1,219	3,608	8,283	698	2,310

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Profit before taxation	55,529	38,247	73,692	8,731	19,025
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Note (i))*	13,882	9,562	18,422	2,183	4,757
Effect of tax exemption *(Notes (iii))*	(7,145)	(2,274)	(2,822)	(632)	(567)
Reduction in tax rate *(Note (ii))*	(5,553)	(3,825)	(7,369)	(873)	(1,903)
Effect of non-deductible expenses	35	145	52	20	23
Income tax	1,219	3,608	8,283	698	2,310

Notes:

(i) The Company and its subsidiaries are subject to PRC Enterprise Income Tax statutory rate of 25% for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015.

(ii) Pursuant to the Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax Concerning In-depth Implementation of Western Region Development Strategy (《國家稅務總局關於深入實施西部大開發戰略有關企業所得稅問題的公告》) promulgated by the State Administration of Taxation on 6 April 2012 and effective on 1 January 2011, from 1 January 2011 to 31 December 2020, the Company and its subsidiaries established in the Western Region of the PRC are entitled to the preferential income tax rate of 15%.

(iii) According to the PRC Enterprise Income Tax Law and the Implementation Rules, the Group's income arising from certain agricultural activities is exempted from Enterprise Income Tax.

7 DIRECTORS' REMUNERATION

Directors' remuneration during the Relevant Periods is as follows:

	Year ended 31 December 2012				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Ma Hongfu	–	124	–	6	130
Mr. Wang Guofu	–	66	39	6	111
Mr. Chen Yuhai	–	64	41	6	111
Mr. Yan Bin (appointed on 26 May 2012)	–	66	25	6	97
Mr. Chen Jianlu (resigned on 26 May 2012)	–	63	36	6	105
Non-Executive Directors					
Mr. Yap Kean Chong	–	–	–	–	–
Mr. Hu Jiawu	–	–	–	–	–
Independent Non-Executive Directors					
Mr. Bai Yongzhi	20	–	–	–	20
Ms. Xin Shihua	20	–	–	–	20
Mr. Gao Xincai (appointed on 26 May 2012)	20	–	–	–	20
Mr. Wu Si Zong (resigned on 26 May 2012)	–	–	–	–	–
Supervisors					
Mr. Zhao Qinghua	20	–	–	–	20
Ms. Du Wei	–	45	6	6	57
Mr. Pan Jin	–	–	–	–	–
Total	80	428	147	36	691

	Year ended 31 December 2013				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Ma Hongfu	–	130	–	7	137
Mr. Wang Guofu	–	69	67	7	143
Mr. Chen Yuhai	–	68	103	7	178
Mr. Yan Bin	–	68	63	7	138
Non-Executive Directors					
Mr. Yap Kean Chong	–	–	–	–	–
Mr. Hu Jiawu	–	–	–	–	–
Independent Non-Executive Directors					
Mr. Bai Yongzhi	20	–	–	–	20
Ms. Xin Shihua	20	–	–	–	20
Mr. Gao Xincai	20	–	–	–	20
Supervisors					
Mr. Zhao Qinghua	20	–	–	–	20
Ms. Du Wei	–	49	25	7	81
Mr. Pan Jin	–	–	–	–	–
Total	80	384	258	35	757

	Year ended 31 December 2014				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Ma Hongfu	–	123	–	7	130
Mr. Wang Guofu	–	70	94	7	171
Mr. Chen Yuhai	–	71	170	7	248
Mr. Yan Bin	–	71	78	7	156
Non-Executive Directors					
Mr. Yap Kean Chong	–	–	–	–	–
Mr. Hu Jiawu	–	–	–	–	–
Independent Non-Executive Directors					
Mr. Bai Yongzhi	20	–	–	–	20
Ms. Xin Shihua	20	–	–	–	20
Mr. Gao Xincai	20	–	–	–	20
Supervisors					
Mr. Zhao Qinghua	20	–	–	–	20
Ms. Du Wei	–	51	53	7	111
Mr. Pan Jin	–	–	–	–	–
Total	80	386	395	35	896

	Three months ended 31 March 2014				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000 (unaudited)	**RMB'000** (unaudited)	**RMB'000** (unaudited)	**RMB'000** (unaudited)	**RMB'000** (unaudited)
Executive Directors					
Mr. Ma Hongfu	–	32	–	2	34
Mr. Wang Guofu	–	18	21	2	41
Mr. Chen Yuhai	–	17	46	2	65
Mr. Yan Bin	–	17	16	2	35
Non-Executive Directors					
Mr. Yap Kean Chong	–	–	–	–	–
Mr. Hu Jiawu	–	–	–	–	–
Independent Non-Executive Directors					
Mr. Bai Yongzhi	5	–	–	–	5
Ms. Xin Shihua	5	–	–	–	5
Mr. Gao Xincai	5	–	–	–	5
Supervisors					
Mr. Zhao Qinghua	5	–	–	–	5
Ms. Du Wei	–	13	10	2	25
Mr. Pan Jin	–	–	–	–	–
Total	20	97	93	10	220

	Three months ended 31 March 2015				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Ma Hongfu	–	32	27	2	61
Mr. Wang Guofu	–	18	34	2	54
Mr. Chen Yuhai	–	23	25	2	50
Mr. Yan Bin	–	22	28	2	52
Non-Executive Directors					
Mr. Yap Kean Chong	–	–	–	–	–
Mr. Song Xiaopeng (appointed on 2 March 2015)	–	–	–	–	–
Mr. Hu Jiawu (resigned on 2 March 2015)	–	–	–	–	–
Independent Non-Executive Directors					
Mr. Bai Yongzhi	5	–	–	–	5
Ms. Xin Shihua	5	–	–	–	5
Mr. Wong Cho Hang Stanley (appointed on 2 March 2015)	8	–	–	–	8
Mr. Gao Xincai (resigned on 2 March 2015)	–	–	–	–	–
Supervisors					
Mr. Wei Lin (appointed on 2 March 2015)	5	–	–	–	5
Mr. Zhao Qinghua (resigned on 2 March 2015)	–	21	23	2	46
Ms. Du Wei	–	13	21	2	36
Mr. Pan Jin	–	–	–	–	–
Total	23	129	158	12	322

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 3, 1, nil, 1 (unaudited) and nil are directors for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015 whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the individuals who are not directors are as follows:

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, allowances and benefits in kind	85	180	254	53	79
Discretionary bonuses	125	680	1,521	237	440
Retirement scheme contributions	12	26	33	7	8
Total	222	886	1,808	297	527

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014 (unaudited)	2015
HK$Nil – HK$1,000,000	2	4	5	4	5

No emoluments were paid or payable to these employees as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015 includes a profit of RMB38,954,000, RMB33,256,000, RMB56,402,000, RMB8,347,000 (unaudited) and RMB14,729,000 respectively, which have been dealt with in the Financial Information of the Company (see note 29(a)).

10 BASIC AND DILUTED EARNINGS PER SHARE

The basic earnings per share for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015 are calculated based on the profit attributable to equity shareholders of the Company of RMB54,310,000, RMB34,639,000, RMB65,409,000, RMB8,033,000 (unaudited) and RMB16,715,000, respectively, and the weighted average of 105,370,000 ordinary shares during the Relevant Periods.

There was no difference between basic and diluted earnings per share as there were no dilutive potential shares outstanding during the Relevant Periods.

11 PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and buildings	Machinery and equipment	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2012	314,518	91,287	5,631	3,726	54,939	470,101
Additions	7,744	44,825	742	1,928	57,457	112,696
Transfer in/(out)	53,351	45,021	–	–	(98,372)	–
Disposals	–	(2,243)	–	(736)	–	(2,979)
At 31 December 2012	375,613	178,890	6,373	4,918	14,024	579,818
Accumulated depreciation:						
At 1 January 2012	(13,059)	(27,945)	(3,358)	(1,229)	–	(45,591)
Charge for the year	(10,624)	(11,472)	(749)	(723)	–	(23,568)
Written back on disposal	–	1,454	–	85	–	1,539
At 31 December 2012	(23,683)	(37,963)	(4,107)	(1,867)	–	(67,620)
Net book value:						
At 31 December 2012	351,930	140,927	2,266	3,051	14,024	512,198
Cost:						
At 1 January 2013	375,613	178,890	6,373	4,918	14,024	579,818
Additions	–	14,517	451	3,441	76,729	95,138
Transfer in/(out)	36,974	18,352	–	69	(55,395)	–
Disposals	(2,868)	(786)	–	–	–	(3,654)
At 31 December 2013	409,719	210,973	6,824	8,428	35,358	671,302
Accumulated depreciation:						
At 1 January 2013	(23,683)	(37,963)	(4,107)	(1,867)	–	(67,620)
Charge for the year	(12,352)	(19,005)	(874)	(1,230)	–	(33,461)
Written back on disposal	174	140	–	–	–	314
At 31 December 2013	(35,861)	(56,828)	(4,981)	(3,097)	–	(100,767)
Net book value:						
At 31 December 2013	373,858	154,145	1,843	5,331	35,358	570,535

	Plant and buildings	Machinery and equipment	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2014	409,719	210,973	6,824	8,428	35,358	671,302
Additions	7,405	3,890	429	3,395	70,462	85,581
Transfer in/(out)	52,512	23,908	–	–	(76,420)	–
At 31 December 2014	469,636	238,771	7,253	11,823	29,400	756,883
Accumulated depreciation:						
At 1 January 2014	(35,861)	(56,828)	(4,981)	(3,097)	–	(100,767)
Charge for the year	(13,670)	(20,749)	(845)	(2,004)	–	(37,268)
At 31 December 2014	(49,531)	(77,577)	(5,826)	(5,101)	–	(138,035)
Net book value:						
At 31 December 2014	420,105	161,194	1,427	6,722	29,400	618,848
Cost:						
At 1 January 2015	469,636	238,771	7,253	11,823	29,400	756,883
Additions	2,519	12,944	11	800	3,424	19,698
Transfer in/(out)	772	8,881	–	–	(9,653)	–
At 31 March 2015	472,927	260,596	7,264	12,623	23,171	776,581
Accumulated depreciation:						
At 1 January 2015	(49,531)	(77,577)	(5,826)	(5,101)	–	(138,035)
Charge for the period	(3,838)	(6,323)	(207)	(450)	–	(10,818)
At 31 March 2015	(53,369)	(83,900)	(6,033)	(5,551)	–	(148,853)
Net book value:						
At 31 March 2015	419,558	176,696	1,231	7,072	23,171	627,728

The Company

	Plant and buildings	Machinery and equipment	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2012	54,003	45,295	5,115	2,004	21,434	127,851
Additions	–	18,487	415	892	40,043	59,837
Transfer in/(out)	16,149	35,924	–	–	(52,073)	–
Disposals	–	(2,242)	–	–	–	(2,242)
At 31 December 2012	70,152	97,464	5,530	2,896	9,404	185,446
Accumulated depreciation:						
At 1 January 2012	(5,913)	(19,638)	(2,937)	(1,015)	–	(29,503)
Charge for the year	(1,871)	(6,085)	(694)	(336)	–	(8,986)
Written back on disposal	–	1,453	–	–	–	1,453
At 31 December 2012	(7,784)	(24,270)	(3,631)	(1,351)	–	(37,036)
Net book value:						
At 31 December 2012	62,368	73,194	1,899	1,545	9,404	148,410
Cost:						
At 1 January 2013	70,152	97,464	5,530	2,896	9,404	185,446
Additions	–	12,080	112	2,960	13,932	29,084
Transfer in/(out)	1,583	7,381	–	–	(8,964)	–
At 31 December 2013	71,735	116,925	5,642	5,856	14,372	214,530
Accumulated depreciation:						
At 1 January 2013	(7,784)	(24,270)	(3,631)	(1,351)	–	(37,036)
Charge for the year	(2,284)	(10,522)	(709)	(626)	–	(14,141)
At 31 December 2013	(10,068)	(34,792)	(4,340)	(1,977)	–	(51,177)
Net book value:						
At 31 December 2013	61,667	82,133	1,302	3,879	14,372	163,353
Cost:						
At 1 January 2014	71,735	116,925	5,642	5,856	14,372	214,530
Additions	79	5,295	273	2,468	11,003	19,118
Transfer in/(out)	6,842	9,523	–	–	(16,365)	–
At 31 December 2014	78,656	131,743	5,915	8,324	9,010	233,648
Accumulated depreciation:						
At 1 January 2014	(10,068)	(34,792)	(4,340)	(1,977)	–	(51,177)
Charge for the year	(2,299)	(11,717)	(652)	(1,050)	–	(15,718)
At 31 December 2014	(12,367)	(46,509)	(4,992)	(3,027)	–	(66,895)
Net book value:						
At 31 December 2014	66,289	85,234	923	5,297	9,010	166,753

	Plant and buildings	Machinery and equipment	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2015	78,656	131,743	5,915	8,324	9,010	233,648
Additions	–	11,360	11	800	526	12,697
Transfer in/(out)	–	1,714	–	–	(1,714)	–
At 31 March 2015	78,656	144,817	5,926	9,124	7,822	246,345
Accumulated depreciation:						
At 1 January 2015	(12,367)	(46,509)	(4,992)	(3,027)	–	(66,895)
Charge for the period	(646)	(3,393)	(157)	(342)	–	(4,538)
At 31 March 2015	(13,013)	(49,902)	(5,149)	(3,369)	–	(71,433)
Net book value:						
At 31 March 2015	65,643	94,915	777	5,755	7,822	174,912

12 INVESTMENT IN SUBSIDIARIES

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	50,000	210,000	210,000	210,000

As at 31 March 2015, the Company had interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Subsidiaries of the Group during the Relevant Periods:

Name of company	Place and date of establishment	Particulars of registered and paid up capital	Percentage of direct ownership interest held as at 31 December 2012	31 December 2013	31 December 2014	31 March 2015	Principal activities
		RMB'000					
Qinghai Qinghaihu Dairy Co., Ltd. 青海青海湖乳業有限責任公司	The PRC 6 December 2004	30,000	100%	100%	100%	100%	Dairy products production
Qinghai Shengya Plateau Pasture Co., Ltd. 青海聖亞高原牧場有限公司	The PRC 17 December 2009	30,000	100%	100%	100%	100%	Dairy farming
Qinghai Shengyuan Pasture Co., Ltd. 青海聖源牧場有限公司	The PRC 15 July 2010	30,000	100%	100%	100%	100%	Dairy farming
Yuzhong Ruifeng Pasture Co., Ltd. 榆中瑞豐牧場有限公司	The PRC 25 May 2010	20,000	100%	100%	100%	100%	Dairy farming

Name of company	Place and date of establishment	Particulars of registered and paid up capital	Percentage of direct ownership interest held as at 31 December 2012	31 December 2013	31 December 2014	31 March 2015	Principal activities
		RMB'000					
Linxia County Ruiyuan Pasture Co., Ltd. 臨夏縣瑞園牧場有限公司	The PRC 25 March 2010	30,000	100%	100%	100%	100%	Dairy farming
Linxia County Ruian Pasture Co., Ltd. 臨夏縣瑞安牧場有限公司	The PRC 25 March 2010	20,000	100%	100%	100%	100%	Dairy farming
Wuwei Ruida Pasture Co., Ltd. 武威瑞達牧場有限公司	The PRC 27 April 2010	20,000	100%	100%	100%	100%	Dairy farming
Ningxia Zhuangyuan Pasture Co., Ltd. 寧夏莊園牧場有限公司	The PRC 23 July 2010	20,000	100%	100%	100%	100%	Dairy farming
Lanzhou Ruixing Farming Co., Ltd. 蘭州瑞興牧業有限公司	The PRC 25 July 2013	10,000	100%	100%	100%	100%	Dairy farming

* The English translation of the companies' names is for reference only. The official names of these companies are in Chinese.

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group and the Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Equity instrument				
– Xi'an Dongfang Dairy Co., Ltd. .	–	33,676	33,676	33,676
– Gansu Yuzhong Rural Cooperative Bank	44	44	44	44
Total	44	33,720	33,720	33,720

The Company acquired 18% equity interests in Xi'an Dongfang Dairy Co., Ltd. in 2013, and has no significant influence on the investee during the Relevant Periods. The Company accounted for this equity instrument as available-for-sale financial assets. In directors' opinion, the fair value of the newly acquired investment in this non-listed equity investee approximated to the investment cost as at 31 December 2013 and 2014 and 31 March 2015.

There is no impairment indicator of the investments as at 31 December 2013 and 2014 and 31 March 2015, respectively. During the Relevant Periods, the Company did not receive any cash dividends.

14 LEASE PREPAYMENTS

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At the beginning of the year/period	12,073	13,924	17,119	17,249
Additions	1,851	3,195	130	–
At the end of the year/period	13,924	17,119	17,249	17,249
Accumulated amortisation:				
At the beginning of the year/period	(479)	(1,121)	(1,967)	(2,873)
Amortisation for the year/period	(642)	(846)	(906)	(230)
At the end of the year/period	(1,121)	(1,967)	(2,873)	(3,103)
Net book value:				
At the end of the year/period	12,803	15,152	14,376	14,146

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At the beginning of the year/period	7,761	7,761	10,956	10,956
Additions	–	3,195	–	–
At the end of the year/period	7,761	10,956	10,956	10,956
Accumulated amortisation:				
At the beginning of the year/period	(216)	(370)	(524)	(677)
Amortisation for the year/period	(154)	(154)	(153)	(39)
At the end of the year/period	(370)	(524)	(677)	(716)
Net book value:				
At the end of the year/period	7,391	10,432	10,279	10,240

Lease prepayments of the Group and the Company mainly represent the payments for the acquisitions of lands held under operating leases.

15 BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

Biological assets of the Group are dairy cows held to produce raw milk.

The quantity of the dairy cows owned by the Group as at 31 December 2012, 2013 and 2014 and 31 March 2015 was shown below. The Group's dairy cows are milkable cows held for raw milk production and heifers and calves that have not reached the age to produce raw milk.

	At 31 December			At 31 March
	2012	**2013**	**2014**	**2015**
Milkable cows	1,541	2,398	2,180	2,080
Heifers	1,551	1,191	2,137	2,040
Calves	449	423	505	616
Total	3,541	4,012	4,822	4,736

In general, the heifers are inseminated when they reach approximately 14 months old. After a gestation period of approximately 10 months, a calf is born and the heifers begin to produce raw milk and the lactation periods begin. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 300 days in each lactation period. The male calves newly born are sold while the female calves are bred for 6 months and then transferred to the group of heifers for preparation of insemination.

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in note 30(e), the Group is exposed to the following operating risks:

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates breeding. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

(ii) Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular inspections and disease controls and surveys and insurance.

(b) Value of the Group's biological assets

The amounts of the dairy cows are as below:

	Year ended 31 December 2012			
	Calves	**Heifers**	**Milkable cows**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2012	2,236	5,130	27,750	35,116
Add: purchase costs	224	15,424	1,526	17,174
breeding costs#	5,507	11,010	26,801	43,318
Transfer between groups:				
– transfer in	–	2,838	6,981	9,819
– transfer out	(2,838)	(6,981)	–	(9,819)
Changes in fair value less costs to sell of biological assets*	(1,540)	(2,244)	1,121	(2,663)
Gain arising on initial recognition of milk at fair value less costs to sell upon milking and harvest	–	–	3,214	3,214
Transfer to inventories upon milking	–	–	(30,015)	(30,015)
Decrease due to disposal	(120)	(1,958)	(3,081)	(5,159)
At 31 December 2012	3,469	23,219	34,297	60,985

	Year ended 31 December 2013			
	Calves	**Heifers**	**Milkable cows**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2013	3,469	23,219	34,297	60,985
Add: purchase costs	113	4,163	5,497	9,773
breeding costs#	7,124	17,101	40,955	65,180
Transfer between groups:				
– transfer in	–	7,157	24,008	31,165
– transfer out	(7,157)	(24,008)	–	(31,165)
Changes in fair value less costs to sell of biological assets*	36	(6,171)	(4,336)	(10,471)
Gain arising on initial recognition of milk at fair value less costs to sell upon milking and harvest	–	–	5,692	5,692
Transfer to inventories upon milking	–	–	(46,647)	(46,647)
Decrease due to disposal	–	(557)	(4,377)	(4,934)
At 31 December 2013	3,585	20,904	55,089	79,578

	Year ended 31 December 2014			
	Calves	**Heifers**	**Milkable cows**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2014	3,585	20,904	55,089	79,578
Add: purchase costs	–	17,483	–	17,483
breeding costs#	7,809	18,714	50,914	77,437
Transfer between groups:				
– transfer in	–	6,940	11,688	18,628
– transfer out	(6,940)	(11,688)	–	(18,628)
Changes in fair value less costs to sell of biological assets*	(73)	(7,683)	(6,918)	(14,674)
Gain arising on initial recognition of milk at fair value less costs to sell upon milking and harvest	–	–	4,918	4,918
Transfer to inventories upon milking	–	–	(55,832)	(55,832)
Decrease due to disposal	–	(146)	(5,500)	(5,646)
At 31 December 2014	4,381	44,524	54,359	103,264

	Three months ended 31 March 2015			
	Calves	**Heifers**	**Milkable cows**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2015	4,381	44,524	54,359	103,264
Add: purchase costs	–	–	–	–
breeding costs#	1,859	6,084	11,354	19,297
Transfer between groups:				
– transfer in	–	696	4,423	5,119
– transfer out	(696)	(4,423)	–	(5,119)
Changes in fair value less costs to sell of biological assets*	(188)	(1,772)	(2,353)	(4,313)
Gain arising on initial recognition of milk at fair value less costs to sell upon milking and harvest	–	–	1,295	1,295
Transfer to inventories upon milking	–	–	(12,649)	(12,649)
Decrease due to disposal	(8)	(148)	(2,271)	(2,427)
At 31 March 2015	5,348	44,961	54,158	104,467

Breeding costs incurred for dairy cows mainly include feeding costs, staff costs, depreciation and amortisation expenses and utilities costs incurred.

* Changes in fair value less costs to sell of biological assets include the changes in the fair value of the dairy cows disposed, i.e. the write-down of the carrying amounts of such dairy cows to their market selling prices upon disposal.

The Group's dairy cows were independently valued by the independent valuers, Jones Lang LaSalle Sallmanns Limited. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in note 30(e).

(c) Quantity of the agricultural produce produced by the Group's biological assets

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	Tonne	Tonne	Tonne	Tonne (unaudited)	Tonne
Raw milk produced .	8,365	11,468	13,528	3,065	3,084

16 OTHER NON-CURRENT ASSETS

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to third parties	8,528	32,475	31,009	29,581

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to third parties	8,528	31,595	30,609	29,301

Advance to third parties represent primarily payments made to support certain third party farmers, who supply raw milk to the Group.

17 INVENTORIES

(a) Inventories in the consolidated statements of financial position and statement of financial position of the Company comprise:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Feeds and other materials to breed dairy cows	45,541	34,677	35,934	28,198
Other materials for producing dairy products	25,202	29,346	23,347	24,574
Finished goods	43,744	57,299	49,364	35,162
Less: write-down of inventories	–	–	–	–
Total	114,487	121,322	108,645	87,934

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Other materials for producing dairy products	14,713	17,470	11,415	12,650
Finished goods	30,340	30,376	39,864	28,838
Less: write-down of inventories	–	–	–	–
Total	45,053	47,846	51,279	41,488

(b) The analysis of the amount of inventories recognised as cost of sales in the consolidated statements of profit or loss is as follows:

	The Group				
	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Carrying amount of inventories sold *(Note 5(a))*	304,957	345,925	369,202	84,850	98,311

18 TRADE RECEIVABLES

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivable due from third parties	38,975	35,604	22,463	22,593
Less: allowance for impairment of doubtful debts	(1,114)	(1,975)	(680)	(799)
Total	37,861	33,629	21,783	21,794

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivable due from third parties	28,750	25,621	10,584	10,493
Trade receivable due from subsidiaries	11,551	35,236	57,173	58,201
Less: allowance for impairment of doubtful debts	(216)	(1,011)	(219)	(237)
Total	40,085	59,846	67,538	68,457

(a) Ageing analysis

Included in trade receivables were debtors with the following ageing analysis as at 31 December 2012, 2013 and 2014 and 31 March 2015:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 3 months	32,107	26,436	17,509	20,657
More than 3 months but less than 6 months	2,843	2,308	2,426	690
More than 6 months but less than 12 months	2,822	1,297	1,303	411
More than 1 year but less than 2 years	89	3,588	545	36
Total	37,861	33,629	21,783	21,794

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 3 months	35,067	23,375	11,284	13,134
More than 3 months but less than 6 months	2,187	12,438	9,398	2,211
More than 6 months but less than 12 months	2,763	17,918	13,182	16,728
More than 1 year but less than 2 years	68	6,115	31,226	26,652
More than 2 years	–	–	2,448	9,732
Total	40,085	59,846	67,538	68,457

Further details on the Group's credit policy are set out in note 30(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group and the Company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(i) (i)).

The movement in the allowance for doubtful debts is as follows:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	722	1,114	1,975	680
Impairment losses recognised	1,028	992	245	175
Impairment losses reversed	(636)	(131)	(1,540)	(56)
At the end of the year/period	1,114	1,975	680	799

The Group's trade receivable of RMB1,114,000, RMB1,975,000, RMB680,000 and RMB799,000 as at 31 December 2012, 2013 and 2014 and 31 March 2015 were individually determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period.	689	216	1,011	219
Impairment losses recognised	163	849	218	73
Impairment losses reversed . .	(636)	(54)	(1,010)	(55)
At the end of the year/period .	216	1,011	219	237

The Company's trade receivable of RMB216,000, RMB1,011,000, RMB219,000 and RMB237,000 as at 31 December 2012, 2013 and 2014 and 31 March 2015 were individually determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Company does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	37,861	33,629	21,783	21,794

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	40,085	59,846	67,538	68,457

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for breeding dairy cows	1,149	953	293	1,103
Prepayments for producing dairy products	10,501	10,569	6,919	5,083
Prepayments for refundable rents of finance lease	2,035	2,035	2,035	2,035
Prepayments for equipments accessories	905	3,685	4,481	402
Prepayments for purchase of dairy cows	–	2,625	–	–
Advances to staff	3,404	3,169	2,176	2,047
Advance to third parties	2,110	2,176	1,026	1,026
Deposits with third parties	643	704	745	638
Deductible value added tax	1,853	4,427	2,977	2,402
Others	5,906	5,698	6,186	8,295
Less: allowance for impairment of doubtful debts	(562)	(3,448)	(2,972)	(2,754)
Total	27,944	32,593	23,866	20,277

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for producing dairy products				
– Intra-group entities	1,864	2,694	18,408	18,659
– Third parties	4,191	5,238	1,252	568
Prepayments for refundable rents of finance lease	775	775	775	775
Prepayments for equipments accessories	676	2,087	2,738	5
Advances to staff	1,173	1,298	1,020	976
Deposits with third parties	295	356	274	273
Deductible value added tax	1,589	2,847	2,557	2,000
Receivables from subsidiaries	356,029	216,608	249,295	265,077
Others	1,961	2,034	1,151	1,807
Less: allowance for impairment of doubtful debts	(217)	(349)	(702)	(704)
Total	368,336	233,588	276,768	289,436

All of the deposits, prepayments and other receivables the Group and the Company are expected to be recovered or recognised in the statements of profit or loss or to other items in the statement of financial position within one year.

The movement in the allowance for doubtful debts is as follows:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	139	562	3,448	2,972
Impairment losses recognised	423	2,886	–	100
Impairment losses reversed	–	–	(476)	(318)
At the end of the year/period	562	3,448	2,972	2,754

The Group's deposits, prepayments and other receivables of RMB562,000, RMB3,448,000, RMB2,972,000 and RMB2,754,000 as at 31 December 2012, 2013 and 2014 and 31 March 2015 were individually determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	–	217	349	702
Impairment losses recognised	217	132	391	35
Impairment losses reversed	–	–	(38)	(33)
At the end of the year/period	217	349	702	704

The Company's deposits, prepayments and other receivables of RMB217,000, RMB349,000, RMB702,000 and RMB704,000 as at 31 December 2012, 2013 and 2014 and 31 March 2015 were individually determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Company does not hold any collateral over these balances.

For the other balances of deposits, prepayments and other receivables for the Group and the Company, the management is of the opinion that the counterparties are with good credit quality and the balances are considered fully recoverable.

20 PLEDGED DEPOSIT, CASH AND CASH EQUIVALENTS

Pledged deposit, cash and cash equivalents in the consolidated statements of financial position, the statement of financial position of the Company and consolidated cash flow statements comprise:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged deposit *(Note (i))*	6,255	6,271	26,748	8,842
Cash at bank and on hand	89,316	132,323	215,454	205,826
Total	95,571	138,594	242,202	214,668

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged deposit *(Note (i))*	6,255	6,271	26,748	8,842
Cash at bank and on hand	32,317	62,152	106,677	80,531
Total	38,572	68,423	133,425	89,373

Note:

(i) Details of pledged deposits of the Group and the Company are as follows:

	The Group and the Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged deposits against:				
– Bank loans	6,255	6,271	6,292	6,298
– Bills payable	–	–	20,456	2,544
Total	6,255	6,271	26,748	8,842

21 TRADE AND BILLS PAYABLES

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable for purchase of raw milk, packing material and auxiliary material	43,204	45,031	55,366	52,863
Trade payable for purchase of forage and veterinary medicine	6,290	7,562	13,781	7,759
Bills payable	–	–	40,912	5,089
Total	49,494	52,593	110,059	65,711

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable for purchase of raw milk, packing material and auxiliary material				
– Intra-group entities	5,674	21,298	51,008	56,901
– Third parties	33,084	29,039	32,814	26,751
Bills payable	–	–	40,912	5,089
Total	38,758	50,337	124,734	88,741

All of the trade and bills payables of the Group and the Company are expected to be settled within one year.

As at 31 December 2012, 2013 and 2014 and 31 March 2015, the ageing analysis of trade payables, based on invoice date, is as follows:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 3 months	40,861	44,358	58,608	24,645
More than 3 months but less than 6 months	3,478	2,097	42,218	34,042
More than 6 months but less than 12 months	1,213	1,446	3,466	4,303
More than 1 year but less than 2 years	286	883	1,322	1,280
More than 2 years	3,656	3,809	4,445	1,441
Total	49,494	52,593	110,059	65,711

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 3 months	34,641	39,667	45,872	19,607
More than 3 months but less than 6 months	2,757	3,521	40,655	29,712
More than 6 months but less than 12 months	306	4,317	22,332	17,797
More than 1 year but less than 2 years	154	1,811	13,242	18,826
More than 2 years	900	1,021	2,633	2,799
Total	38,758	50,337	124,734	88,741

22 RECEIPTS IN ADVANCE

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Receipts in advance for sales of products	10,339	17,514	28,107	10,120

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Receipts in advance for sales of products	4,809	12,262	24,710	8,066

23 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for acquisition of property, plant and equipment	15,700	18,199	11,836	19,053
Payables for accessories	4,719	5,246	6,195	5,036
Employee benefits payables	3,458	3,230	4,925	5,084
Payables for advertising and promotion expenses	2,359	2,076	2,995	2,291
Payables for interest expenses	530	907	878	1,060
Payables for value added tax and other taxes	2,801	3,467	4,957	4,387
Conditional government grants received but not yet recognised *(Note (i))*	3,653	8,033	6,836	6,836
Deposit from third parties	2,450	3,325	3,259	3,228
Others	2,529	2,259	4,668	4,052
Total	38,199	46,742	46,549	51,027

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for acquisition of property, plant and equipment	5,184	7,019	5,281	11,820
Payables for accessories	3,222	2,445	3,148	2,106
Employee benefits payables	2,454	2,404	3,745	3,615
Payables for advertising and promotion expenses	1,737	1,342	2,064	2,203
Payables for interest expenses	439	751	728	1,008
Payables for value added tax and other taxes	2,364	2,445	2,779	2,661
Conditional government grants received but not yet recognised *(Note (i))*	1,300	1,300	1,300	1,300
Deposit from third parties	1,634	2,398	2,734	2,744
Others	660	10,341	4,296	3,545
Total	18,994	30,445	26,075	31,002

Note (i): In accordance with the relevant guidance of government, these government grants can only be recognised upon the Group complying with the conditions of certain amount of infrastructure investment on and completion of the Group's dairy farms and products production facilities.

Except for conditional government grants afore-mentioned, all of the accrued expenses and other payables of the Group and the Company are expected to be settled or recognised in the statements of profit or loss or to other items in the statement of financial position within one year.

24 NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income due within 1 year *(Note 26)*	1,273	2,040	2,381	2,571
Obligations under finance leases due within 1 year *(Note 27)*	3,354	5,346	6,256	5,581
Other long-term payables due within 1 year	–	–	5,228	2,180
Total	4,627	7,386	13,865	10,332

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income due within 1 year *(Note 26)*	625	870	1,007	1,193
Obligations under finance leases due within 1 year *(Note 27)*	1,648	3,499	4,352	4,162
Other long-term payables due within 1 year	–	–	1,917	677
Total	2,273	4,369	7,276	6,032

25 BANK LOANS

(a) The short-term bank loans are analysed as follows:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans	260,000	360,000	371,500	371,500
Add: current portion of long-term bank loans	6,000	6,500	5,000	5,000
Total	266,000	366,500	376,500	376,500

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans	250,000	335,000	320,000	320,000

As at 31 December 2012, 2013 and 2014 and 31 March 2015, the short-term bank loans (excluding the current portion of long-term bank loans) were secured and/or guaranteed as follows:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Secured by land use rights, property, plant and equipment of the Group *(Note (b)(i))*	80,000	120,000	190,000	190,000
Secured by land use rights, property, plant and equipment of the Group and guaranteed by Controlling Shareholder *(Note (b)(i))*	40,000	70,000	30,000	30,000
Secured by land use rights of third parties	–	–	50,000	50,000
Secured by land use rights of third parties and guaranteed by Controlling Shareholder	130,000	130,000	40,000	40,000
Secured by bank deposit of third parties	–	–	11,500	11,500
Jointly guaranteed by intra-group entities and Controlling Shareholder	–	20,000	30,000	30,000
Guaranteed by Controlling Shareholder	–	15,000	10,000	10,000
Jointly guaranteed by Controlling Shareholder and third parties	10,000	5,000	–	–
Guaranteed by third parties	–	–	10,000	10,000
Total	260,000	360,000	371,500	371,500

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Secured by land use rights, property, plant and equipment of the Group *(Note (b)(ii))*	80,000	120,000	190,000	190,000
Secured by land use rights, property, plant and equipment of the Group and guaranteed by Controlling Shareholder *(Note (b)(ii))*	40,000	70,000	30,000	30,000
Secured by land use rights of third parties	–	–	50,000	50,000
Secured by land use rights of third parties and guaranteed by Controlling Shareholder	130,000	130,000	40,000	40,000
Guaranteed by Controlling Shareholder	–	15,000	10,000	10,000
Total	250,000	335,000	320,000	320,000

(b) The long-term bank loans are analysed as follows:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Long-term bank loans	78,000	93,000	78,500	78,500
Less: current portion of long-term bank loans	(6,000)	(6,500)	(5,000)	(5,000)
Total	72,000	86,500	73,500	73,500

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Long-term bank loans	45,000	42,000	34,000	34,000

As at 31 December 2012, 2013 and 2014 and 31 March 2015, the long-term bank loans (including the current portion of long-term bank loans) were secured and/or guaranteed as follows:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Jointly secured by land use rights, property, plant and equipment of the Group and land use rights of third parties and guaranteed by the Controlling Shareholder *(Note (i))*	45,000	42,000	34,000	34,000
Guaranteed by third parties	6,000	2,000	–	–
Jointly guaranteed by the Controlling Shareholder and third parties	27,000	49,000	44,500	44,500
Total	78,000	93,000	78,500	78,500

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Jointly secured by land use rights, property, plant and equipment of the Group and land use rights of third parties and guaranteed by the Controlling Shareholder *(Note (ii))*	45,000	42,000	34,000	34,000

Notes:

(i) As at 31 December 2012, 2013 and 2014 and 31 March 2015, the aggregate net book value of the pledged land use rights and property, plant and equipment of the Group was RMB487,936,000, RMB464,908,000, RMB589,970,000 and RMB593,386,000, respectively.

(ii) As at 31 December 2012, 2013 and 2014 and 31 March 2015, the aggregate net book value of the pledged land use rights and property, plant and equipment of the Company was RMB142,953,000, RMB151,037,000, RMB158,606,000 and RMB167,604,000, respectively.

All of the non-current interest-bearing borrowings of the Group and the Company are carried at amortised cost, and are not expected to be settled within one year.

None of the Group and the Company's bank loans is subject to the fulfilment of covenants. Details of the Group's management of liquidity risk are set out in note 30(b).

26 DEFERRED INCOME

	The Group			
	At 31 December			**At 31 March**
	2012	**2013**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Government grants	26,981	40,962	42,552	44,609
Less: Portion classified as current liabilities *(Note 24)*	(1,273)	(2,040)	(2,381)	(2,571)
Total	25,708	38,922	40,171	42,038

	The Company			
	At 31 December			**At 31 March**
	2012	**2013**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Government grants	11,700	12,280	12,874	15,175
Less: Portion classified as current liabilities *(Note 24)*	(625)	(870)	(1,007)	(1,193)
Total	11,075	11,410	11,867	13,982

The Group and the Company have been awarded government grants as at 31 December 2012, 2013 and 2014 and 31 March 2015, which were conditional upon the construction and acquisition of property, plant and equipment for dairy farm and production facilities. The above government grants have been recognised as deferred income and are being amortised over the useful lives of the related assets to profit or loss.

27 OBLIGATIONS UNDER FINANCE LEASES

	The Group							
	At 31 December						At 31 March	
	2012		2013		2014		2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount repayable:								
Within one year *(Note 24)*	3,974	3,354	6,049	5,346	6,658	6,256	5,912	5,581
In the second year	3,974	3,619	5,981	5,648	3,330	3,155	2,917	2,793
In the third to fifth years, inclusive	4,649	4,528	3,361	3,202	876	857	354	348
Total minimum finance lease payments	12,597	11,501	15,391	14,196	10,864	10,268	9,183	8,722
Less: Amount representing finance charges	(1,096)		(1,195)		(596)		(461)	
Present value of minimum lease payments	11,501		14,196		10,268		8,722	
Less: Portion classified as current liabilities *(Note 24)*	(3,354)		(5,346)		(6,256)		(5,581)	
Non-current portion	8,147		8,850		4,012		3,141	

	The Company							
	At 31 December						At 31 March	
	2012		2013		2014		2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount repayable:								
Within one year *(Note 24)*	1,982	1,648	4,057	3,499	4,744	4,352	4,496	4,162
In the second year	1,982	1,772	4,068	3,744	3,330	3,155	2,917	2,793
In the third to fifth years, inclusive	2,735	2,624	3,361	3,202	876	857	354	348
Total minimum finance lease payments	6,699	6,044	11,486	10,445	8,950	8,364	7,767	7,303
Less: Amount representing finance charges	(655)		(1,041)		(586)		(464)	
Present value of minimum lease payments	6,044		10,445		8,364		7,303	
Less: Portion classified as current liabilities *(Note 24)*	(1,648)		(3,499)		(4,352)		(4,162)	
Non-current portion	4,396		6,946		4,012		3,141	

28 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the statements of financial position represents:

	The Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax payable at the beginning of the year/period	1,422	2,821	5,985	11,808
Provision for income tax on the estimated taxable profits for the year/period *(Note 6(a))*	1,590	4,727	8,659	2,690
Income tax paid during the year/period	(191)	(1,563)	(2,836)	(1,945)
Income tax payable at the end of the year/period	2,821	5,985	11,808	12,553

	The Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax payable at the beginning of the year/period	1,422	2,821	4,955	10,506
Provision for income tax on the estimated taxable profits for the year/period	1,590	3,439	7,176	1,570
Income tax paid during the year/period	(191)	(1,305)	(1,625)	(1,654)
Income tax payable at the end of the year/period	2,821	4,955	10,506	10,422

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statements of financial position and the statement of financial position of the Company movements during the Relevant Periods are as follows:

The Group

	Government grants	Provisions	Depreciation allowance in excess of the related depreciation	Accrued expenses and payroll payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:					
At 1 January 2012	1,264	103	13	530	1,910
Credited/(charged) to the consolidated statement of profit or loss *(Note 6(a))*	491	(39)	119	(200)	371
At 31 December 2012	1,755	64	132	330	2,281
Credited to the consolidated statement of profit or loss *(Note 6(a))*	711	164	190	54	1,119
At 31 December 2013	2,466	228	322	384	3,400
Credited/(charged) to the consolidated statement of profit or loss *(Note 6(a))*	157	(47)	188	78	376
At 31 December 2014	2,623	181	510	462	3,776
Credited to the consolidated statement of profit or loss *(Note 6(a))*	337	13	25	5	380
At 31 March 2015	2,960	194	535	467	4,156

The Company

	Government grants	Provisions	Depreciation allowance in excess of the related depreciation	Accrued expenses and payroll payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:					
At 1 January 2012	1,264	103	13	530	1,910
Credited/(charged) to the statement of profit or loss	491	(39)	119	(200)	371
At 31 December 2012	1,755	64	132	330	2,281
Credited to the statement of profit or loss	87	138	190	55	470
At 31 December 2013	1,842	202	322	385	2,751
Credited/(charged) to the statement of profit or loss	89	(65)	188	78	290
At 31 December 2014	1,931	137	510	463	3,041
Credited to the statement of profit or loss	346	3	25	5	379
At 31 March 2015	2,277	140	535	468	3,420

29 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliations between the opening and closing balances of each component of the Group's consolidated equity during the Relevant Periods are set out in the consolidated statements of changes in equity.

Details of the changes in the Company's individual components of equity during the Relevant Periods are set out below:

	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	105,370	155,088	2,848	28,314	291,620
Changes in equity for 2012					
Profit for the year	–	–	–	38,954	38,954
Total comprehensive income	–	–	–	38,954	38,954
Appropriation to reserves	–	–	3,895	(3,895)	–
At 31 December 2012	105,370	155,088	6,743	63,373	330,574

	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	105,370	155,088	6,743	63,373	330,574
Changes in equity for 2013					
Profit for the year	–	–	–	33,256	33,256
Total comprehensive income	–	–	–	33,256	33,256
Appropriation to reserves	–	–	3,326	(3,326)	–
At 31 December 2013	105,370	155,088	10,069	93,303	363,830

	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	105,370	155,088	10,069	93,303	363,830
Changes in equity for 2014					
Profit for the year	–	–	–	56,402	56,402
Total comprehensive income	–	–	–	56,402	56,402
Appropriation to reserves	–	–	5,640	(5,640)	–
At 31 December 2014	105,370	155,088	15,709	144,065	420,232

	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	105,370	155,088	15,709	144,065	420,232
Changes in equity for the period					
Profit for the period	–	–	–	14,729	14,729
Total comprehensive income	–	–	–	14,729	14,729
Appropriation to reserves	–	–	1,473	(1,473)	–
At 31 March 2015	105,370	155,088	17,182	157,321	434,961

	Share capital	Capital reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	105,370	155,088	10,069	93,303	363,830
Changes in equity for the period (unaudited)					
Profit for the period (unaudited)	–	–	–	8,347	8,347
Total comprehensive income (unaudited)	–	–	–	8,347	8,347
Appropriation to reserves (unaudited)	–	–	834	(834)	–
At 31 March 2014 (unaudited)	105,370	155,088	10,903	100,816	372,177

(b) Share capital

The Company has 105,370,000 ordinary shares with par value of RMB1 each as at 31 December 2012, 31 December 2013 and 31 December 2014 and 31 March 2015. All shares issued have been fully paid.

(c) Nature and purpose of reserves

(i) Capital reserve

Capital reserve mainly includes the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company, capital premium and contributions from equity shareholders.

(ii) PRC statutory reserves

In accordance with the relevant PRC laws and the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The PRC statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(d) Distributable reserves

As at 31 December 2012, 2013 and 2014 and 31 March 2015, the aggregate amount of reserves available for distribution to the equity shareholders of the Company is RMB63,373,000, RMB93,303,000, RMB144,065,000 and RMB157,321,000, respectively.

(e) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of total equity. The Group monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group monitors capital using a bank loans to equity ratio, which is total bank loans divided by total equity.

	At 31 December			At 31 March
	2012	**2013**	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Total bank loans	338,000	453,000	450,000	450,000
Total equity	395,367	430,006	495,415	512,130
Bank loans to equity ratio . . .	0.85	1.05	0.91	0.88

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and the risks related to agricultural activities arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk of the Group's other financial assets, which comprise cash and bank balances, and deposits, prepayments and other receivables, arise from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade Receivables are generally due within around 3 months from the date of billing, except for certain customers to which specific credit period or credit limit are granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2012, 2013 and 2014 and 31 March 2015, 1.3%, 0%, 0% and 0% of the total trade receivables were due from the Group's largest customer and 5.8%, 8.3%, 0% and 0% were due from the five largest customers within the dairy farming and dairy products production segments respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 18.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at 31 December 2012, 2013 and 2014 and 31 March 2015 of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, the rates current at the respective reporting period end dates) and the earliest date the Group can be required to pay:

	At 31 December 2012					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payable	49,494	–	–	–	49,494	49,494
Accrued expenses and other payables	38,199	–	–	–	38,199	38,199
Bank loans	275,108	10,646	12,205	74,028	371,987	338,000
Obligations under finance leases	3,974	3,974	4,649	–	12,597	11,501
Total	366,775	14,620	16,854	74,028	472,277	437,194

	At 31 December 2013					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payable	52,593	–	–	–	52,593	52,593
Accrued expenses and other payables	46,742	–	–	–	46,742	46,742
Bank loans	379,846	5,750	55,088	51,833	492,517	453,000
Obligations under finance leases	6,049	5,981	3,361	–	15,391	14,196
Total	485,230	11,731	58,449	51,833	607,243	566,531

	At 31 December 2014					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payable	110,059	–	–	–	110,059	110,059
Accrued expenses and other payables	46,549	–	–	–	46,549	46,549
Bank loans	389,263	4,555	41,658	46,050	481,526	450,000
Obligations under finance leases	6,658	3,330	876	–	10,864	10,268
Total	552,529	7,885	42,534	46,050	648,998	616,876

	At 31 March 2015					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 March
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payable . . .	65,711	–	–	–	65,711	65,711
Accrued expenses and other payables	51,027	–	–	–	51,027	51,027
Bank loans	391,321	10,312	64,273	13,969	479,875	450,000
Obligations under finance leases	5,912	2,917	354	–	9,183	8,722
Total	513,971	13,229	64,627	13,969	605,796	575,460

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing bank loans. Bank loans issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total interest bearing borrowings as at 31 December 2012, 2013 and 2014 and 31 March 2015:

	At 31 December 2012		At 31 December 2013	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate bank loans .	6.00%-6.94%	260,000	6.00%-7.50%	360,000
Variable rate bank loans	6.80%-7.48%	78,000	6.55%-7.04%	93,000
Total bank loans		338,000		453,000
Fixed rate bank loans as a percentage of total bank loans . . .		77%		79%

	At 31 December 2014		At 31 March 2015	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate bank loans .	5.60%-8.10%	360,000	5.60%-8.10%	360,000
Variable rate bank loans	6.15%-6.77%	90,000	5.62%-6.49%	90,000
Total bank loans		450,000		450,000
Fixed rate bank loans as a percentage of total bank loans. . . .		80%		80%

(ii) Sensitivity analysis

As at 31 December 2012, 2013 and 2014 and 31 March 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately RMB663,000, RMB791,000, RMB765,000 and RMB765,000, respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation and retained profits assuming that the change in interest rates had occurred at the respective reporting period end dates. The impact on the Group's profit after taxation and retained profits is estimated as an annualised impact on the interest expenses recognised in profit or loss of such a change in interest rates. The sensitivity analysis is performed on the same basis for the entire Relevant Periods.

(d) Risks related to agricultural activities

The Group is exposed in financial risks arising from changes in milk prices. The Group does not anticipate that milk prices will decline significantly in the foreseeable future and therefore, has not entered into any derivative or other contracts to manage the risk of a decline in milk prices. The Group reviews its outlook for milk prices regularly in considering the need for active financial risk management.

(e) Fair values

(i) Fair value hierarchy

The table below analyses the recurring assets and liabilities carried at fair value of the Group. The different levels are defined as follows.

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

– Level 3: unobservable inputs for the asset or liability.

	At 31 December 2012			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Calves and heifers . . .	–	–	26,688	26,688
Milkable cows	–	–	34,297	34,297
Total biological assets	–	–	60,985	60,985

	At 31 December 2013			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Calves and heifers . . .	–	–	24,489	24,489
Milkable cows	–	–	55,089	55,089
Total biological assets	–	–	79,578	79,578

	At 31 December 2014			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Calves and heifers . . .	–	–	48,905	48,905
Milkable cows	–	–	54,359	54,359
Total biological assets	–	–	103,264	103,264

	At 31 March 2015			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Calves and heifers . . .	–	–	50,309	50,309
Milkable cows	–	–	54,158	54,158
Total biological assets	–	–	104,467	104,467

The reconciliations from the beginning balances to the ending balances for fair value measurements of the above assets and liabilities are disclosed in note 15.

(ii) The following table shows the valuation techniques used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation models.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers .	The fair value of 14 months old heifers is determined by referring to the market price of the actively traded market.	– Average market price of the heifers of 14 months old: RMB15,000 to RMB22,000.	– The estimated fair value increases when the market price increases.
	The fair values of the heifers older than 14 months old are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers younger than 14 months old and the fair values of the calves are determined by subtracting the breeding costs required to raise the calves or heifers from the respective specific ages to 14 months old and the margins that would be required by a raiser.	– Average breeding costs per head for the breeding period and the estimated margins that would be required by a raiser of the heifers older than 14 months old: RMB7,209 to RMB8,695 in the three years ended 31 December 2014 and the three months ended 31 March 2015, while for the calves and the heifers younger than 14 months old: RMB9,409 to RMB10,226 in the three years ended 31 December 2014 and the three months ended 31 March 2015.	– The estimated fair value of the heifers older than 14 months old increases when the breeding costs and the estimated margins that would be required by a raiser increase. The estimated fair value of the calves and the heifers younger than 14 months old decreases when the breeding costs and the estimated margins that would be required by a raiser increase.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Milkable cows . .	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	– For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the Relevant Periods ends will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or finish of all lactation periods. Estimated overall culling rate is ranged from over 3% up to 100% along with the increase of the number of the lactation periods.	– The estimated fair value decreases when the estimated culling rates increase.
		– A milkable cow could have as many as five to six lactation periods. Estimated average raw milk production volume per head for one lactation period is ranged from 5.1 tonnes to 7.7 tonnes depending on the number of the lactation periods and the individual physical condition.	– The estimated fair value increases when the estimated raw milk production volume increases.
		– Estimated future raw milk local market prices per tonne for the years ended 31 December 2012, 2013 and 2014 and for the three months ended 31 March 2015: RMB3,800 to RMB4,100.	– The estimated fair value increases when the estimated future raw milk local market price increases.
		– Discount rate is 12.4%, 12.5%, 12.8% and 12.8% for the years ended 31 December 2012, 2013 and 2014 and for the three months ended 31 March 2015, respectively, calculated by using the Capital Asset Pricing Model.	– The estimated fair value decreases when discount rate increases.

31 COMMITMENTS

(a) Capital commitments outstanding at end of each reporting period not provided for in the Financial Information are as follows:

	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	–	23,625	3,724	9,106
Authorised but not contracted for	–	–	14,653	13,201
Total	–	23,625	18,377	22,307

(b) At end of each reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,138	744	1,239	824
After 1 year but within 5 years	3,972	4,025	4,520	4,539
After 5 years	17,207	16,409	14,676	14,093
Total	22,317	21,178	20,435	19,456

32 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term employee benefits	837	1,153	1,335	319	631
Retirement scheme contributions	46	46	46	12	15
Total	883	1,199	1,381	331	646

33 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 30(e) contains information about the assumptions relating to the fair values of biological assets and agricultural produce at the point of harvest. Other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

The management assesses doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. The management bases the estimates on the assessment of recoverability of individual receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with the accounting policy for impairment of long-lived assets as described in note 1(i) (ii). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in an additional impairment charge or a reversal of impairment in future periods, where applicable.

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

34 ULTIMATE CONTROLLING PARTY

At 31 March 2015, the directors consider ultimate controlling party of the Group to be Mr. Ma Hong Fu.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of the Financial Information, the IASB has issued the following new standards and amendments to standards which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual improvements to IFRSs 2012-2014 cycle	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to IAS 16 and IAS 41, *Agriculture: Bearer plants*	1 January 2016
Amendments to IAS1, *Disclosure initiative*	1 January 2016
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these new standards and amendments to standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

36 STATUTORY AUDIT

The statutory financial statements of the Company and its subsidiaries which are subject to statutory audit during the Relevant Periods were audited by the following auditors:

Name of Company	Statutory financial year	Name of auditors
Lanzhou Zhuangyuan Pasture Co., Ltd. 蘭州莊園牧場股份有限公司	Years ended 31 December 2012, 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Qinghai Qinghaihu Dairy Co., Ltd. 青海青海湖乳業有限責任公司	Years ended 31 December 2012 and 2013	Qinghai Baoxin Certified Public Accountants 青海保信會計師事務所
	Year ended 31 December 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Qinghai Shengya Plateau Pasture Co., Ltd. 青海聖亞高原牧場有限公司	Years ended 31 December 2012, 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Qinghai Shengyuan Pasture Co., Ltd. 青海聖源牧場有限公司	Years ended 31 December 2012, 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Yuzhong Ruifeng Pasture Co., Ltd. 榆中瑞豐牧場有限公司	Years ended 31 December 2012, 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Linxia County Ruiyuan Pasture Co., Ltd. 臨夏縣瑞園牧場有限公司	Years ended 31 December 2012, 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Linxia County Ruian Pasture Co., Ltd. 臨夏縣瑞安牧場有限公司	Years ended 31 December 2012, 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Wuwei Ruida Pasture Co., Ltd. 武威瑞達牧場有限公司	Years ended 31 December 2012, 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Ningxia Zhuangyuan Pasture Co., Ltd. 寧夏莊園牧場有限公司	Years ended 31 December 2012, 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所
Lanzhou Ruixing Farming Co., Ltd. 蘭州瑞興牧業有限公司	Years ended 31 December 2013 and 2014	Gansu Zhongheng Certified Public Accountants 甘肅中恒會計師事務所

* The English translation of the companies' names is for reference only. The official names of these companies are in Chinese.

C SUBSEQUENT EVENT

No significant subsequent events have occurred since 31 March 2015.

D SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 March 2015. No dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to 31 March 2015.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the Accountants' Report set forth in Appendix I to this Prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 March 2015. This statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at 31 March 2015 or at any future dates.

	Adjusted consolidated net tangible assets attributable to equity shareholders of our Company as at 31 March 2015(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets(3)	Unaudited pro forma adjusted consolidated net tangible assets per Share(4)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the Offer Price of HK$4.98 per Share	512,130	121,847	633,977	4.51	5.49
Based on the Offer Price of HK$7.83 per Share	512,130	201,641	713,771	5.08	6.18

Notes:

(1) The adjusted consolidated net tangible assets attributable to the equity shareholders of our Company as at 31 March 2015 is derived from the Accountants' Report set out in Appendix I to this prospectus, which is based on the consolidated total equity attributable to the equity shareholders of the Company as at 31 March 2015 of RMB512,130,000.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$4.98 or HK$7.83 per Share, being the low or high of the stated offer price range, after deduction of the estimated underwriting fees and related fees and expenses of RMB21.9 million and RMB24.4 million based on the Offer Price of HK$4.98 or HK$7.83 respectively payable by the Company (taking into account the effect of listing-related expenses of approximately RMB9.5 million that have been accounted for prior to 31 March 2015 and take no account of any Shares which may be issued upon exercise of the Over-allotment Option). The estimated net proceeds from the Global Offering are translated at the exchange rate of RMB0.82163 to HK$1.00, being the PBOC rate prevailing on 21 September 2015.

(3) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group subsequent to 31 March 2015.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 140,500,000 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 Over-allotment Option. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.82163 to HK$1.00, being the PBOC rate prevailing on 21 September 2015.

(B) REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

30 September 2015

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the directors of Lanzhou Zhuangyuan Pasture Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Lanzhou Zhuangyuan Pasture Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 March 2015 and related notes as set out in Part A of Appendix II to the prospectus dated 30 September 2015 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at 31 March 2015 as if the Global Offering had taken place at 31 March 2015. As part of this process, information about the Group's financial position as at 31 March 2015 has been extracted by the Directors from the Group's historical financial statements included in the Accountants' Report as set out in Appendix I to the Prospectus.

DIRECTORS' RESPONSIBILITIES FOR THE PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 March 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

OPINION

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

This appendix contains a summary of laws and regulations in respect of taxation and foreign exchange in the PRC and Hong Kong.

TAXATION IN THE PRC

Enterprise Income Tax

Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得税法》) (hereinafter referred to as "EIT Law") was promulgated on 16 March 2007 and came into effect on 1 January 2008. The EIT Law regulates the enterprise income tax rate at 25%. According to the requirements of the State Council, enterprises, which were established before the promulgation of the EIT Law and entitled to benefit from a preferential tax rate in light of the tax laws and administrative regulations prevailed then, may gradually shift to the tax rate stipulated by the EIT Law within five years after the effective date of the EIT Law. Those entitled to the preference of fixed tax holiday or fixed-term tax reductions may continue to benefit in the same manner according to the requirements of the State Council until the expiration of the tax holiday or the term of the preference. For those who have not benefited from such preference due to the failure to realise profit, the preference has been applied since the effective date of the EIT Law, being 1 January 2008.

Business Tax

According to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業税暫行條例》) which came into effect on 1 January 1994 and was amended on 5 November 2008, and the Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業税暫行條例實施細則》) which came into effect on 1 January 2009 and was amended on 28 October 2011, institutions and individuals providing taxable services, transferring intangible assets or selling real estates within the territory of the PRC shall pay business tax. The latest amendments of the abovementioned regulations and rules supplemented the regulatory system in the following aspects:

- The withholding agent of business tax should be: (1) the domestic agents of foreign entities or individuals, who provide taxable services, transfer intangible assets or sell real estates within the territory of the PRC but have no business institutions in the PRC; or (2) the assignee of the assets or the purchaser of the services in case there is no domestic agent.

- The column specifying the taxable services and business is deleted from the appendix of the regulations, which enable MOF and SAT to define the scope of taxable business and services.

- The preferential policies approved by the State Council before the effective date of the abovementioned amendments on 1 January 2009 could still be applied.

Value-added Tax ("VAT")

According to the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值税暫行條例》) which came into effective on 1 January 1994 and was amended on 5 November 2008, and the Detailed Rules for Implementation of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值税暫行條例實施細則》) which came into effective on 25 December 1993 and was amended on 28 October 2011, institutions and individuals selling goods or providing processing, repairing or replacement services or importing goods within the territory of the PRC shall pay value-added tax ("VAT"). The tax rate of 13% shall be levied on general taxpayers selling or importing grain, edible vegetable oil, tap water, heating supply, air-conditioning, hot water, gas, liquefied petroleum gas, natural gas, marsh gas, coal products for civil use, books, newspapers, magazines, feedstuff, chemical fertiliser, pesticide, farming machines, films for agricultural use and other goods specified by the State Council. The tax rate applicable to goods exported by taxpayers shall be zero unless otherwise prescribed by the State Council. The tax rate of 17% shall be levied on taxpayers selling or importing goods other than the abovementioned items, and on taxpayers providing processing, repairing or replacement services. The tax rate applicable to goods sold or taxable services provided by small-scale taxpayers is 3%. A small-scale taxpayer is defined as a taxpayer engaged in the manufacturing of goods or the supply of taxable services, or primarily dealing in the manufacturing of goods or supply of taxable services while concurrently engaged in the wholesale or retail of goods as secondary operations, and having annual taxable sales (hereinafter referred to as "taxable sales") of less than RMB0.5 million; or a taxpayer engaged in the wholesale or retail of goods and having annual taxable sales of less than RMB0.8 million. Individuals whose annual taxable sales volumes exceed the standards for small-scale taxpayers shall be taxed as small-scale taxpayers; non-enterprise organisations or enterprises without frequent occurrence of taxable actions may choose to be taxed as small-scale taxpayers.

In addition, the new regulations and rules also provide the followings:

- the input tax for reselling fixed assets could be deducted from the output tax;

- the withholding agent of VAT should be: (1) the domestic agents of foreign entities or individuals, who provide taxable services within the territory of the PRC but have no business institutions in the PRC; or (2) the assignee of the assets or the purchaser of the services in case there is no domestic agent; and

- the preferential policies approved by the State Council before the effective date of the abovementioned amendments on 5 December 2008 could still be applied where there is no conflict with the amendments.

Stamp Duty

According to the Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例》) which came into effect on 1 October 1988 and amended on 8 January 2011, and the Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例實施細則》) which came into effect on 1 October 1988, institutions and individuals executing or receiving taxable documents within the territory of the PRC shall pay stamp duty. The list of taxable documents includes reselling contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technology contracts, other documents that resemble contracts in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by MOF.

Dividend-related Tax

Individual investors. According to the Law of the PRC on Individual Income Tax (《中華人民共和國個人所得稅法》) which came into effect on 1 January 1994 and amended on 31 October 1993, 30 August 1999, 27 October 2005, 29 June 2007, 29 December 2007 and 30 June 2011, and its implementation rules, for the receipt of dividends paid by the PRC companies, an individual is ordinarily subject to individual income tax at the flat rate of 20%. For a foreign individual shareholder who is not a PRC resident, pursuant to the Circular on the Individual Income Tax Matters after the Repeal of Guo Shui Fa [1993] No. 045 Circular (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(Guo Shui Han [2011] No. 348)) issued by SAT on 28 June 2011, the receipt of dividends on our H Shares is subject to a withholding tax ranging from 5% to 20% (usually 10%) depending on the applicable tax treaty between the PRC and the jurisdiction in which the foreign national resides. For foreign residents of jurisdictions that have not entered into a tax treaty with the PRC, the tax rate on dividends is 20%.

Enterprises. According to the EIT Law and its implementation rules, non-resident enterprises having no office or premises inside the PRC or whose income has no actual connection to its office or premises inside the PRC are subject to enterprise income tax at the rate of 10% on their income derived from the PRC. Under the Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Overseas Non-resident Enterprise Shareholders of H Shares from Chinese Resident Enterprises (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) issued by SAT on 6 November 2008, enterprise income tax rate of 10% is levied on dividends on H Shares received by any overseas enterprise shareholders that are non-PRC residents. The Response to Questions on Enterprise Income Tax over Dividend of B-Shares and Other Shares Received by Non-resident Enterprises (Guo Shui Han [2009] No. 394) (《關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復》(國稅函[2009]394號)) issued by SAT on 24 July 2009 further provides that any PRC resident enterprise that publicly issues A-shares, B-shares or overseas shares on stock exchanges in or outside the PRC, such as our H Shares, must withhold enterprise income tax at the rate of 10% from dividends distributed by them to non-resident enterprises.

Tax treaties. Investors who do not reside in the PRC but reside in jurisdictions that have entered into treaties for the avoidance of double taxation with the PRC may be entitled to a reduction or exemption of the withholding tax imposed on dividends received from a PRC-resident enterprise. The PRC currently has treaties for the avoidance of double taxation with a number of jurisdictions, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. The PRC also has an arrangement for the avoidance of double taxation with Hong Kong.

Share Transfer-related Tax

For individual investors. According to the Law of the PRC on Individual Income Tax and its implementation rules, individuals are subject to individual income tax at the rate of 20% on profit realised by the sale of equity of PRC resident enterprises. The implementation rules also provide that the MOF shall draft measures for collection of individual income tax on income from the transfer of shares, and such measures are subject to the approval of the State Council. However, as of the Latest Practicable Date, no such measures have been drafted and enacted. According to the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares

(Cai Shui Zi [1998] No. 61) (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》(財稅字[1998]61號)) issued by MOF and SAT on 30 March 1998, from 1 January 1997, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. After the latest amendment to the Law of the People's Republic of China on Individual Income Tax on 1 September 2011 and the latest amendment to its implementation rules on 1 September 2011, SAT has not stated whether it will continue to exempt from individual income tax over income derived by individuals from the transfer of listed shares. However, on 31 December 2009, MOF, SAT and CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2009] No. 167) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》(財稅[2009]167號)), which states that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except under certain situations for the shares of certain specified companies which are subject to sales limitations (as defined in such Circular and its supplementary notice issued on 10 November 2010). As of the Latest Practicable Date, no legislation has expressly provided that individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, such as our H Shares, and in practice the taxation administrations do not collect individual income tax on such income.

For enterprises. According to the EIT Law and its implementation rules, non-resident enterprises are generally subject to enterprise income tax at the rate of 10% with respect to their income derived from the sale of shares of PRC companies. However, as of the Latest Practicable Date, no legislation has expressly provided that enterprise income tax shall be collected from non-Chinese resident enterprises on their income derived from the sale of the shares in PRC companies listed on overseas stock exchanges, such as our H Shares, while the possibility that taxation administrations will collect enterprise income tax on such income in practice cannot be entirely ruled out.

Tax treaties. Overseas investors that reside in jurisdictions that have entered into treaties for the avoidance of double taxation with the PRC may be entitled to exemption from any income tax imposed by the PRC tax authorities on their income derived from sale of the shares in PRC-resident companies depending on the specific provisions as set forth in the applicable tax treaties. The PRC currently has treaties for the avoidance of double taxation with a number of jurisdictions, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States (the treaty with the United States does not contain an exemption from any PRC tax imposed on gains derived from the sale of shares in a PRC resident enterprise). The PRC also has an arrangement for the avoidance of double taxation with Hong Kong.

Estate duty

No liability for estate duty under PRC laws will arise for non-PRC nationals holding H Shares.

TAXATION IN HONG KONG

Tax on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. However, trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trading, will be chargeable to Hong Kong profit tax. Currently, profit tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a rate of 15%. Gains from sales of the H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profit tax would thus arise in respect of trading gains from sales of H Share is effected on the Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1 % of the consideration for, or (if greater) the value of, the H Shares transferred to or from each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK$5.00 is charged on each instrument of transfer (if required). Where a sale or purchase of the H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the stamp duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. The State Administration of Foreign Exchange ("SAFE"), under the authority of the People's Bank of China ("PBOC"), administers all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 29 January 1996, the State Council promulgated the Regulation of Foreign Exchange of the PRC (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Regulations") which became effective on 1 April 1996. The Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. The Foreign Exchange Regulations were subsequently amended on 14 January 1997 and on 1 August 2008. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the "Settlement Regulations") which took effect on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯暫行規定》) and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On 21 July 2005, the PBOC announced that the PRC would implement the managed floating exchange rate regime with effect from the same day, and exchange rates are determined based on market supply and demand with reference to a basket of currencies. The exchange rate of RMB is no longer pegged to the US dollar. The PBOC will announce the closing prices of foreign currencies (such as the US dollar) to RMB in the interbank foreign exchange markets after the closing of the markets on each working day, so as to determine the central parity for RMB trading on the next working day.

On 5 August 2008, the State Council promulgated the amended the Regulations on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) (the "Amended Regulations on Foreign Exchange") which made significant changes on the supervisory system for foreign exchange in the PRC. Firstly, the Amended Regulations on Foreign Exchange adopted balanced treatment on the inflow and outflow of foreign capital. Incomes in foreign currencies overseas can be remitted to the PRC or remained overseas, and foreign currencies of capital account items and funds for settlement in foreign currencies can only be used according to the purposes approved by relevant competent authorities and foreign exchange administration. Secondly, the Amended Regulations on Foreign Exchange improved the RMB exchange mechanism based on market supply and demand. Thirdly, the Amended Regulations on Foreign Exchange enhanced the monitoring of cross-border capital flow in foreign currencies, whereby the state could implement necessary protection or controlling measures when material imbalance of income and expenses related to cross-border trading arise or might arise, or serious crises in the domestic economy occur or might occur. Fourthly, the Amended Regulations on Foreign Exchange enhanced the regulation and administration on foreign currency trading, and granted extensive authorisation to the SAFE to enhance its supervisory and administrative capacity.

Foreign exchange revenue in respect of current account items may be retained or sold to financial institutions operating a foreign exchange sale or settlement business. Before retaining foreign exchange revenue under the capital account or selling it to any financial institution operating a foreign exchange sale or settlement business, the approval of the competent foreign exchange administrative authorities shall be obtained, unless otherwise provided by the State.

Enterprises that require foreign exchange for recurring activities such as trading and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents. Where an enterprise requires foreign exchange for the payment of dividends, such as the distribution of profit by a foreign-invested enterprise to its foreign investor, then, subject to the due payment of taxes on such dividends, the amount required for the payment of dividends may be withdrawn from funds in foreign exchange accounts maintained with designated banks and, where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks.

Convertibility of foreign exchange in respect of capital account items, including direct investments and capital contributions, is still subject to restrictions, and prior approval from the SAFE must be obtained.

When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

According to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Exchange Control Administration on Oversea Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) issued by SAFE on 26 December 2014, after shares of domestic companies get listed on foreign stock exchange, domestic shareholders of such companies, who would like to dispose of, or purchase, shares trading on the foreign stock exchange, shall apply to the relevant local foreign exchange administration of the city where they reside for registering of their shares of such companies trading on the foreign stock exchange.

This Appendix contains a summary of the principal provisions of the Articles of Association, which was conditionally adopted by our Shareholders in the shareholders' general meeting held on 18 March 2015. The principal objective of this Appendix is to provide an overview of the Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important.

The Articles of Association and relevant amendments thereto were adopted or authorised by the Shareholders in shareholders' general meetings in accordance with applicable laws and regulations, including the PRC Company Law, the Securities Law of the PRC, the Special Provisions of the State Council on Stock Raising and Listing Overseas by Limited Stock Companies, the Essential Clauses in Articles of Association of Companies Listed Overseas, the Guidance on Articles of Association Listed Company and the Listing Rules, and will be effective on the Listing Date.

1. DIRECTORS AND BOARD OF DIRECTORS

(1) Power to Allocate and Issue Shares

The Articles of Association does not contain clauses that empower the Board of Directors to allocate or issue shares.

Any kind of share allotment or issue shall be subject to approval by our Shareholders at the Shareholders' general meetings in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws and administrative regulations.

(2) Power to Dispose of the Assets of our Company or Assets of any of our Subsidiaries

Where the sum of the expected value of the fixed assets to be disposed of, together with the amount or value of the cost received from the disposed fixed assets of our Company within the immediately preceding four months of this proposal for disposal exceeds 33% of the value of fixed assets of our Company indicated on the latest audited balance sheet submitted to our Shareholders at the Shareholders' meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of Shareholders at the Shareholders' general meeting.

The above-mentioned disposal refers to the transfer of rights and interests in certain cases but does not include the provision of fixed assets as security.

The validity of a transaction for the disposal of fixed assets by our Company shall not be affected by the violation of the above-mentioned restriction contained in the Articles of Association.

(3) Compensation or Payment for Loss of Office

As stipulated in the contracts entered into between our Company and the Directors or the Supervisors regarding their emoluments, the Directors and Supervisors are entitled to, subject to the prior approval of our Shareholders at the Shareholders' general meeting, compensation or payment due to loss of office resulting from the acquisition of our Company.

The aforesaid acquisition of our company refers to any of the following circumstances:

- An offer is made by any person to all of our Shareholders;

- An offer is made by any person with a view that the offer or will become a controlling shareholder of our Company as defined in the Articles of Association.

Where the relevant Directors or Supervisors fail to comply with the above requirements, any sum received by them shall belong to those people who have sold their Shares as an acceptance of such offer. All related expenses shall not be deducted from the distributed payments which shall be borne by the Directors or Supervisors on pro rata basis.

(4) Loans or Guarantees to Directors, Supervisors and other officers

Our Company shall not, directly or indirectly, provide any loans or guarantees to the directors, supervisors, general manager and other senior management of our Company or of any parent company, nor to any persons related with the above personnel.

Circumstances below are not subject to the above-mentioned prohibition:

(i) provision of a loan or loan guarantees by our Company to its subsidiary;

(ii) the provision by our Company of loan, guarantee or other funds to its Directors, Supervisors, general manager and other senior management officer to meet expenditure incurred or to be incurred by him for the purposes of our Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the Shareholders in a general meeting; and

(iii) where the ordinary scope of our Company's business includes the provision of loans or loan guarantees, our Company may provide loans or loan guarantees to any of the Director, Supervisor, general manager, a senior management or their related personnel, provided that the terms of the loan or the loan guarantees shall be normal commercial terms.

Loans made by our Company in violation of the above prohibitions shall be forthwith repayable by the recipient of the loans regardless of the terms of the loans.

Any loan guarantee provided by our Company in breach of above prohibition in the Articles of Association shall be unenforceable against our Company, unless under the following circumstances:

(i) the loan provider, at the time of the provision, unknowingly provides loans to personnel related to the Directors, Supervisors, general manager and other senior management of our Company or its parent company; and

(ii) the collateral provided by our Company has been sold legitimately by the lender to the buyer in good faith.

For the purpose of the above provisions, a guarantee includes acts where a guarantor undertaking the liabilities or providing properties to ensure that the obligor performs the obligations.

Where a Director, Supervisor, general manager or other senior management officer is in breach of his/her obligations to our Company, our Company shall, apart from the various rights and remedies provided by laws and administrative regulations, be entitled to take the following measures:

(i) to request the relevant Director, Supervisor, general manager or the senior management to pay damages for the loss of our Company as a result of his/her negligence;

(ii) to rescind any contract or transaction entered into between our Company and the relevant Director, Supervisor, general manager or other senior management officer, and any contract or transaction entered into between our Company and a third party (if such third party knows or should have known that such Director, Supervisor, general manager or other senior management officer representing our Company is in breach of his/her obligations to our Company);

(iii) to demand the relevant Director, Supervisor, general manager or other senior management account for the profit obtained as a result of the breach of his/her obligations;

(iv) to recover from the relevant Director, Supervisor, general manager or other senior management the monies which should have been received by our Company including, but not limited to, commissions; and

(v) to request the relevant Director, Supervisor, general manager or other senior management to return the interest earned or may have earned from the funds which should have been paid to our Company.

(5) Financial Assistance for Purchasing Shares of our Company or any of our Subsidiaries

Our Company or our subsidiaries shall not by any means at any time provide financial assistance to a person who acquires or proposes to acquire Shares in our Company. The said person includes anyone who has directly or indirectly incurred any liability as a result of the acquisition of Shares in our Company.

Neither our Company nor any of our subsidiaries shall by any means at any time provide financial assistance to a person mentioned in the foregoing paragraph for the purposes of reducing or discharging his liabilities.

The following acts shall not be deemed to be acts prohibited by the above:

(i) the provision of the financial assistance by our Company which is in good faith and in the interests of our Company, and the principal purpose of the financial assistance is not to acquire our Company's shares or is an incidental part of the overall plan of our Company;

(ii) the lawful distribution of our Company's assets by way of dividend;

(iii) distribution of dividends in the form of Shares;

(iv) reduction of our Company's registered capital, repurchase of Shares or reorganisation of the shareholding structure in accordance with the Articles of Association;

(v) the provision of loans by our Company within our scope of business and in the ordinary course of business, provided that the net assets of our Company shall not be thus reduced; or to the extent that those assets are thereby reduced, the financial assistance is provided out of the distributable profit of our Company; and

(vi) the provision of money by our Company for contributing to the employees' stock ownership plan, provided that our Company's net assets are not thereby reduced or to the extent that those assets are thereby reduced, the financial assistance is provided out of the distributable profit of our Company.

(6) Disclosure of Interests in Contracts with our Company or any of our Subsidiaries

Where any of the Director, Supervisor, general manager or other senior management officer of our Company is in any way, directly or indirectly, materially interested in an existing contract, transaction or arrangement or proposed contract, transaction or arrangement with our Company (other than the employment contracts our Company entered into with its Directors, Supervisors, Manager and other senior management officers), the above personnel shall disclose the nature and extent of his interests to the Board of Directors at the earliest opportunity, whether or not such contract, transaction or arrangement or proposal is otherwise subject to the approval of the Board of Directors under normal circumstances.

Unless the interested Director, Supervisor, general manager and other senior management of our Company discloses his/her interests to the Board in light of the aforesaid provisions and the interested Director, Supervisor, general manager and other senior management is not counted in the quorum and refrains from voting, our Company is entitled to rescind the contracts, transactions or arrangements, except as against a party in good faith thereto acting without notice of the breach of such duties by the Directors, Supervisors, general manager or other senior management officer.

A Director, Supervisor, Manager or other senior management officer of our Company is deemed to be interested in a contract, transaction or arrangement in which his/her affiliate is interested.

Where a Director, Supervisor, Manager or other senior management of our Company notifies the Board in writing that, by reason of the facts specified in the notice, he/she is interested in contracts, transactions or arrangements, which may subsequently be entered into by our Company, then within the content stated in the notice he/she shall be deemed to have made a disclosure in accordance with the relevant provisions in the Articles of Association.

(7) Remuneration

Our Company shall enter into written agreements with our Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the general Shareholder's meeting. The said remuneration matters include:

(i) remuneration as the Directors or Supervisors of our Company;

(ii) remuneration as the Directors, Supervisors of the subsidiaries of our Company;

(iii) remuneration for providing other services for management of our Company and its subsidiaries; and

(iv) compensation received by the Directors or Supervisors as a result of loss of office or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided in the above-mentioned contracts.

(8) Resignation, Appointment and Removal

The following persons shall not serve as Directors, Supervisors, general managers or other senior management personnel of our Company:

(i) Anyone who has no civil capacity or has restricted civil capacity;

(ii) Persons who have been convicted of the offence of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or have been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;

(iii) persons who served as directors, factory manager or managers of a company or enterprise which has become insolvent and has been liquidated and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;

(iv) persons who were legal representatives of a company or enterprise whose business licence was revoked and was ordered to close down due to a violation of the law and who were personally liable, where less than three years have elapsed since the date of the revocation of such business licence;

(v) persons who have failed to pay a relatively large debt when due and outstanding;

(vi) persons who have committed criminal offences and are still under investigation by judicial authorities;

(vii) persons who are not allowed to be heads of enterprises as stipulated by laws and administrative regulations;

(viii) persons who are not natural persons;

(ix) persons who have been convicted of offences of violating provisions of the relevant securities laws and regulations or offences of fraud or acting in bad faith by the relevant authority, where less than five years have elapsed since the date of conviction; and

(x) other circumstances stipulated by relevant laws and regulations where our company is listed.

The Board of Directors shall be elected by our Shareholders at the Shareholders' general meeting with a term of office of three years. Directors are eligible for re-election upon expiry of their terms of office.

The Shareholders' general meeting shall not remove the directors from their duties without justifiable grounds. At least three independent directors, accounting for no less than one third of the members of the Directors shall be elected by Shareholders at the Shareholders' general meetings. The office term of an independent director is the same as a director and is entitled for re-election upon expiry of their terms of office, while the successive terms of office of independent directors shall not exceed nine years. The Shareholders' general meeting may, in accordance with relevant laws and regulations, remove any directors, including directors, the general manager and other executive directors, prior to the expiry of their office terms by ordinary resolution (while the claims of loss based on any contracts are not impacted).

Provided that relevant laws and administrative regulations in the place our Company listed have been complied with, where the Board appoints a new director to fill the temporary vacancy of the Board, the office term of such new director shall come to the end when the next Shareholders' general meeting is convened, while such director is qualified to be re-elected and re-appointed. Where the Board appoints new directors to increase the number of directors, the office terms of such new directors shall come to the end when the next Shareholders' annual general meeting is convened, while such directors are qualified to be re-elected and re-appointed.

Written notices concerning proposed nomination of director candidate and indication of the candidate's intention to accept the nomination shall be sent to our Company no later than seven days prior to the date of the Shareholder's general meeting. The seven-day notice period shall commence no earlier than the day immediately following the date of dispatch of the notice of Shareholder's general meeting concerning the election of Directors and shall end no later than the day falling seven days prior to the date of the Shareholder's general meeting.

The chairman and vice-chairman of the Board shall be elected and removed by more than half of all of the Directors. The office terms of the chairman and vice-chairman shall be three years and they are eligible for re-election upon expiry of their terms of office, except otherwise provided by the relevant laws and regulations, our company's articles of association and the listing rules where our company is listed.

The Directors need not to hold the Shares of our Company.

(9) Borrowing Powers

Subject to compliance with the laws and administrative regulations of the PRC, our Company is entitled to raise capital and borrow money, including (without limitation to) the issue of bonds, the mortgaging or pledging of part or whole of our Company's properties and other rights permitted by the laws and administrative regulations of the PRC provided that such action does not damage or abrogate rights of any Shareholder. The Articles of Association do not contain any special provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any special provision in respect of the manner in which such power may be raised, other than: (a) provisions which give the Directors the power to formulate proposals for the issuance of debentures by our Company; and (b) provisions which provide that the issuance of debentures must be approved by our Shareholders in a general meeting by way of a special resolution.

(10) Fiduciary Duty

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which shares are listed, each of Director, Supervisor, General Manager and other executive officer owes a duty to each shareholder, in exercise of the functions and powers of our Company entrusted to him:

(i) to ensure the business operations of our Company are not beyond the business scope specified in its business licence;

(ii) to act honestly in what they consider to be in the best interest of our Company;

(iii) not to deprive in any way our Company of its assets, including (but not limited to) opportunities beneficial to our Company; and

(iv) not to deprive shareholders of their personal rights and interests, including (but not limited to) rights to distributions and to vote, except in a company reorganisation submitted in accordance with the provisions of the Articles of Association and adopted at a shareholders' general meetings.

Each of Directors, Supervisors, general manager and other senior executive officers owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each Director, Supervisor, general manager, and other senior management officer of our Company should abide by his fiduciary principles in the discharge of his duties, and not to place himself in a position where his duty and his own interests may conflict. Such principles include (but are not limited to) the performance of the following:

(i) to act honestly in what he considers to be in the best interest of our Company;

(ii) to exercise his power within the scope specified and not to act ultra vires;

(iii) to exercise the discretion vested in his personally and not allow himself to act under the direction and influence of another and, unless and to the extent permitted by law or informed consent by the shareholders of the relevant facts, at a general meeting, not to delegate the exercise of his discretion;

(iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;

(v) except in accordance with the Articles of Association or with the informed consent of Shareholders in general meeting, not to enter into any contract, transaction or arrangement with our Company;

(vi) not to use our Company's assets for his personal benefit without the approval of the shareholders at a general meeting;

(vii) not to use his position to accept bribes or other illegal income or expropriate our Company's assets in any manner, including (without limitation) opportunities beneficial to our Company;

(viii) not without the informed consent of Shareholders in general meeting, to accept commissions in connection with our Company's transactions;

(ix) to abide by the Articles of Association, faithfully perform his duties and protect the interests of our Company, and not to use his position and powers in our Company to seek personal gain;

(x) not to compete with our Company in any way except with the informed consent of the Shareholders given in general meeting;

(xi) not to misappropriate our Company's funds or lend our Company's funds to others, not to open any bank account in his own name or other name for the deposit of our Company's assets or funds, and not to provide security for debt of Shareholders of our Company or any other individuals;

(xii) without the informed consent of Shareholders in general meeting, not to disclose confidential information of our Company acquired while in office and not to use such information other than in furtherance of the interests of our Company, save and except that disclosure of information to a court or a governmental authority is permitted where (i) the disclosure is made under compulsion of law in accordance with the relevant laws; (ii) there is a duty to the public to disclose; or (iii) the personal interests of the Director, Supervisor, general manager or other senior management officers which require the disclosure.

A Director, Supervisor, general manager or senior management officer of our Company shall not direct persons or institutions (hereinafter referred as "associates") to do what he is not permitted to do. A person is regarded as an associate if he is:

(i) the spouse or minor child of such a Director, Supervisor, general manager or senior management officer;

(ii) a trustee for such a Director, Supervisor, general manager or senior management officer or any person referred to in (i) above;

(iii) a partner of such a Director, Supervisor, general manager or senior management officer or any person referred to in (i) and (ii);

(iv) a company in which that a Director, Supervisor, general management officer, alone or jointly with one or more persons referred to in above (i), (ii) and (iii) or with any of other Directors, Supervisors, general manager or other senior management officers of our Company, have de facto control; or

(v) a director, supervisor, general manager or senior management officer of a company referred to in (iv) above.

The fiduciary duties of a Director, Supervisor, general manager and senior management officer of our Company do not necessarily cease with the termination of his tenure. The duty of confidentiality in relation to trade secrets of our Company survives the termination of his term of office. Other duties may continue for such period as fairness may require depending on the time elapse between the termination of his term of office and the occurrence of the matter in question and the circumstances and the terms under which the relationships between him and our Company are terminated.

Subject to the Articles of Association, a Director, Supervisor, general manager, or other senior management officer may be relieved of liability for specific breaches of his duty by the informed consent of shareholders in a general meeting. In addition, a Director shall not require to hold shares in the Company.

2. ALTERNATIONS TO CONSTITUTIONAL DOCUMENTS

The amendments to the Articles of Association regarding the contents of the Mandatory Provisions shall become effective upon approvals by the approval authorities of the State Council and the CSRC. Where the alternation involves any registered particulars of our Company, application shall be made for registration of changes with the registration authorities in accordance with law.

3. VARIATIONS OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Shareholders holding different classes of Shares are classified shareholders.

Class shareholders shall enjoy the rights and assume the obligations stipulated by laws, administrative regulations and the Articles of Association. Our Company may not vary or abrogate rights attached to any class of shares unless approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the rights of a classified shareholder:

(i) to increase or decrease the number of classified Shares, or to increase or decrease the number of classified Shares having voting or equity rights or any other privileges equal or superior to those of the Shares of such class;

(ii) to convert all or part of the classified Shares into other types or convert all or part of another type of Shares into this type of classified Shares or grant such conversion right;

(iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to classified Shares;

(iv) to reduce or remove a dividend preference or a liquidation preference attached to classified Shares;

(v) to remove or reduce conversions, options, voting transfer or pre-emptive rights, or rights to obtain securities of our Company;

(vi) to remove or reduce rights to receive payment payable by our Company in certain currencies attached to classified Shares;

(vii) to create a new class of Shares having voting or equity rights or privileges equal or superior than those of the classified Shares;

(viii) to restrict the transfer of ownership of the classified Shares or increase such restriction;

(ix) to issue subscription or conversion rights for this or other classified Shares;

(x) to increase the rights and privileges of other types of Shares;

(xi) to restructure our Company where the proposed restructuring will result in assumption of responsibility by different classes of Shareholders disproportionately; and

(xii) to vary or abrogate provisions as stipulated in the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall be entitled to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but interested Shareholder(s) shall not be entitled to vote at class meetings.

The "interested Shareholder(s)" mentioned above shall mean:

(i) in the case of a repurchase of Shares by offers to all Shareholders pro rata in accordance with the Articles of Associations, or public dealing on a stock exchange, an "interested Shareholder" means a "controlling shareholder" as stipulated in the Articles of Association;

(ii) in the case of a repurchase of Shares by an off-market agreement in accordance with the Articles of Associations, an "interested shareholder" means a holder of the Shares to which the proposed agreement relates; and

(iii) in the case of a restructuring of our Company, an "interested Shareholder" means a Shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring plan or who has an interest different from the interest of Shareholders of that class.

Resolution of a class meeting shall be passed by votes of more than two-thirds of Shareholders attending the relevant meeting with voting rights at such meeting.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the Shareholders holding Shares of the class of the matters proposed to be considered at the meeting and the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver a written reply confirming attendance at the class meeting to our Company 20 days prior to the date of the meeting.

Where the number of Shares carrying voting rights at the meeting represented by the Shareholders who intend to attend the meeting reaches more than half of the voting shares of such class carrying voting rights at the meeting, our Company may hold the class meeting; if not, our Company shall notify our

Shareholders of such class again by public notice, of the matters to be considered at the meeting and the date and place for the class meeting within five days. Our Company may convene the class meeting after publication of such notice.

Notice of class meetings needs only be served to Shareholders who are entitled to vote at the meetings.

Meetings of any class of Shareholders shall be conducted in a similar way as possible to the provisions for general meetings of Shareholders set out in the Articles of Association.

In addition to holders of other class shares, holders of Domestic Shares and overseas-listed foreign-invested shares are deemed to be shareholders of different classes.

The special procedures for voting by classified Shareholders shall not be applicable under the following circumstances:

(i) upon the approval by a special resolution at the shareholders' general meeting, our Company either separately or concurrently issues Domestic Shares and overseas listed foreign Shares every 12 months, and the number of Shares of each class to be issued shall not account for more than 20% of its existing issued Domestic Shares or overseas-listed foreign shares;

(ii) the issuance of Share of such class which is a part of the plan to issue Domestic Shares and overseas-listed foreign Shares upon the establishment of our Company, and which is completed within 15 months of the date of approval by the CSRC or other qualified securities regulatory authorities under the State Council; or

(iii) subject to the approval by the CSRC or other qualified securities regulatory authorities under the State Council, conversion of unlisted shares into foreign shares for listing and trading in an overseas stock exchange.

4. SPECIAL RESOLUTIONS – MAJORITY REQUIRED

Resolutions of the Shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution by a shareholders' general meeting, more than half of the votes represented by the Shareholders (including proxies of Shareholders) present at the meeting shall be exercised in favour of the resolution. To adopt a special resolution by a Shareholders' general meeting, more than two-thirds of the votes represented by the Shareholders (including proxies of shareholders) present at the meeting shall be exercised in favour of the resolution.

5. VOTING RIGHTS (GENERAL RIGHT ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary Shareholders of our Company have the right to attend or appoint a proxy to attend Shareholders' general meetings and to vote at the meeting.

A Shareholder (including a proxy) when voting at a general meeting may exercise voting rights in accordance with the number of Shares with voting power held with each Share representing one vote.

On a poll taken at a meeting, a Shareholder (including a proxy) entitled to two or more votes needs not cast all his/her votes in the same way. In the event when the number of dissenting votes equals the number of affirmative votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to one additional vote.

6. ANNUAL GENERAL MEETING REQUIREMENTS

A shareholders' general meeting shall either be an annual general meeting or an extraordinary general meeting. Annual general meetings are held once every year and within six months from the end of the preceding fiscal year.

7. ACCOUNTING AND AUDIT

(1) Financial and Accounting Policies

The financial and accounting system of our Company shall be established in accordance with the laws, administrative regulations and PRC accounting standards developed by the competent department in charge of finance under the State Council.

The Board of Directors of our Company shall submit the financial reports at every annual general Shareholder's meeting as required by the applicable laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company.

Our Company shall make its financial reports available for inspection by our Shareholders 20 days prior to the annual general meeting is convened. Each Shareholder is entitled to obtain one copy of the financial report. Our Company shall send the financial reports to each of our Shareholders of overseas listed foreign shares by postage-prepaid mail at least 21 days prior to the annual general meeting to the recipient's address as shown in the share register.

Our Company shall not keep any other books of accounts other than those provided by law. The assets of our Company must not be registered in any person's personal accounts.

The financial statements of our Company shall, in addition to complying with PRC accounting standards, rules and regulations, be prepared in accordance with either international accounting standards or that of the overseas area in which our Company's Shares are listed. Where there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the notes to the financial statements. When our Company is to distribute its after-tax profit of the relevant financial year, the lower of the after-tax profit as shown in the two financial statements prepared in accordance with (i) PRC accounting standards, rules and regulations; or (ii) international accounting standards or that of the overseas area in which our Company's Shares are listed shall be adopted.

Any interim results or financial information published or disclosed by our Company shall also be prepared and presented in accordance with PRC accounting standards and regulations as well as either International Financial Reporting Standards or that of the overseas place in which our Company's shares are listed.

Our Company shall publish its interim results announcement within 60 days after the expiration of the first six months of each financial year and the annual results announcement within 120 days after the expiration of each financial year.

(2) Appointment and Removal of Accountants

Our Company shall appoint an independent qualified accountants firm that meets appropriate requirements of the state to be responsible for auditing its annual report and reviewing its other financial reports.

The first accountants firm of our Company may be appointed by the inaugural meeting of our Company prior to the first annual general Shareholders' meeting and the accountants firm so appointed shall hold office until the conclusion of the first annual shareholders' general meeting. Where the inaugural meeting fails to perform this duty, it shall be performed by the Board instead.

Our Shareholders in general meeting may, by ordinary resolution, remove an accountants firm before the expiration of its office term, notwithstanding the stipulations in the contract between the firm and our Company, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration or the manner of which to be determined of an accountants firm shall be determined by the general meeting. The remuneration of an accountants firm appointed by the Board shall be determined by the Board.

Decisions on matters relating to the appointment, removal or non-reappointment of an accountants firm shall be made at shareholders' meetings and such decisions shall be reported to the competent securities department under the State Council for the record.

Where the general meeting of shareholders proposes to retain an accountants firm not currently retained to fill in any vacancy in relation to the accountants firm, or re-retain an accountants firm retained by the board of directors to fill in any vacancy, or remove an accountants firm the tenure of which has not expired by means of resolution, the following provisions shall be met:

(i) Proposal in relation to appointment or removal prior to the issuance of notice of the general meeting of shareholders shall be sent to the accountants firm proposed to be retained or removed or that has been removed from office in relevant accounting year. Removal from office includes being fired, resignation and leaving office.

(ii) Where the accountants firm that is about to leave office makes any written representation and demands the company to notify the same to the shareholder, then the company shall take the following measures unless the receipt of the same is too late:

- state on the notice issued for making resolution that the accountants firm about to leave office has made representation; and

- send the representation copy as an appendix to the notice to the shareholders by means of articles of association.

(iii) Where the company fails to send out the relevant representation of the accountants firm stipulated in (ii) hereof, the accountants firm concerned may demand such representation to be read at the general meeting of shareholders and may further appeal.

(iv) The accountants firm that has left office may attend the following meetings:

- general meeting of shareholders at which its tenure will expire;
- general meeting of shareholders for filling the vacancy due to its being fired; and
- general meeting of shareholders convened due to its proactive resignation;

The accountants firm that has left office is entitled to receive all notice of the said meetings or other information with respect thereto, and speak at the said meetings with respect to matters concerning its being the former accountants firm of the company.

Prior to the removal or the non-renewal of the appointment of the accountants firm, notice of such removal or non-renewal shall be given to the accountants firm and such firm shall have the right to attend and to make representation to the shareholders' general meeting. Where the accountants firm resigns its post, it shall make clear to the shareholders' general meeting whether there is any impropriety on the part of our Company.

(i) The accountants firm may resign by placing a written resignation notice at our Company's legal address. The notice shall take effect on the date of delivery to that address or any such later date as may be specified in the notice. Such notice shall contain any one of the following statements:

- a statement to the effect that there are no circumstances relevant with its resignation which it considers should be brought to the notice of Shareholders or creditors of our Company; or
- a statement of any circumstances that should be disclosed.

(ii) Our Company shall, within 14 days upon receipt of the written notice referred to in the preceding paragraph, send a copy of the notice to the relevant competent authorities. If the notice contains a statement referred to in the second item of the preceding paragraph, a copy thereof shall be deposited at our Company for reference of our Shareholders, and such copy shall also be delivered to every shareholder that is entitled to obtain the financial status report by postage-prepaid mail with recipients' addresses as shown in the share register.

(iii) Where the notice of resignation of the accountants firm contains a statement relevant with item (ii) in the above paragraph, it may request the Board to convene an extraordinary general meeting for the purpose of giving an explanation of the circumstances referred to in the said notice.

8. NOTICE OF MEETING AND BUSINESS TO BE CONDUCTED THEREAT

The shareholders' general meeting is the organ of authority of our Company and its functions and powers shall be exercised in accordance with the law.

A shareholders' general meeting is divided into an annual general meeting or an extraordinary general meeting. Annual general meetings are held once every year within six months after the end of a fiscal year. An extraordinary general meeting shall be held when necessary. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

(i) when the number of Directors is less than the number of Directors required by the PRC Company Law or two-thirds of the number of Directors stipulated in the Articles of Association;

(ii) when the unaccounted losses of our Company amount to one-third of its share capital;

(iii) when Shareholder(s) individually or collectively holding 10% or more of the outstanding Shares of our Company carrying voting rights request so in writing;

(iv) when the Board of Directors considers necessary or upon the request of the Supervisory Committee;

(v) any other circumstances stipulated in the laws, administrative regulations, regulations of the competent authorities, the Listing Rules or the Articles of Association; and

(vi) other circumstances provided by laws administrative regulations and the Articles of Association.

Where our Company convenes a shareholders' general meeting, it shall give written notices 45 days prior to the date of the meeting, informing all registered Shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who intend to attend the meeting shall return the written replies of attendance to the Company 20 days before the date of the meeting.

Where our Company convenes a shareholders' annual general meeting, the Shareholders who individually or collectively hold more than 3% or more of the total voting shares of our Company shall have the right to propose new motions in writing. Our Company shall issue a supplementary written notice 2 days after receiving the new motions. Our Company shall place matters in the proposed motions within the scope of functions and powers of the Shareholders' general meeting on the agenda.

Our Company shall, based on the written replies received 20 days before the date of the shareholders' general meeting, calculate the number of voting Shares represented by Shareholders who intend to attend the meeting. Where the number of voting shares represented by the Shareholders who intend to attend the meeting reaches more than half of our Company's total voting shares, our Company may hold the meeting. If not, then our Company shall notify the Shareholders again by public notice of the matters proposed to be considered, within five days, the place and the date for the meeting. Our Company may hold the meeting after the publication of such notice.

An extraordinary shareholders' meeting shall not pass any resolution regarding any issue not contained in the notice.

Notice of a shareholders' general meeting shall meet the requirements as below:

(i) be given in writing;

(ii) specify the place, date and time of the meeting;

(iii) state the matters to be discussed at the meeting;

(iv) specify the date of record of the shareholders entitled to the shareholders' general meeting;

(v) provide such information and explanation as necessary for our Shareholders to make an informed decision on the matters to be discussed. This principle includes but not limited to that, in case of proposals made to amalgamate our Company with another, to repurchase Shares of our Company, to restructure its share capital, or otherwise, the details of the agreed terms of, and the contract (if any) for the proposed transaction must be provided, and the reason for and the consequences thereof must be properly explained;

(vi) contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, Manager or other senior management officer in the transaction proposed and the effect of the proposed transaction on such Director, Supervisor, Manager or other senior executive officer in their capacity as Shareholders in so far as it is different from the effect on the interests of the Shareholders of the same class;

(vii) contain the full text of any special resolution proposed to be proposed for adoption at the meeting;

(viii) contain a clear statement that a Shareholder entitled to attend and vote at the meeting shall be entitled to appoint one or more proxies to attend such meeting and to vote on his or her behalf and that such proxy may not necessarily be a Shareholder;

(ix) specify the time and place for lodging proxy form(s) for the meeting; and

(x) provide the name and phone number of the contact.

Notice of shareholders' general meeting shall be served on our Shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to their addresses as shown in the register of Shareholders. Shareholders of domestic shares may also be notified by public announcement. The public announcement shall be published in one or more newspapers designated by the CSRC between 45 days and 50 days before the date of the meeting. After the publication of such announcement, Shareholders shall be deemed to have received the notice of the relevant Shareholders' general meeting.

The following matters shall be adopted by the Shareholders' general meeting through ordinary resolutions:

(i) work reports of the Board of Directors and the Supervisory Committee;

(ii) plans formulated by the Board of Directors for the distribution of profit and for making up losses;

(iii) appointment or removal of members of the Board of Directors and members of Supervisory Committee and their remuneration and manner of payment thereof;

(iv) annual preliminary and final budgets, balance sheets, income and other financial statements of our Company;

(v) annual report of our Company; and

(vi) matters other than those required by the laws, administrative regulations or the Articles of Association to be approved by special resolutions.

The following matters shall be resolved by a special resolution at the Shareholders' general meeting:

(i) the increase or decrease in our Company's share capital, and issue of shares of any class, warrants and other similar securities;

(ii) the issue of debentures of our Company;

(iii) division, merger, dissolution and liquidation of our Company and any change in the form of our Company;

(iv) amendments to the Articles of Association;

(v) matters relating purchase and sale of major assets and guaranteed amount which exceeds 30% of the latest audited total assets of our Company within a year;

(vi) plans of share incentive; and

(vii) any other matters decided by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on our Company and should be adopted by a special resolution.

9. TRANSFER OF SHARES

Unless otherwise provided by law and administrative regulations, the Shares of our Company shall be freely transferable and free from any lien.

10. RIGHTS OF OUR COMPANY TO PURCHASE ITS OWN SHARES

Our Company may reduce its registered share capital in accordance with the provisions of the Articles of Association. Our Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

(i) cancellation of Shares for the reduction of our Company's capital;

(ii) merger with another company which holds our Company's Shares;

(iii) providing Shares as bonus to our Company's employees;

(iv) requests from our Shareholders who demand our Company to buy back their shares due to dissents to the resolution of merger or dissolution of our Company adopted by the Shareholders' general meeting; and

(v) other circumstances permitted by laws and administrative regulations.

In the event our Company buys back its Shares for reasons stated in (i) to (iii) of the preceding paragraph, related resolutions must be adopted at the shareholders' general meeting. Where our Company buys back the Shares according to the provisions of the preceding paragraph under the circumstances set forth in (i), the Shares bought back must be cancelled within ten days of the date on which they are bought back. In the event of the circumstances set forth in (ii) and (iv), the Shares bought back must be transferred or cancelled within six months.

In the event that our Company buys back the Shares pursuant to the provisions of (iii) in the preceding paragraph, the Shares bought back must not exceed 5% of the total issued Shares of our Company. The fund used for such buyback must be allocated from the after-tax profit of our Company and the Shares bought back must be transferred to the employees within one year.

Our Company may, subject to the approval of the competent authorities, repurchase its Shares in any of the following ways:

(i) making a pro-rata offer of repurchase to all its shareholders;

(ii) repurchasing Shares through public trading on a stock exchange;

(iii) repurchase Shares by an off-market agreement; and

(iv) other ways approved by the competent regulatory authorities.

Where our Company repurchases its shares by an off-market agreement, the prior approval by our Shareholders at general meeting shall be obtained in accordance with the Articles of Association. Our Company may, upon the prior approval of the Shareholders' general meeting obtained in the same manner, revoke or alter a contract so entered into by our Company mentioned above, or waive any of its rights under such contract.

A contract to repurchase Shares includes (without limitation to) an agreement to become obliged to repurchase or an acquisition of the right to repurchase Shares. Our Company shall not assign any contract to repurchase Shares or any of its rights specified under such contract.

Unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

(i) Where our Company repurchases its Shares at par value, payment shall be made out of book surplus distributable profit of our Company, or out of proceeds of a new issue of Shares made for that purpose;

(ii) Where our Company repurchases its Shares at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profit of our Company, or out of the proceeds of a new issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:

- Where the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profit of our Company;

- Where the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profit of our Company, and out of the proceeds of a new issue of Shares made for that purpose, provided that the amount paid out of proceeds of the new issue shall neither exceed the aggregate premiums received by our Company on the issue of the Shares being repurchased nor the amount in the capital reserve account when the repurchase take place (including the premiums on the new issue). Where the repurchase of Shares is conducted in the method of off-market or bidding, the pricing of repurchase must be restricted at a certain highest price. Where the repurchase is conducted via bidding, the invitations shall be delivered to all Shareholders at the same time.

(iii) Payment by our Company for the following purposes shall be made within our Company's distributable profit:

- acquisition of rights to repurchase the Shares;

- variation of any contract to repurchase the Shares;

- release of any of our Company's liabilities under a contract to repurchase the Shares.

(iv) After the total par value of the cancelled Shares is deduced from the registered capital pursuant to the relevant provisions, the amount deducted from the distributable profit for payment of the par value portion of the Shares repurchased shall be credited to our Company's capital reserve account.

11. DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

Our Company may distribute dividends in the following manners:

(i) Cash;

(ii) Shares.

Cash dividend and other payments paid by our Company to the holders of Domestic Shares shall be distributed in RMB within 3 months following the date on which the dividend is declared. Cash dividend and other payments paid by our Company to the Shareholders of overseas listed Shares shall be denominated and declared in RMB and be paid in Hong Kong dollars within three months following the date on which the dividend is declared.

Our Company shall appoint receiving agents for holders of overseas listed Shares. Such agents shall receive on behalf of such Shareholders dividends and other monies payable by our Company in respect of their Shares. The receiving agents appointed by our Company shall comply with the requirements of the laws in the jurisdiction where the Shares are listed or the requirements of the stock exchanges on which the Shares are listed. The receiving agent appointed for holders of overseas listed shares listed in Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

12. PROXIES

Any Shareholder entitled to attend and vote at a meeting of the Shareholders shall be entitled to appoint one or more persons (whether a Shareholder or not) as his proxies to attend and vote on his behalf, and a proxy so appointed shall:

(i) have the right as the Shareholder to speak at the meeting;

(ii) have authority to demand or join in demanding a poll; and

(iii) have the right to vote by a show of hands or by ballot, however, where a Shareholder has appointed more than one proxies, those proxies may only vote on a poll.

The instrument appointing a proxy shall be in writing and shall be signed by the appointer or a person duly authorised in writing. Where the appointer is a legal person, the stamp of the legal person shall be affixed, or signed by the director or a duly authorised agent. Such instrument shall state the number of shares the proxy represents, and if more than one proxies are appointed, such instrument shall state the number of shares every proxy represents.

The instrument appointing a proxy must be in writing and deposited at the residence of our Company or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the proxy is put to vote is convened or 24 hours before the designated time at which the resolution is adopted. If the instrument is signed by another person authorised by the appointer by means of power of attorney or other instrument of authorisation, the power of attorney or other instrument of authorisation must be verified by a notary. The power of attorney or other instrument verified by the notary must be deposited together with the instrument appointing the proxy at the residence of our Company or other location designated at the notice convening the meeting. If the appointer is a legal person, its legal representative or such person as authorised by resolution of its board of directors or other governing bodies to act as its representative may attend at any shareholders' general meetings of our Company.

Any form issued to a Shareholder by the Board of our Company for use of appointing a proxy shall be such as to enable our Shareholder according to his intention, to instruct the proxy to vote in favour of or against each resolution at the meeting. Such a form shall contain a statement that in the absence of instructions by such Shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given, provided that no notice in writing of such matters as aforesaid shall have been received by our Company at its domicile before the commencement of the meeting at which proxy is used.

13. INSPECTION OF REGISTER OF SHAREHOLDERS

Our Company may keep overseas a register of members of the overseas-listed foreign Shares and entrust an overseas agency to manage it according to the understanding reached and the agreement entered into between CSRC and the overseas securities regulatory agency.

The original register of members of the overseas listed foreign Shares listed in Hong Kong shall be kept in Hong Kong. Our Company shall keep a copy of the register of members of the overseas-listed foreign Shares at its residential address. The overseas entrusted agency shall at all time guarantee consistency between the original and copy of the register of members of the overseas-listed foreign Shares.

In the event that there's inconsistency between the original and copy of the register of members of the overseas-listed foreign Shares, the original shall prevail.

Our Company shall keep a complete register of members. The register of members shall include the contents below:

(i) Register of members kept at our Company's residential address other than those specified in (ii) and (iii) below;

(ii) Register of members of our Company's overseas-listed foreign Shares kept at the location of the overseas stock exchange where such Shares are listed; and

(iii) Register of members kept in other locations in light of the decision of the Board of Directors as required for the listing of the Shares.

Different parts of the register of members shall not overlap. The transfer of Shares registered in a certain part of the register of members shall not be registered elsewhere in the register of members as long as the Shares are remained to be registered. Any alteration or rectification to any part of the register of members shall be made in accordance with the laws in the place where such part of the register of members is maintained.

No changes which are required by reason of a transfer of Shares may be made to the register of shareholders within 30 days prior to the date of a shareholders' general meeting or 5 days prior to the reference date set by our Company for the purpose of distribution of dividends.

When our Company decides to convene a shareholders' general meeting, distribute dividends, liquidate or carry out other activities which require the determination of shareholdings, the Board of Directors shall fix a record date for the purpose of determining the shareholding. A person who is registered in the register as shareholder of our Company at the end of the record date shall be a shareholder of our Company.

14. QUORUM FOR SHAREHOLDERS' GENERAL MEETINGS AND SEPARATE CLASS MEETINGS

Our Company may convene a shareholders' general meeting where the number of voting Shares represented by those shareholders who intend to attend the meeting reaches more than one half of our Company's voting Shares; if that number is not reached, our Company shall within five days notify the Shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, our Company may convene the shareholders' general meeting.

Please refer to the paragraph headed "3. Variations of Rights of Existing Shares or Classes of Shares" above for the requirements and quorum for convening a shareholders' separate class meeting.

15. RIGHTS OF MINORITY SHAREHOLDERS IN CONNECTION WITH FRAUD OR OPPRESSION

In addition to the obligations imposed by laws, administrative regulations or the listing rules required by the stock exchange on which Shares of our Company are listed, controlling shareholders (within the meaning of the Articles of Association) shall not exercise their voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of our Shareholders:

(i) to release the responsibility of a Director or Supervisor to act honestly in the best interests of our Company;

(ii) to approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person), in any disguise, of our Company's assets, including (without limitation to) any opportunities beneficial to our Company; and

(iii) to approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person) of the personal rights of other Shareholders, including (without limitation to) rights of distributions and voting but does not include a restructuring proposal submitted to Shareholders for approval in accordance with the Articles of Association.

16. LIQUIDATION PROCEDURES

Our Company shall be dissolved and liquidated in accordance with laws upon the occurrence of any of the following events:

(i) the operation term of our Company expires;

(ii) a resolution for dissolution is passed by a Shareholders' general meeting;

(iii) the dissolution is necessary due to a merger or division of our Company;

(iv) our Company is legally declared insolvent due to its failure to repay debts which are due;

(v) our Company is ordered to close down due to its violation of laws or administrative regulations;

(vi) where our company encounters significant difficulties in business and management, continuous survival will be significantly detrimental to the interests of Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request a People's court to dissolve our Company; and

(vii) other circumstances provided by laws and regulations.

Where our Company is dissolved due to the provisions set forth in (i), (ii) and (vi) above, the liquidation committee shall be established within 15 days and the personnel of the liquidation committee shall be determined by a shareholders' general meeting by means of ordinary resolution. Where the liquidation committee is not set up within the stipulated period of time above, creditors may request the People's Court to designate relevant personnel to form a liquidation committee and conduct the liquidation.

In the event that our Company is dissolved in accordance with the provisions set forth in (iv) above, the People's court shall organise Shareholders, related agencies and professionals to form a liquidation committee to conduct the liquidation.

In the event that our Company is dissolved in accordance with the provisions set forth in (v) above, the competent authority shall organise Shareholders, relevant agencies and professionals to establish a liquidation committee and conduct the liquidation.

Where the Board decides to liquidate our Company (due to reasons other than the declaration of insolvency), the Board shall state in the notice of the Shareholders' general meeting convened that the Board has conducted adequate research of the affairs of our Company and deem that our Company is capable to pay its debts in full within 12 months after the commencement of the liquidation.

Upon the resolution of liquidation of our Company is approved by our Shareholders at general meeting, all functions and powers of the Board of our Company shall terminate immediately.

The liquidation committee shall act in accordance with the instructions of the Shareholders' general meeting and report at least once per year to the Shareholders' general meeting on the committee's income and payments, the business operation of our Company and the progress of the liquidation. It shall present a final report to the Shareholders' general meeting by the time of completion of the liquidation.

The liquidation committee shall, within ten days of its establishment, notify creditors and make a public announcement in the press at least three times within sixty days. The liquidation committee shall register all claims.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

(i) categorise our Company's assets and prepare a balance sheet and an inventory of assets respectively;

(ii) notify the creditors or publish public announcements;

(iii) dispose of and liquidate any pending businesses of our Company;

(iv) pay outstanding taxes;

(v) settle claims and debts;

(vi) dispose of the surplus assets remaining after our Company's debt having been fully paid; and

(vii) represent our Company in any civil proceedings.

After it has categorised our Company's assets and prepared the balance sheet and the inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a Shareholders' general meeting or to the relevant competent authority for confirmation.

Where our Company is liquidated by reason of dissolution, upon completion of the categorisation of our Company's assets and preparation of a balance sheet and an inventory of assets, if the liquidation committee discovers that our Company's assets are insufficient to repay its debts in full, the liquidation committee shall immediately apply to the People's court for a declaration of insolvency. After our Company is declared insolvent by a ruling of the People's court, the liquidation committee shall transfer all matters regarding the liquidation to the People's court.

Following the completion of liquidation, the liquidation committee shall prepare a report on liquidation and a statement of the income and payments and financial books and records during the period of liquidation, which shall be audited by the PRC certified public accountants and submitted to the shareholders' general meeting or the relevant and competent authorities for confirmation. The liquidation committee shall also submit the documents referred to in the preceding paragraph to the company registration authority and apply for cancellation of registration of our Company, and publish an announcement relating to the termination of it within 30 days after such confirmation.

17. OTHER PROVISIONS MATERIAL TO OUR COMPANY OR ITS SHAREHOLDERS

(1) General Provisions

The term of business of our company is perpetual.

Our Company may invest in other companies; however, unless stipulated by law, it may not become a jointly liable investor for the liability commitments of the invested company.

The Articles of Association is a legally binding document regulating our Company's affairs and the rights and obligations between our Company and each Shareholder and among our Shareholders since the date it becomes effective.

Subject to the provisions of the Articles of Association, our Shareholders may sue our Company and other Shareholders; Shareholders may also sue Directors, Supervisors, general manager and other senior management of our Company. Our Company may also sue Shareholders pursuant to the Articles of Association.

For the purpose of the above paragraph, the term "sue" shall include the initiation of proceedings in a court or the application of arbitration to an arbitration organisation.

(2) Shares and Transfers

Our Company may, based on the needs for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase in capital.

Our Company may increase its capital in the following ways:

(i) public offer of new Shares;

(ii) private issue of shares;

(iii) distributing bonus shares or placing of new Shares to its existing shareholders;

(iv) transfer of the reserve fund; and

(v) other means approved by laws and regulations.

The Company's increase in capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted pursuant to the procedures stipulated by relevant laws and administrative regulations.

When our Company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets. Our Company shall notify creditors within 10 days of the date of our Company's resolution for reduction of share capital and shall publish a notice in a newspaper within 30 days from the date of such resolution is approved. Creditors is entitled to, within 30 days of receiving the notice or, in the case of a creditor who does not receive the notice, within 45 days of the date of the first public notice, demand our Company to repay its debts or provide a corresponding guarantee for such debt. Our Company's registered capital after reduction shall not be less than the statutory minimum amount.

(3) Shareholders

Shareholders of our Company are people who lawfully hold the Shares of our Company and whose names (titles) are listed in the register of Shareholders.

Shareholders are entitled to rights and assume obligations according to types of their Shares and their shareholdings. Shareholders who hold the same type of Shares are entitled to the same rights and assume the same obligations.

Shareholders of ordinary Shares of our Company are entitled the following rights:

(i) to receive dividends and other types of distributions in proportion to the number of Shares held;

(ii) to participate in or appoint a proxy of Shareholder to participate in and exercise voting rights at the Shareholders' general meeting;

(iii) to supervise our Company's business operations, and to propose suggestions and inquiries;

(iv) to transfer the Shares held in accordance with laws, administrative regulations and the Articles of Association;

(v) to obtain relevant information according to the Articles of Association;

(vi) to participate in the distribution of the remaining assets of our Company in proportion to the number of Shares held upon our termination or liquidation;

(vii) other rights conferred by laws, administrative regulations and the Articles of Association.

(4) Board

The Board of Directors shall be accountable to the general meeting of our Shareholders, and shall exercise the following functions and powers:

(i) convene the Shareholders' general meeting and report on work to the Shareholders' general meeting;

(ii) implement the resolutions of the Shareholders' general meeting;

(iii) decide our Company's business operation plans and investment proposals;

(iv) formulate our Company's proposed annual financial budget and final accounts;

(v) formulate our Company's profit distribution plan and plan for making up for losses;

(vi) formulate the plans for increasing or decreasing the registered capital and the issuance of debentures;

(vii) formulate plans for corporate merger, separation, and dissolution of our Company;

(viii) decide on the setup of our Company's internal management organisation and the setup of the branches and other divisions of the Company;

(ix) appoint or dismiss the general manager of our Company; and appoint or dismiss the deputy general manager and senior management officers (including chief financial officer) based on the nomination of the general manager, and determine their remuneration;

(x) formulate our Company's basic management systems;

(xi) formulate plans for the amendment of the Articles of Association;

(xii) formulate encouragement schemes for the stock option;

(xiii) decide the setup of the Special Committee of the Board of Directors;

(xiv) manage the information disclosure of our company;

(xv) propose to the shareholders' general meeting to engage or change the accountants firm for auditing our company;

(xvi) hearing the work report of the general manager or other senior management authorised by the general manager, regularly or irregularly, and approve the work report of the general manager;

(xvii) external guarantee except those shall be decided by the shareholders' general meeting;

(xviii) within the scope authorised by the shareholders' general meeting, decide issues on our company's investment, purchase and sales of assets, asset mortgage, trust management and connected transactions.

(xix) other powers and rights authorised by the Articles of Association or the Shareholders' general meeting.

All of the above resolutions adopted by the Board of Directors, except for those in (vi), (vii), (viii) and (xii), which must be approved by more than a two-thirds vote of the Directors, are to be approved by a simple majority of votes by the Directors.

Meetings of the Board shall be held at least 2 times a year and convened by the chairman of the Board. Notice of the meeting shall be served on all of the Directors and supervisors 10 days before the date of the meeting via delivery, post, fax and e-mail.

Unless otherwise stipulated in the Articles of Association, meetings of the Board shall be held only if more than half of the Directors (including the proxies) are present. Each Director shall have one vote. Where the numbers of dissenting votes and affirmative votes against a resolution are equal, the chairman of the Board shall have an additional vote.

The Director who attends the meeting on behalf of another Director is to exercise the right of the Director within the scope of authorisation. Where any Director fails to attend the Board meeting or entrust a proxy to be present on his/her behalf, such Director is deemed to have waived his/her voting rights at the meeting.

(5) Secretary to the Board

The secretary to the Board must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors. He/she shall be deemed as one of our Company's senior management.

(6) Supervisory Committee

Our Company shall have a supervisory committee composed of 3 persons. The Directors, general manager, financial personnel and other senior management shall not act as Supervisors. The terms of office of Supervisors shall be 3 years, renewable upon re-election and reappointment. The supervisory committee shall have one chairman. The election or removal of the chairman of the supervisory committee shall be made by the affirmative vote of at least two-thirds (including two-thirds) of the members of the supervisory committee. Resolutions of the supervisory committee shall be made by the affirmative vote of at least two-thirds (including two-thirds) of the members of the supervisory committee.

At least one third of the Supervisors shall be the representatives of staff and of our Company. The representative of staff of our Company as Supervisors shall be elected and replaced by the staff of our Company democratically thereby.

The Supervisory Committee is responsible to the Shareholders' general meeting and lawfully exercises the following powers:

(i) examine the financial standing of our Company;

(ii) supervise the performance of Directors, general manager and senior management officers of their duties where any violations of the applicable laws, regulations or the Articles of Association are occurred;

(iii) require the Directors, general manager and other senior management to take corrective measures when their actions are detrimental to our Company's interests;

(iv) verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the Shareholders' general meetings and, should any queries arise, to entrust, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;

(v) propose to convene extraordinary Shareholders' meetings, where the Board of Directors fails to perform the duties in relation to convening or presiding over the general meeting as required by the PRC Company Law, to convene and preside over the general shareholders' meeting;

(vi) represent our Company in negotiating with or in bringing actions against the Directors pursuant to the PRC Company Law; and

(vii) other powers and duties authorised by the Articles of Association.

Supervisors present at meetings of the Board.

(7) General Manager

Our Company shall have one general manager, who shall be appointed and dismissed by the Board. The Manager shall be accountable to the Board and exercise the following functions and powers:

(i) be in charge of the production and operation management of our Company, and to organise the enforcement of resolutions of the Board of Directors;

(ii) organise the implementation of the annual operation plans and investment schemes of our Company;

(iii) formulate the structure scheme of the internal management of our Company;

(iv) formulate the basic management system of our Company;

(v) formulate basic rules and regulations of our Company;

(vi) propose the appointment or dismissal of the deputy general manager and other senior management (including chief financial officer) of our Company;

(vii) appoint or dismiss management personnel other than those to be appointed or dismissed by the Board of Directors; and

(viii) other powers and duties authorised by the Articles of Association and the Board of Directors.

(8) Reserve Fund

After making up for the losses and making contributions to the common reserve fund, any remaining after tax profit may be distributed to the Shareholders in proportion to their respective shareholdings, except otherwise stipulated in the Articles of Association.

The common reserve fund of our Company shall be used to make up for its losses, increase the scale of production and operation of our Company or convert into the registered capital of our Company to increase the amount thereof, but the capital common reserve fund shall not be applied to making up the losses of our Company.

At the time of converting the statutory common reserve fund into registered capital, the amount retained in such common reserve fund shall not be less than 25% of the registered capital before the said conversion.

(9) Dispute Resolution

Our Company shall comply with the following rules governing the settlement of disputes:

(i) Whenever any disputes or claims arise between (i) our Company's Directors, Supervisors, General Manager or other senior management; (ii) the holders of foreign shares (including holders of overseas listed foreign shares and holders of non-listed foreign shares) and our Company, holders of foreign shares (including holders of listed foreign shares and holders of non-listed foreign shares) and our Company's Directors, Supervisors, general manager or other senior management, or holders of overseas-listed foreign shares and non-listed foreign shares and holders of domestic shares, based on the Articles of Association, or any rights or obligations imposed by our Company Law, or any other relevant laws and administrative regulations concerning the affairs of our Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to it, and all persons who have a cause of action based on the same facts resulting in the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is our Company or our Shareholders, Directors, Supervisor, General Manager, or other senior management.

Disputes in relation to the identification of shareholders and disputes in relation to the share register may not be referred to arbitration;

(ii) A claimant may choose for arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body as chosen by the claimant.

If a claimant elects for arbitration at Hong Kong International Arbitration Centre, any party to the dispute may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre;

(iii) The laws of the PRC are applicable to the arbitration for the disputes or claims of rights as stated in item i), unless otherwise stipulated in laws and administrative regulations; and

(iv) The award of an arbitration body shall be final and conclusive and binding on all parties.

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities law and regulations. It also contains a summary of certain Hong Kong law and regulations, including summaries of certain material differences between the Company Law and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, certain requirements of the Listing Rules and the summary of additional provisions required by the Stock Exchange for inclusion in the articles of association of the PRC issuers (as defined in the Listing Rules).

1. PRC LAWS AND REGULATIONS

The PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, administrative regulations, local regulations, autonomy regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for the purposes of judicial reference and guidance.

Pursuant to the Constitution and the Legislation Law of the PRC ("the Legislation Law"), the National People's Congress ("NPC") and the standing committee of the NPC ("the Standing Committee") are empowered to formulate and amend basic laws governing State Organs, civil and criminal or other matters. The Standing Committee enacts and amends laws other than those that shall be formulated by the NPC, and during the period of adjournment of the NPC, the Standing Committee may partially supplement and amend the laws enacted by the NPC, provided such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, subject to the constitution, laws and administrative regulations. The people's congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities and take the same effect after submitting to the standing committee of the people's congresses of provinces or autonomous regions for approval. The standing committee of the people's congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the People's Government of the province or autonomous region concerned are identified in the examination of local regulations of larger cities by the standing committee of the people's congresses of provinces or autonomous regions, a decision should be made to deal with the matter. "Larger cities" refer to cities where the people's governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

The ministries, commissions, PBOC, National Audit Office of the State Council and institutions with administrative functions directly under the State Council may formulate departmental rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Matters governed by the departmental rules and regulations should be those for the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and larger cities may formulate rules based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities.

Pursuant to the PRC Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on 10 June 1981, the Supreme People's Court is empowered to provide general interpretation on questions involving the specific application of laws and decrees in court trials. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and departmental rules which they have promulgated. At the regional level, the power to give interpretations to the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

The PRC Judicial System

Pursuant to the Constitution and the Law of Organisation of the People's Courts of the PRC ("Law of Organisation of the People's Courts"), the judicial system in the PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further organised into civil, criminal, and administrative divisions. The intermediate people's courts are organised into divisions similar to those of the basic people's courts, and are further organised into other special divisions, such as the intellectual property division.

The people's courts at lower levels are subject to the supervision of the people's courts at higher levels. The higher level people's courts supervise the basic and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts adopt the "second instance as final" appellate system. A party may appeal against a judgement or order of the people's court of first instance to the people's court at the next higher level. Second judgements or orders given at the next higher level are final and legally binding. First judgements or orders of the Supreme People's Court are also final. Where the Supreme People's Court or a people's court at a higher level finds an error in a judgement or order which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgement or order, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the PRC ("the Civil Procedure Law") which was promulgated on 9 April 1991 and last amended on 31 August 2012 and took effect from 1 January 2013, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action, and provided that the provisions of the Civil Procedure Law regarding jurisdiction by level and exclusive jurisdiction shall not be violated.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. Where a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. Where any party to a civil action refuses to comply with a judgement or order made by a people's court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to request for enforcement of the judgement, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two years. Where a person fails to satisfy a judgement made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgement.

Where a party applies to a people's court for enforcing an effective judgement or ruling by a people's court against a party who's not located within the territory of the PRC or whose property is not within the PRC, such party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgement or ruling. A foreign judgement or ruling may also be recognised and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or where the judgement or ruling satisfies the court's examination in accordance with the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgement or ruling will result in violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

The PRC Company Law, Special Regulations And Mandatory Provisions

The PRC Company Law ("the Company Law") was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on 29 December 1993 and became effective on 1 July 1994. It was last amended on 28 December 2013 and came into effect on 1 March 2014.

The Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Shares by Joint Stock Limited Companies ("the Special Provisions") were adopted at the 22nd Standing Committee Meeting of the State Council on 4 July 1994. The Special Provisions was formulated according to Article 85 and Article 155 of the Company Law and applies to the overseas share subscription and listing of joint stock limited companies.

The Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to be listed Overseas ("Mandatory Provisions") were promulgated by the former Securities Commission of the State Council and the State Economic System Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provision have been incorporated into the Articles of Association.

General provisions

A "joint stock limited company" ("a company") is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A company must conduct its business in accordance with law and professional ethics. A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liabilities associated with the debts of the invested enterprises.

Incorporation

A company may be incorporated by promotion or public subscription. A company may be incorporated by 2 to 200 promoters, provided that at least half of the promoters must reside in the PRC. A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, unless otherwise provided, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

The Company Law provides that for companies incorporated by way of promotion, its registered capital shall be the total share capital subscribed by all of its promoters as recorded in the company registration authority. No shares shall be offered to any other person before the shares subscribed by the promoters are paid up. Where otherwise provided for in any other laws, administrative regulations and decisions of the State Council in respect of the actual paid-in registered capital and the minimum registered capital for joint stock limited companies, the provisions thereof shall prevail.

Pursuant to the Securities Law, the total capital of a company which proposes to apply for its shares to be listed on a stock exchange shall not be less than RMB30 million.

The promoters shall convene an establishment meeting within 30 days after the issued shares have been completely paid up, and shall give notice to all subscribers or make a public announcement of the date of the establishment meeting 15 days prior to the meeting. The establishment meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the establishment meeting include adopting the draft articles of association proposed by the promoters and electing the board of directors and the Supervisory Committee of the company. Any resolution of the meeting shall be approved by subscribers with more than half of the voting rights of those present at the meeting.

Within 30 days after the conclusion of the establishment meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established and has the qualification of a legal person once the registration has been approved by the relevant administrative bureau for industry and commerce and a business licence has been issued.

The promoters of a company shall individually and jointly be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April 1993 (which is only application to the issue and trading of shares in the PRC and relevant activities), if a company is incorporated by means of public subscription, the promoters of the company are required to assume joint liability for the accuracy of the contents of this document and to ensure that this document does not contain any misleading statement or omission of any material information.

Share capital

Where a joint stock limited company is established by way of promotion, the promoters shall fully subscribe in writing for the shares and pay the corresponding capital provided for in its articles of association. In the case of capital contributions made by means other than in cash, the promoters shall go through the relevant procedures for the transfer of property rights in accordance with the law.

There is no limit under the Company Law as to the percentage of shares held by an individual shareholder in a company. If capital contribution is made other than in cash by the promoters of the company, valuation and verification of the properties contributed must be carried out and converted into shares.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency.

Pursuant to the Special Regulations and the Mandatory Provisions, overseas listed shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan are defined as overseas-listed-foreign-invested shares, and those issued to investors within the PRC other than the aforementioned areas are defined as domestic shares. Qualified Foreign Institutional Investors (“QFII”) approved by China Securities Regulatory Commission (hereinafter referred to as “CSRC”) may hold domestic listed shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Detailed measures shall be specified by the State Council based on the Special Regulations. According to the Special Regulations, upon the approval of the CSRC, a company may agree, in the underwriting agreement on issuing overseas-listed-foreign-invested shares, to retain not more than 15% of the aggregate amount of underwritten shares. The share offering price may be equal to or in excess of par value, but shall not be less than par value. The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council. The transfer of registered shares by a shareholder must be conducted by means of an endorsement or by other means stipulated by laws or by administrative regulations. Bearer shares are transferred by delivery of the H share certificates to the transferee.

No modification registration shall be made to the registrar of shareholders within twenty (20) days prior to the shareholders' meeting being held or within five (5) days prior to the benchmark date set for the purpose of distribution of dividends.

Increase in capital

Pursuant to the Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders at the general meeting. Except for above-mentioned conditions of obtaining approval at the general meeting required by the Company Law, the Securities Law requires the following conditions for a company to offer new shares to the public: (i) a complete and well-operated organisation; (ii) capability of making profit continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three years; (iv) fulfil any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council.

The public offer requires the approval of the securities administration authority of the State Council. After payment in full for the new shares issued, a company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

Reduction of share capital

Subject to the minimum registered capital requirement, a company may reduce its registered capital in accordance with the following procedures stipulated by the Company Law:

- the company shall prepare a balance sheet and an inventory of assets;
- the reduction of registered capital must be approved by shareholders in the general meeting;
- the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in newspapers within 30 days once the resolution approving the reduction in capital being passed;
- creditors of the company may require the company to clear its debts or provide guarantees covering the debts within the statutory time limit; and

- the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than for one of the following purposes:

- to reduce its registered capital;
- to grant shares as a reward to the staff of the company;
- to purchase the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting; or
- other purposes permitted by laws and administrative regulations.

The shares repurchased by the company as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any fund for the repurchase shall be paid out of after-tax profit of the company, and the shares repurchased shall be transferred to the staff of the company within one year. The Mandatory Provisions stipulate that upon obtaining approvals from relevant supervisory authorities in accordance with the articles of association of the company, a company may, for the aforementioned purposes, repurchase its issued shares by way of a general offer to its shareholders or purchase on a stock exchange or through outside-market contract.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock changes established pursuant to laws or by other means as stipulated by the State Council. Registered shares may be transferred by endorsement or in any other manner specified in applicable laws and regulations.

Shares held by the promoter(s) of a company shall not be transferred within one (1) year from the date of incorporation of the company. Shares issued by a company prior to the public offer of its shares shall not be transferred within one (1) year from the date of its shares being listed on a stock exchange. Directors, supervisors and senior management personnel of the company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the company held by each of them within one (1) year from the listing date.

Shareholders

Pursuant to the Company Law and the Mandatory Provisions, a shareholder's rights include:

- the right to transfer his/her shares in accordance with applicable laws and regulations as well as the articles of association;
- the right to attend in person or appoint a representative to attend the shareholders' general meeting and to vote in respect of the amount of shares held;
- the right to inspect the company's articles of association, shareholders' registers, records of short-term debentures, minutes of shareholders' general meeting, board resolutions, supervisor resolutions and financial accounting reports, and to put forward proposals or raise questions on the business operations of the company;
- where a resolution approved by the shareholders' general meeting or by the board of directors violates any law or regulation, or infringes on the shareholders' lawful rights and interests, the right to institute an action in a people's court demanding that the illegal infringing action be stopped;
- the right to obtain surplus assets of the company upon its termination in proportion to shares he/she holds; to claim against other shareholders who abuse their rights of shareholders for the damages;
- the right to receive dividends based on the number of shares held; and
- any other shareholders' rights specified in the articles of association.

The obligations of shareholders include:

- to comply with the articles of association of the company;
- to pay the subscription monies in respect of shares subscribed for;
- be liable for debts and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up;
- no abuse of shareholders' rights to damage the interests of the company or other shareholders of the company; no abuse of the independent status of the company as a legal person and its limited liability companies as to damage the interests of the creditors of the company; and
- any other obligation specified in the articles of association of the company.

Shareholders' general meeting

The shareholders' general meeting is the organ of authority of a company, which exercises its functions and powers in accordance with the Company Law. The shareholders' general meeting exercises the following functions and powers:

- to decide on operational policies and investment plans of the company;
- to elect or remove the directors and supervisors who are not representatives of the employees;
- to decide on matters relevant to remuneration of directors and supervisors;
- to review and approve reports of the board of directors;
- to review and approve reports of the Supervisory Committee or the supervisors;
- to review and approve annual financial budgets and financial accounts proposed by the company;
- to review and approve proposals for profit distribution and for recovery of losses of the company;
- to decide on increase and reduction of the registered capital of the company;
- to decide on bond issuances of the company;
- to decide on merger, division, dissolution and liquidation of the company and other issues;
- to amend the articles of association of the company; and
- other functions and powers specified in the articles of association of the company.

The annual shareholders' general meeting must be convened once a year. An extraordinary shareholders' general meeting shall be held within two months upon the occurrence of any of the following circumstances:

- the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the articles of association of the company;
- the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;
- as requested by a shareholder holding, or shareholders holding in aggregate, 10% or more of the shares of the company;

- when deemed necessary by the board of directors;
- as suggested by the Supervisory Committee; or
- other matters required by the articles of association.

The shareholders' general meeting shall be convened by the board of directors and shall be presided over by the chairman of the board of directors. The notice to convene the shareholders' general meeting shall be dispatched to all the shareholders 20 days prior to the general meeting pursuant to the Company Law, and 45 days prior to the general meeting pursuant to the Special Regulations and the Mandatory Provisions, stating the matters to be reviewed at the general meeting. Under the Special Regulations and the Mandatory Provisions, shareholders intending to attend are required to send written confirmations of their attendance to the company 20 days before the general meeting.

According to the Special Regulations, at the annual shareholders' general meeting of the company, shareholders with 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be reviewed at the general meeting, which if within the functions and powers of the shareholders' general meeting, are required to be added to the agenda of the general meeting. Shareholders present at the shareholders' general meeting possess one vote for each share they hold. However, the company shall have no vote for any of its own shares the company holds. Resolutions proposed at the shareholders' general meeting shall be approved by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the general meeting, except that such resolutions as merger, division or reduction of registered capital, the issue of bonds or short-term debentures, the change in the form of the company or the amendment to the articles of association, shall be approved by shareholders with more than two-thirds of the voting rights cast by shareholders present (including those represented by proxies) at the general meeting.

A shareholder may entrust a proxy to attend a shareholders' general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorisation scope. There is no specific provisions in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or where the 50% level is not achieved, the company shall within 5 days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting, and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Regarding this, holders of domestic invested shares and holders of overseas-listed-foreign-invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to nineteen members. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may hold consecutive terms upon re-election.

Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors and supervisors at least ten days before the meeting.

Under the Company Law, the board of directors exercises the following functions and powers:

- to convene the shareholders' general meeting and report on its work to the shareholders;
- to implement the resolution of the shareholders' general meeting;
- to decide on the company's business plans and investment plans;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's proposals for profit distribution and for recovery of losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- to prepare plans for the merger, division or dissolution of the company;
- to decide on the company's internal management structure;
- to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors could be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Where a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation for another director to attend the meeting on his behalf.

Where a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, where it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not act as a director of a company:

- persons without capacity or restricted capacity to undertake civil liabilities;
- persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- persons who are former directors, factory managers or managers of a company or enterprise that has been bankrupt and has been liquidated due to mismanagement, and those persons are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, and less than three years have elapsed since the date of the revocation of the business license; or
- persons who have a relatively large amount of debt due and outstanding; or other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in Appendix IV).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises the following functions and powers (including but not limited to):

- to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- to check on the implementation of the resolutions of the board of directors.

The legal representative of a company, in accordance with the company's articles of association, may be the chairman, any executive director or the manager. The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix IV) contains further elaborations of such duties.

Supervisor

A joint stock limited company shall establish a Supervisory Committee comprised of no less than three members. The Supervisory Committee shall include shareholders' representatives and an appropriate proportion of employee representatives. The proportion of employee representatives shall be specified in the articles of association but in any event shall account for no less than one-third of the supervisors appointed. Employee representatives who serve as members of the Supervisory Committee shall be democratically elected through the employee representatives' assembly, the employees' assembly or in any other way.

No director or senior management of a company may concurrently act as one of its supervisors.

The Supervisory Committee exercises the following functions and powers:

- to check the financial affairs of the company;
- to supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior manager who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting;
- to require the director or senior manager to make corrections if his act is detrimental to the interests of the company;
- to propose the convening of extraordinary shareholders' general meetings, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;
- to put forward proposals at shareholders' general meetings;
- to initiate actions against directors or senior management; and
- other functions and duties as provided for by the articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

Managers and senior management

A company shall have a manager who shall be appointed or removed by the board of directors. The manager reports to the board of directors and may exercise the following powers:

- manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's internal rules;
- recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- attend board meetings as a non-voting attendant; and
- other powers conferred by the board of directors or the company's articles of association.

Pursuant to the Company Law, other senior management personnel of a company include the financial officers, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company. The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company.

Duties of directors, supervisors, managers and senior officers

Directors, supervisors, managers and other senior officers of a company are required under the Company Law to abide by the relevant laws, regulations and the company's articles of association, to carry out their duties honestly and protect the interests of the company. Each director, supervisor, manager and senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company unless permitted by the relevant laws and regulations or by the shareholders.

Any directors, supervisors, managers and other senior officers who contravenes any laws, regulations or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

No director or senior management may:

- misappropriate company funds;
- divert company funds into an account held in his own name or in the name of any other individual;
- loan company funds or provide any guaranty to any other person by using company property in violation of the articles of association without first obtaining the consent of the board of shareholders, the general meeting of shareholders or the board of directors;
- become a party to any contract or business dealings with the company in violation of the articles of association without first obtaining the consent of the board of shareholders or the general meeting of shareholders;
- seek business opportunities for himself or for any other person by taking advantage of his position, or operate on his own behalf or on behalf of any other person any business similar in nature to that of the company, without first obtaining the consent of the board of shareholders or the general meeting of shareholders;
- personally accept any commission on any transaction to which the company is a party;
- unlawfully disclose confidential company information; or
- act in any way that is inconsistent with his duty of fidelity to the company. Any income received by any director or senior management in violation of this Article shall be treated as the property of the company.

Finance and accounting

A company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and the regulations of the responsible financial department of the State Council. A company shall prepare a financial report which shall be audited and verified as provided by law at the end of each fiscal year.

A company shall make available its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profit, the company shall set aside 10% of its after-tax profit for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders' meeting or the shareholders' general meeting, the company may make an allocation to a discretionary common reserve from the after-tax profit. If the aggregate balance of the company's statutory surplus reserve is not enough to make up for the losses of the company of the previous year, the current year's profit shall first be used for making good the losses before the statutory surplus reserve is set aside according to the provisions of the preceding paragraph.

After the losses have been made up and statutory surplus reserves have been set aside, the remaining profit shall be distributed to shareholders in proportion to the number of shares held by shareholders as in the case of a joint stock limited company, except as otherwise provided in the articles of association.

The capital common reserve of a joint stock limited company is made up of the premium over the nominal value of the shares of the company on issue, and other amounts required by the financial department of the State Council to be treated the capital reserve.

A company's common reserves shall be used to cover losses made in past years, to enhance the company's productivity and expand its business or to increase its registered capital; however a company's capital reserve shall not be used to cover the company's losses. Where the statutory common reserve is converted into capital, the value of the remaining common reserve shall be no less than 25 % of the company's registered capital prior to the conversion.

Appointment and retirement of auditors

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company.

Any proposed appointment or dismissal of an accounting firm as the company's auditor shall be subject to a resolution of the board of shareholders, the general meeting of shareholders or of the board of directors in accordance with the provisions of the articles of association.

Any shareholders' meeting, general meeting of shareholders or board of directors that votes to dismiss any accounting firm as its auditor shall allow the accounting firm to express its own opinions.

A company shall provide the accounting firm appointed as its auditor with accurate and complete accounting books and records, financial and accounting statements, and other accounting documents, and may not refuse to do so or conceal any such accounting records or make any false statement to its auditor.

Profit Distribution

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas-listed-foreign-invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies' approval department of the State Council and the CSRC. In relation to matters involving the company's registration, the company shall modify its registration with the companies' registration authority.

Dissolution and liquidation

Where any company encounters serious difficulties in its operations or management that will lead to significant losses to the benefits of the shareholder if the company continues its existence and the situation cannot be resolved by any other means, shareholders representing 10% or more of the voting rights of all shareholders may petition the people's court to dissolve the company.

Pursuant to the Company Law, a company may be dissolved where:

(1) its term of business operation as prescribed in the articles of association expires or any cause of dissolution as prescribed in the articles of association of the company occurs;

(2) the board of shareholders or the general meeting resolves to dissolve the company;

(3) dissolution of the company is necessary due to any merger or demerger to which the company is a party;

(4) its business license is revoked or it is ordered to close down or be dissolved in accordance with the law; or

(5) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the People's Court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (1), (2), (4) and (5) above, a liquidation committee must be formed within 15 days from the date of dissolution. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment. A liquidation committee shall, within ten days of its formation, notify the company's creditors of its formation, and shall make a public announcement in a newspaper on the formation of a liquidation committee within 60 days of its formation. Any creditor shall, within 30 days of receipt of a notice or within 45 days of the public announcement in the event that the relevant creditor does not receive a notice, make a claim to the liquidation committee on the debt owed to it/him.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

- handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- notify creditors or issue public notices;
- deal with and settle any outstanding business of the company;
- pay any tax overdue;
- settle the company's financial claims and liabilities;
- handle the surplus assets of the company after its debts have been paid off; and
- represent the company in civil lawsuits.

Where the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labour insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the Shareholders of the company in proportion to the number of Shares held by them.

A company shall not engage in operating activities unrelated to the liquidation. If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors with respect to any loss arising from his wilful or material default.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the CSRC and the listing must be arranged in accordance with the procedures specified by the State Council.

Loss of H share certificates

A shareholder may apply, in accordance with the relevant provision set out in the PRC Civil Procedure Law, to a people's court in the event that H share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates.

Suspension and termination of listing

Pursuant to the PRC Securities Law, in any of the following circumstances, the relevant stock exchange shall decide to suspend the listing of the relevant stock:

- the market capitalisation or share ownership structure, etc. of the company changes, thus causing the company to breach the listing requirements;
- the company fails to make public its financial status as required, or includes any false record in its financial and accounting reports, which may mislead investors;
- the company commits any major illegal activity;
- the company has been operating at a loss for the last 3 consecutive years; or
- any other circumstances prescribed in the listing rules of the stock exchange.

In any of the following circumstances, the relevant stock exchange shall decide to terminate the listing of the relevant stock:

- the market capitalisation or share ownership structure, etc. of the company changes, thus causing the company to breach listing requirements, and the company subsequently fails to meet listing requirements within the period of time prescribed by the stock exchange;
- the company fails to make public its financial status as required, or includes any false record in its financial and accounting reports, and refuses to take any remedial steps;
- the company has been operating at a loss for the last 3 consecutive years and fails to make a profit in the following year;

- the company is dissolved or declared bankrupt; and
- any other circumstances prescribed in the listing rules of the stock exchange.

Merger and demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. Where it merges by absorption, the company which is absorbed shall be dissolved. Where it merges by forming a new corporation, both companies will be dissolved.

Securities Law And Regulations And Regulatory Regimes

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of relevant laws and regulations on securities, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis.

On 25 December 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Liability Companies. These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited liability companies having domestic listed foreign shares.

On 29 December 1998, the Standing Committee of the NPC promulgated the Securities Law which came into effect on 1 July 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On 28 August 2004, 27 October 2005 and 29 June 2013, the Securities Law was respectively revised three times. The Securities Law is applicable to the issuance and trading of shares in the PRC, company bonds and other securities designated by the State Council according to law, and provisions of the issuance and transaction of securities, acquisitions of listed companies, stock exchanges, security companies and the duties and responsibilities of securities regulatory authority under the State Council, etc.

Where the Securities Law does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations will apply.

Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the People's Republic of China (the Arbitration Law) was promulgated by the Standing Committee of the NPC on 31 August 1994 and became effective on 1 September 1995, and was amended on 27 August 2009. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to settle disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. Where parties have by agreement stipulated arbitration as the method for dispute settlement, the people's court shall refuse to handle the proceeding.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Hong Kong Listing Rules, in a contract between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of H shares and the company's directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the CIETAC or the HKIAC. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of HKIAC.

Pursuant to the PRC Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration proceeding. Where any party fails to company with the award, the other party may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there's any procedural irregularity (including irregularity in the composition of the arbitration committee, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

A party seeking to enforce an arbitral award by a PRC arbitration panel against a party who, or whose property, is not within the territory of PRC, may apply to a foreign court with jurisdiction over the case for enforcement, Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts pursuant to the principles of the reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC's accession to the Convention, the Standing Committee of the NPC declared that

- the PRC will only recognise and enforce foreign arbitral awards based on the principle of reciprocity; and

- the PRC will only apply the New York Convention to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations.

An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was signed on 18 June 1999, approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. The arrangement reflects the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC.

2. HONG KONG LAWS AND REGULATIONS

(1) Summary of Material Differences between Hong Kong Law and Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and is supplemented by common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC, is governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

Set out below is a summary of the material differences between the Hong Kong law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

(i) Corporate existence

Under Hong Kong law, a company having share capital, is incorporated and will acquire an independent corporate existing after the company registrar of Hong Kong issuing a certificate of incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association does not contain such pre-emptive provisions.

Under the Company Law, a company may be incorporated by promotion or public subscription. The Company law doesn't provide a minimum registered capital for a company except otherwise stipulated by other laws, administrative regulations and rules. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

(ii) Share capital

Under Hong Kong law, the authorised share capital of a Hong Kong company is the amount of share capital which the company is authorised to issue and a company is not bound to issue the entire amount of its authorised share capital. The authorised share capital may be larger than its issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The Company Law does not provide for authorised share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorised by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) Restrictions on shareholding and transfer of shares

Under the PRC law, the domestic shares ("domestic shares") in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, the PRC legal and natural persons, qualified foreign institutional investors or eligible foreign strategic investors. The overseas listed foreign shares ("foreign shares") issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors.

Under the Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares.

(iv) Financial assistance for acquisition of shares

Although the Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarised in Appendix IV to this Prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the total voting rights of holders of shares in the class in question or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares, separately or simultaneously, once every 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as of the date of the Shareholders' special resolution; (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) upon approval by CSRC, the shareholders of domestic shares of the Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

(vi) Directors

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts; restrictions on directors' authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office without shareholders' approval. The Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix IV to this prospectus.

(vii) Supervisory Committee

Under the Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a Supervisory Committee but there is no mandatory requirement for the establishment of a Supervisory Committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The Company Law gives shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the Supervisory Committee to initiate proceedings in the people's court. In the event that the Supervisory Committee violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the Supervisory Committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favour of the company acting as agent for the shareholders. This allows minority shareholders to take action against the directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either appoint a receiver or manager over the property or business of the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Company Law provides that where any company encounters any serious difficulty in its operations or management so as that the interests of the shareholders will face serious loss if the company continues to exist and such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

(x) Notice of shareholders' meetings

Under the Company Law, notice of a shareholders' general meeting must be given not less than 20 days before the meeting, or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice of an extraordinary general meeting is 14 days and for an annual general meeting is 21 days. 28 days' notice is required for a meeting to consider any matter (e.g. removal of directors and auditors) requiring "special notice".

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum.

The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) Financial disclosure

A company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

The Company Law gives the shareholders of a company the right to inspect the Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) Receiving agent

Under both the Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi) Corporate reorganisation

Corporate reorganisations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to sections 668 to 674 of the Companies Ordinance which requires the sanction of the court. Under Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

(xvii) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

(xviii) Mandatory deductions

Under the Company Law, a company shall draw 10% of the profit as its statutory reserve fund before it declares any dividends after taxation. The company may not required to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profit, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profit. There are no such requirements under Hong Kong law.

(xix) Remedies of a company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profit made by a director, supervisor or officer) have been in compliance with the Listing Rules.

(xx) Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(2) The Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company:

(i) Compliance adviser

A company seeking listing on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full year commencing after the listing date, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorised representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountants' report

The accountants' report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

(iii) Process agent

The Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("foreign shares") which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalisation at the time of listing of not less than HK$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalisation at the time of listing of over HK$10,000,000,000.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the Company.

(vii) Mandatory provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the Supervisory Committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix IV to this prospectus.

(viii) Redeemable shares

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

(ix) Pre-emptive rights

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Company's articles of association, prior to (1) authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the Company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State

Counsel, the shareholders of domestic invested shares of the Company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

(x) Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules issued by the Stock Exchange.

The Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The remuneration and assessment committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

(xi) Amendment to the Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules and the Mandatory Provisions or the Company Law.

(xii) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and its shareholders free of charge, and for copying by shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;

- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);

- a copy of the latest annual return filed with the State Administration of Industry & Commerce or other competent PRC authority; and

- for shareholders only, copies of minutes of meetings of shareholders.

(xiii) Receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in H share certificates

The Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and

- authorises the Company to enter into a contract on his behalf with each Director, Supervisors, Managers and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

(xv) Compliance with the Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

(xvi) Contract between the Company and its Directors, officers and Supervisors

The Directors are required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules relating to securities transactions by directors.

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;

- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or offer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvii) Subsequent listing

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(xviii) English translation

All notices or other documents required under the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Company's listing.

(3) Other Legal and Regulatory Provisions

Upon the Company's listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

(4) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and China Taiwan.

(5) PRC Legal Matter

Our PRC legal advisers, have sent to us a legal opinion dated 30 September 2015 confirming that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. This letter is available for inspection as referred to in “Appendix VII – Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection”. Any person wishing to have detailed advice on PRC law and the laws of any jurisdictions is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation

Our Company was established in the PRC as a limited liability company on 25 April 2000 and was converted into a joint stock limited liability company on 19 April 2011. Our registered office is at Sanjiaocheng Village, Sanjiaocheng Town, Yuzhong County, PRC. We have established a place of business in Hong Kong at 18/F, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong, and our Company was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XVI of the Companies Ordinance on 9 June 2015. Mr. Li Siu Bun has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process on the Company in Hong Kong is 18th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road, Hong Kong.

As our Company was established in the PRC, its operation, corporate structure and the Articles are subject to the laws and regulations of the PRC. A summary of certain provisions of our Company's Articles and relevant aspects of the laws and regulations of the PRC is set out in Appendices IV and V to this prospectus.

2. Changes in Share Capital

The following sets out the changes in our Company's registered capital since the date of its establishment:

(a) The registered capital of our Company as at the date of its establishment was RMB500,000, all of which was fully paid up.

(b) On 1 September 2002, Mr. Chen Gang and Mr. Ma Hongfu entered into an equity transfer agreement, pursuant to which Mr. Chen Gang transferred his 30% equity interest in Zhuangyuan Dairy to Mr. Ma Hongfu at a consideration of RMB150,000. The consideration was determined based on the registered capital of Zhuangyuan Dairy and the transfer was completed on or before 31 October 2002. The transfer was due to certain own investment considerations of Mr. Chen Gang. Immediately after such equity transfer and increase of registered capital (the details of which are set out in paragraph (c) below), the equity interests of Zhuangyuan Dairy were held as to 51.5% by Mr. Ma Hongfu and 0.5% by Mr. Chen Gang.

(c) On 31 October 2002, the registered capital of Zhuangyuan Dairy was increased from RMB500,000 to RMB10,000,000 by way of capital contributions from Mr. Ma Hongfu, Mr. Shi Yong, Mr. Yin Ming and Mr. Cui Ming in an aggregate amount of RMB9,500,000 which was fully paid up on or before 9 October 2002. Immediately after the increase in the registered capital, the equity interests of Zhuangyuan Dairy were held as to 51.5% by Mr. Ma Hongfu, 0.5% by Mr. Chen Gang, 28% by Mr. Shi Yong, 10% by Mr. Yin Ming, and 10% by Mr. Cui Ming.

(d) On 1 June 2004, Mr. Yin Ming and Mr. Ma Hongfu entered into an equity transfer agreement, pursuant to which Mr. Yin Ming transferred his 10% equity interest in Zhuangyuan Dairy to Mr. Ma Hongfu for a consideration of RMB1,000,000. The consideration was determined based on the registered capital of Zhuangyuan Dairy and the transfer was completed on or before 6 August 2004. The transfer was due to business development and capital operation. Immediately after such equity transfer, the equity interests of Zhuangyuan Dairy were held as to 61.5% by Mr. Ma Hongfu, 0.5% by Mr. Chen Gang, 28% by Mr. Shi Yong and 10% by Mr. Cui Ming.

(e) On 6 August 2004, the registered capital of Zhuangyuan Dairy was further increased from RMB10,000,000 to RMB30,000,000 by way of capital contributions from Mr. Ma Hongfu, Mr. Shi Yong, Mr. Cui Ming, Mr. Chen Gang, Mr. Hu Kaisheng, Mr. Wang Guofu, Mr. Chen Niru, and Mr. Tao Shengjian in the aggregate amount of RMB20,000,000 which was fully paid up on or before 22 June 2004. Immediately after the increase in the registered capital, the equity interests of Zhuangyuan Dairy were held as to 64.40% by Mr. Ma Hongfu, 0.79% by Mr. Chen Gang, 28.28% by Mr. Shi Yong, 3.65% by Mr. Cui Ming, 1.89% by Mr. Hu Kaisheng, 0.33% by Mr. Wang Guofu, 0.33% by Mr. Chen Niru, and 0.33% by Mr. Tao Shengjian.

(f) On 28 December 2005, the registered capital of Zhuangyuan Dairy was further increased from RMB30,000,000 to RMB50,000,000 by way of capital contributions on a pro rata basis from Mr. Ma Hongfu, Mr. Chen Gang, Mr. Shi Yong, Mr. Cui Ming, Mr. Hu Kaisheng, Mr. Wang Guofu, Mr. Chen Niru, and Mr. Tao Shengjian in the aggregate amount of RMB20,000,000 which was fully paid up on or before 15 October 2005. Immediately after the increase in the registered capital, the equity interests of Zhuangyuan Dairy were held as to 64.40% by Mr. Ma Hongfu, 0.79% by Mr. Chen Gang, 28.28% by Mr. Shi Yong, 3.65% by Mr. Cui Ming, 1.89% by Mr. Hu Kaisheng, 0.33% by Mr. Wang Guofu, 0.33% by Mr. Chen Niru, and 0.33% by Mr. Tao Shengjian.

(g) On 15 March 2008, Mr. Ma Hongfu, Mr. Chen Gang, Mr. Shi Yong, Mr. Cui Ming, Mr. Hu Kaisheng, Mr. Wang Guofu, Mr. Chen Niru and Mr. Tao Shengjian transferred their respective equity interests in Zhuangyuan Dairy to Qinghaihu Dairy. For further information about the transfers, please refer to the section headed "History and Development – Our History and Development – Interim restructuring and reversion". Upon completion of such equity transfers on or before 29 April 2008, our Company was wholly owned by Qinghaihu Dairy.

(h) On 6 May 2009, Qinghaihu Dairy transferred to Mr. Ma Hongfu, Mr. Chen Gang, Mr. Shi Yong, Mr. Cui Ming, Mr. Hu Kaisheng, Mr. Wang Guofu, Mr. Chen Niru and Mr. Tao Shengjian its entire equity interests in Zhuangyuan Dairy in the proportion of 64.40%, 0.79%, 28.28%, 3.65%, 1.89%, 0.33%, 0.33% and 0.33%, respectively. The transfers were completed on or before 8 May 2009. For further information about the transfers, please refer to the section headed "History and Development – Our History and Development – Interim restructuring and reversion".

(i) On 28 May 2010, each of Mr. Wang Guofu, Mr. Chen Niru, Mr. Tao Shengjian, and Mr. Chen Gang entered into an equity transfer agreement with Zhuangyuan Investment, pursuant to which Mr. Wang Guofu, Mr. Chen Niru, Mr. Tao Shengjian, Mr. Chen Gang transferred their respective entire equity interests in Zhuangyuan Dairy to Zhuangyuan Investment at an aggregate consideration of RMB894,685.22. The consideration was determined based on the registered capital of Zhuangyuan Dairy and the consideration was fully settled and the transfer was completed on or before 9 June 2010. The transfer was due to business development and capital operation.

On the same date, Mr. Shi Yong entered into an equity transfer agreement with Lucky Cow, pursuant to which Mr. Shi Yong transferred his entire equity interests in Zhuangyuan Dairy to Lucky Cow for a consideration of RMB14,137,842.13. The consideration was determined based on the registered capital of Zhuangyuan Dairy and the consideration was fully settled and the transfer was completed on or before 9 June 2010. The transfer was due to business expansion.

Furthermore and also on the same date, Mr. Cui Ming entered into an equity transfer agreement with each of Lucky Cow and Mr. Hu Kaisheng, pursuant to which Mr. Cui Ming transferred his 1.72% and 1.92% equity interests in Zhuangyuan Dairy to Lucky Cow and Mr. Hu Kaisheng, respectively, for a total consideration of RMB1,824,303.98. The consideration was determined based on the registered capital of Zhuangyuan Dairy and the consideration was fully settled and the transfer was completed on or before 6 June 2010. The transfer was due to business expansion.

On 9 June 2010, the registered capital of Zhuangyuan Dairy was further increased from RMB50,000,000 to RMB80,000,000 by way of capital contributions from Zhuangyuan Investment in the amount of RMB30,000,000, which was fully paid up on or before 1 June 2010.

Immediately after the above equity transfers and increase in the registered capital, the equity interests of Zhuangyuan Dairy were held as to 40.25% by Mr. Ma Hongfu, 38.62% by Zhuangyuan Investment, 18.75% by Lucky Cow, and 2.38% by Mr. Hu Kaisheng.

(j) On 9 September 2010, the registered capital of Zhuangyuan Dairy was increased to RMB93,980,000, which was fully paid up as to RMB2,796,000 by Caiding Investment, as to RMB1,398,000 by Caicheng Investment, as to RMB1,398,000 by Mr. Zheng Jiaming, as to RMB6,990,000 by Chongqing Fukun and as to RMB1,398,000 by Shanghai Rongyin on or before 10 August 2010. Immediately after such increase, the equity interests of our Company were held as to 34.26%, 2.03%, 32.87%, 15.96%, 2.98%, 1.49%, 1.49%, 7.44% and 1.49% by Mr. Ma Hongfu, Mr. Hu Kaisheng, Zhuangyuan Investment, Lucky Cow, Caiding Investment, Caicheng Investment, Mr. Zheng Jiaming, Chongqing Fukun and Shanghai Rongyin, respectively.

(k) On 19 April 2011, our Company was converted from a limited liability company to a joint stock limited liability company with a registered capital of RMB93,980,000, which was fully paid, and our Company was held as to 34.26%, 32.87%, 15.96%, 7.44%, 2.98%, 2.03%, 1.49%, 1.49% and 1.49% by Mr. Ma Hongfu, Zhuangyuan Investment, Lucky Cow, Chongqing Fukun, Caiding Investment, Mr. Hu Kaisheng, Caicheng Investment, Mr. Zheng Jiaming and Shanghai Rongyin, respectively.

(l) On 2 September 2011, the registered capital of our Company was increased to RMB105,370,000, which was fully paid up as to RMB2,847,500 by Tianjin Chuang Dongfang, as to RMB2,847,500 by Shenzhen Chuang Dongfang, as to RMB1,423,750 by Tianjin Jiufeng, as to RMB1,423,750 by Huaren Chuangxin, as to RMB1,423,750 by Mr. Huang Changrong and as to RMB1,423,750 by Shanghai Rongyin on or before 15 August 2011. Immediately after such increase, the equity interests of our Company were held as to 30.56%, 29.32%, 14.24%, 6.63%, 2.70%, 2.70%, 2.68%, 2.65%, 1.35%, 1.35%, 1.33%, 1.81%, 1.35% and 1.33% by Mr. Ma Hongfu, Zhuangyuan Investment, Lucky Cow, Chongqing Fukun, Tianjin Chuang Dongfang, Shenzhen Chuang Dongfang, Shanghai Rongyin, Caiding Investment, Tianjin Jiufeng, Huaren Chuangxin, Caicheng Investment, Mr. Hu Kaisheng, Mr. Huang Changrong and Mr. Zheng Jiaming, respectively.

Upon completion of the Global Offering, but without taking into account any H Shares which may be issued by our Company pursuant to the Over-allotment Option, the registered capital of our Company will be increased to RMB140,500,000, made up of 105,370,000 Domestic Shares and 35,130,000 H Shares fully paid up or credited as fully paid up, representing approximately 75% and 25% of the registered capital of our Company, respectively. Save for aforesaid and as mentioned in this Appendix, there has been no alteration in the share capital of our Company since its establishment.

3. Resolutions passed at our extraordinary general meetings

At the extraordinary general meetings held on 18 March 2015 and 23 September 2015, the following resolutions, among other resolutions, were duly passed:

(a) the Global Offering had been approved;

(b) the issue by our Company of 35,130,000 H Shares representing 25% of our Company's enlarged registered capital immediately upon completion of the Global Offering (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option) and the Listing of the H Shares on the Main Board of the Stock Exchange;

(c) subject to the completion of the Global Offering, the Articles of Association (which shall only become effective on the Listing Date) were approved and adopted;

(d) subject to completion of the Global Offering, and subject to compliance with the applicable PRC laws, the Articles of Association, the requirements under Listing Rules and the approvals by CSRC and the Stock Exchange (if applicable), the Board was granted a general unconditional mandate to exercise all the powers of our Company to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require Shares to be allotted, issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted or issued, shall not exceed 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, such mandate to remain in effect until the conclusion of the next annual general meeting of our

Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest; and

(e) the Board is authorised to handle all matters that are necessary for the issuance and Listing of the H Shares.

4. Changes in Registered Capital of our Subsidiaries

Our Company's subsidiaries are referred to in the Accountants' Report in Appendix I to this prospectus. The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(1) Qinghai Shengya

The registered capital of Qinghai Shengya was increased from RMB10,000,000 to RMB30,000,000 on 12 November 2013.

(2) Qinghai Shengyuan

The registered capital of Qinghai Shengyuan was increased from RMB5,000,000 to RMB30,000,000 on 18 December 2013.

(3) Yuzhong Ruifeng

The registered capital of Yuzhong Ruifeng was increased from RMB1,000,000 to RMB20,000,000 on 25 November 2013.

(4) Linxia Ruiyuan

The registered capital of Linxia Ruiyuan was increased from RMB1,000,000 to RMB30,000,000 on 27 December 2013.

(5) Linxia Ruian

The registered capital of Linxia Ruian was increased from RMB1,000,000 to RMB20,000,000 on 27 December 2013.

(6) Wuwei Ruida

The registered capital of Wuwei Ruida was increased from RMB1,000,000 to RMB20,000,000 on 12 December 2013.

(7) Ningxia Zhuangyuan

The registered capital of Ningxia Zhuangyuan was increased from RMB1,000,000 to RMB20,000,000 on 5 December 2013.

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

5. Corporate Information of our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 12 to the "Accountants' Report" set out in Appendix I to this prospectus.

Save for the subsidiaries mentioned in the Accountants' Report in Appendix I to this prospectus, our Company has no other subsidiaries.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) The second supplemental agreement to the investment agreement of our Company dated 20 April 2015 entered into among the 2010 PE Investors, our Company, Mr. Ma Hongfu and Mr. Hu Kaisheng (胡開盛) pursuant to which certain special rights granted to the 2010 PE Investors under the investment agreement of our Company dated 18 May 2010 (as supplemented by a supplemental agreement dated 20 December 2011) were terminated;

(b) The supplemental agreement to the share subscription and capital increase agreement of our Company dated 20 April 2015 entered into among the 2011 PE Investors and our Company, pursuant to which certain special rights granted to the 2011 PE Investors under the share subscription and capital increase agreement of our Company dated 30 July 2011 were terminated;

(c) The Non-Competition Undertaking Letter issued by each of our Controlling Shareholders, namely Mr. Ma Hongfu, Lucky Cow and Zhuangyuan Investment. Further details are set out in the section headed "Relationship with the Controlling Shareholders – Non-Competition Undertaking" in this prospectus;

(d) The Deed of Indemnity issued by our Controlling Shareholders, namely Mr. Ma Hongfu, Lucky Cow and Zhuangyuan Investment. Further details are set out in the section headed "Business – Historical Non-compliance Incidents" in this prospectus;

(e) The cornerstone investment agreement dated 24 September 2015 and entered into amongst our Company, the Sole Global Coordinator and Mr. Hu Keliang ("Mr. Hu") pursuant to which Mr. Hu has agreed to subscribe, or cause his designated entities to subscribe, for such number of our Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of approximately HK$42.0 million at the Offer Price. Further details are set out in the section headed "Cornerstone Investor" in this prospectus; and

(f) The Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of the Group

(a) Trademarks

i. Trademarks registered or applied by our Group in the PRC

As at the Latest Practicable Date, we had registered the following trademarks in the PRC which we consider to be or may be material to the business of our Group:

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
1.		Company	PRC	29	1631190	7 September 2001 to 6 September 2011 (extended to 6 September 2021)
2.		Company	PRC	29	1631191	7 September 2001 to 6 September 2011 (extended to 6 September 2021)
3.		Company	PRC	29	1655231	21 October 2001 to 20 October 2011 (extended to 20 October 2021)
4.		Company	PRC	29	3342916	7 November 2003 to 6 November 2023
5.		Company	PRC	30	3342915	7 March 2004 to 6 March 2024
6.		Company	PRC	29	3451106	21 July 2004 to 20 July 2024
7.		Company	PRC	29	3451105	21 July 2004 to 20 July 2024
8.		Company	PRC	29	3972170	14 February 2006 to 13 February 2016
9.		Company	PRC	29	4065772	21 July 2006 to 20 July 2016

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
10.		Company	PRC	29	4065751	21 July 2006 to 20 July 2016
11.		Company	PRC	32	4065754	21 July 2006 to 20 July 2016
12.		Company	PRC	29	4065756	21 July 2006 to 20 July 2016
13.		Company	PRC	32	4065768	21 July 2006 to 20 July 2016
14.	三江源	Company	PRC	29	4279606	28 February 2007 to 27 February 2017
15.		Company	PRC	35	4065752	21 June 2007 to 20 June 2017
16.		Company	PRC	29	4479412	28 August 2007 to 27 August 2017
17.		Company	PRC	29	4479413	28 August 2007 to 27 August 2017
18.		Company	PRC	35	4065762	21 September 2007 to 20 September 2017
19.		Company	PRC	35	4065761	28 September 2007 to 27 September 2017
20.	马家大爷	Company	PRC	30	4851489	14 May 2008 to 13 May 2018
21.	陇原老马家	Company	PRC	31	4851490	14 May 2008 to 13 May 2018
22.	陇原老马家	Company	PRC	29	4851491	14 May 2008 to 13 May 2018

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
23.	陇原老马家	Company	PRC	30	4851492	14 May 2008 to 13 May 2018
24.	千手工夫面	Company	PRC	30	4915748	28 September 2008 to 27 September 2018
25.	面之郎	Company	PRC	30	4915755	21 June 2008 to 20 June 2018
26.	天下牛	Company	PRC	30	4915750	21 June 2008 to 20 June 2018
27.	一品旺	Company	PRC	30	4915751	28 September 2008 to 27 September 2018
28.		Company	PRC	30	5225069	28 March 2009 to 27 March 2019
29.	MANOR MILK INDUSTRY 庄园牧场	Company	PRC	29	5646013	21 June 2009 to 20 June 2019
30.	庄园牧场	Company	PRC	29	5716547	28 June 2009 to 27 June 2019
31.	怡百爽	Company	PRC	29	5621809	28 June 2009 to 27 June 2019
32.	怡百爽	Company	PRC	32	5621810	14 July 2009 to 13 July 2019
33.	庄园牧场	Company	PRC	32	5716543	7 September 2009 to 6 September 2019
34.	伊品天下	Company	PRC	43	5225067	14 September 2009 to 13 September 2019
35.		Company	PRC	43	5225068	14 September 2009 to 13 September 2019

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
36.	西部高原	Company	PRC	29	6192189	14 September 2009 to 13 September 2019
37.	拉面郎 LA MIAN LANG	Company	PRC	43	5225945	14 September 2009 to 13 September 2019
38.	Noodle Man	Company	PRC	43	5235814	21 September 2009 to 20 September 2019
39.	西部高原	Company	PRC	32	6192188	14 January 2010 to 13 January 2020
40.	石粹	Company	PRC	29	6765383	28 March 2010 to 27 March 2020
41.	拉面郎 LA MIAN LANG	Company	PRC	35	6289180	21 June 2010 to 20 June 2020
42.	怡百爽	Company	PRC	5	7702435	14 December 2010 to 13 December 2020
43.	藏高原牧场	Company	PRC	29	6429722	7 January 2011 to 6 January 2021
44.	庄园牧场	Company	PRC	29	7770545	28 April 2011 to 27 April 2021
45.	庄园牧场	Company	PRC	30	7770559	14 April 2011 to 13 April 2021
46.	敦煌庄园	Company	PRC	29	8763531	28 December 2011 to 27 December 2021
47.	多家鲜	Company	PRC	29	8764332	28 December 2011 to 27 December 2021
48.	峭壁冠	Company	PRC	29	8768496	28 December 2011 to 27 December 2021

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
49.	藏灵	Company	PRC	29	8768761	28 December 2011 to 27 December 2021
50.	高原第一碗	Company	PRC	29	8768853	28 December 2011 to 27 December 2021
51.	高原西部小牛仔	Company	PRC	29	8791646	7 January 2012 to 6 January 2022
52.	曲优丽人	Company	PRC	29	8821779	14 January 2012 to 13 January 2022
53.	伊品天下	Company	PRC	30	4937680	14 August 2008 to 13 August 2018
54.	藏灵可菲尔	Company	PRC	29	8868633	28 January 2012 to 27 January 2022
55.	庄园牧场西部小牛仔	Company	PRC	29	8791798	28 January 2012 to 27 January 2022
56.	庄园牧场西部小牛仔	Company	PRC	32	8791719	28 January 2012 to 27 January 2022
57.	高原西部小牛仔	Company	PRC	32	8791590	28 January 2012 to 27 January 2022
58.	左旋曲优	Company	PRC	29	8791514	28 January 2012 to 27 January 2022
59.	多家鲜	Company	PRC	32	8768294	28 October 2011 to 27 October 2021
60.	峭壁冠	Company	PRC	32	8768608	7 November 2011 to 6 November 2021
61.	藏灵	Company	PRC	32	8768802	7 November 2011 to 6 November 2021
62.	多鲜草滩牧场	Company	PRC	32	8803582	21 November 2011 to 20 November 2021
63.	多鲜草滩牧场	Company	PRC	29	8803602	14 December 2011 to 13 December 2021

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
64.	曲优丽人	Company	PRC	32	8821679	21 November 2011 to 20 November 2021
65.	左旋曲优	Company	PRC	32	8791440	14 November 2011 to 13 November 2021
66.	高原雪玉牧场	Company	PRC	32	8868743	7 December 2011 to 6 December 2021
67.	藏灵可菲尔	Company	PRC	32	8868690	7 December 2011 to 6 December 2021
68.	圣殿	Company	PRC	31	8643486	7 October 2011 to 6 October 2021
69.	芭呐呐	Company	PRC	29	11278106	28 December 2013 to 27 December 2023
70.	瑞园	Company	PRC	29	8643449	28 April 2012 to 27 April 2022
71.	瑞达	Company	PRC	29	8643461	28 February 2012 to 27 February 2022
72.		Company	PRC	31	9585046	28 September 2013 to 27 September 2023
73.		Company	PRC	1	9573068	7 July 2012 to 6 July 2022
74.		Company	PRC	2	9573172	14 July 2012 to 13 July 2022
75.		Company	PRC	3	9573668	7 July 2012 to 6 July 2022
76.		Company	PRC	4	9574070	28 September 2012 to 27 September 2022
77.		Company	PRC	5	9574127	7 December 2012 to 6 December 2022

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
78.		Company	PRC	9	9574198	7 August 2012 to 6 August 2022
79.		Company	PRC	9	9574248	7 August 2012 to 6 August 2022
80.		Company	PRC	11	9574284	21 August 2012 to 20 August 2022
81.		Company	PRC	12	9574319	7 July 2012 to 6 July 2022
82.		Company	PRC	17	9577760	7 July 2012 to 6 July 2022
83.		Company	PRC	20	9577849	7 July 2012 to 6 July 2022
84.		Company	PRC	21	9578375	7 February 2013 to 6 February 2023
85.		Company	PRC	22	9578507	28 July 2012 to 27 July 2022
86.		Company	PRC	23	9578585	21 July 2012 to 20 July 2022
87.		Company	PRC	24	9578696	21 July 2012 to 20 July 2022
88.		Company	PRC	26	9578848	21 July 2012 to 20 July 2022
89.		Company	PRC	27	9578883	21 July 2012 to 20 July 2022

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
90.		Company	PRC	28	9578981	28 September 2012 to 27 September 2022
91.		Company	PRC	29	9584964	21 July 2012 to 20 July 2022
92.		Company	PRC	30	9584999	21 October 2012 to 20 October 2022
93.		Company	PRC	32	9585085	7 August 2012 to 6 August 2022
94.		Company	PRC	33	9585131	7 July 2012 to 6 July 2022
95.		Company	PRC	34	9585200	7 July 2012 to 6 July 2022
96.		Company	PRC	35	9585266	21 September 2012 to 20 September 2022
97.		Company	PRC	36	9585332	7 July 2012 to 6 July 2022
98.		Company	PRC	37	9585418	21 August 2012 to 20 August 2022
99.		Company	PRC	37	9585659	7 July 2012 to 6 July 2022
100.		Company	PRC	38	9590902	14 July 2012 to 13 July 2022

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
101.		Company	PRC	39	9590953	14 July 2012 to 13 July 2022
102.		Company	PRC	40	9591101	14 July 2012 to 13 July 2022
103.		Company	PRC	41	9591199	28 March 2013 to 27 March 2023
104.		Company	PRC	42	9591705	14 July 2012 to 13 July 2022
105.		Company	PRC	43	9591967	14 July 2012 to 13 July 2022
106.		Company	PRC	44	9592056	14 July 2012 to 13 July 2022
107.		Company	PRC	32	9850746	21 October 2012 to 20 October 2022
108.		Company	PRC	29	9850809	7 March 2013 to 6 March 2023
109.	庄园牧场	Company	PRC	32	7770579	14 December 2010 to 13 December 2020
110.	威特拉	Company	PRC	29	12961572	21 December 2014 to 20 December 2024
111.		Company	PRC	25	9578761	28 February 2014 to 27 February 2024
112.		Qinghaihu Dairy	PRC	32	10339833	28 February 2013 to 27 February 2023

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
113.		Qinghaihu Dairy	PRC	32	10468963	28 March 2013 to 27 March 2023
114.		Qinghaihu Dairy	PRC	29	10468876	28 March 2013 to 27 March 2023
115.	高原特能	Qinghaihu Dairy	PRC	29	11017741	7 October 2013 to 6 October 2023
116.	圣湖	Qinghaihu Dairy	PRC	29	4522627	7 September 2007 to 6 September 2017
117.		Qinghaihu Dairy	PRC	29	9572905	7 July 2012 to 6 July 2022
118.	圣湖	Qinghaihu Dairy	PRC	29	5924354	7 January 2010 to 6 January 2020
119.		Qinghaihu Dairy	PRC	32	8941956	21 December 2011 to 20 December 2021
120.		Qinghaihu Dairy	PRC	29	10469136	21 March 2014 to 20 March 2024
121.		Qinghaihu Dairy	PRC	32	10469238	21 March 2014 to 20 March 2024
122.	圣湖	Qinghaihu Dairy	PRC	29	10130547	7 July 2013 to 6 July 2023
123.	额布特努 E Bu Te Nu	Qinghaihu Dairy	PRC	29	12841798	21 December 2014 to 20 December 2024
124.	额布特努 E Bu Te Nu	Qinghaihu Dairy	PRC	32	12841917	21 November 2014 to 20 November 2024
125.	圣湖印象	Qinghaihu Dairy	PRC	29	12407642	21 September 2014 to 20 September 2024

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
126.	永道布 yongdaobu	Qinghaihu Dairy	PRC	32	12841590	21 December 2014 to 20 December 2024
127.	圣湖大牧场	Qinghaihu Dairy	PRC	29	11583799	28 June 2014 to 27 June 2024
128.	威特拉	Company	PRC	32	12961732	28 December 2014 to 27 December 2024
129.	藏灵菇	Company	PRC	32	13015130	7 April 2015 to 6 April 2025
130.	永道布 yongdaobu	Qinghaihu Dairy	PRC	29	12841457	28 December 2014 to 27 December 2024

As at the Latest Practicable Date, we had applied for the registration of the following trademarks in the PRC which we consider to be or may be material to the business of our Group:

No.	Trademark	Name of Applicant	Place of Application	Class	Application Number	Application Date
1.	庄园多鲜牧场	Company	PRC	32	15187193	20 August 2014
2.	庄园多鲜牧场	Company	PRC	29	15187194	20 August 2014
3.	禓美拉	Company	PRC	29	16932933	13 May 2015
4.	禓美拉	Company	PRC	32	16932932	20 August 2015
5.	永道布高原能量宝	Company	PRC	29	17215590	16 August 2015
6.	圣亚牧场	Company	PRC	29	17262138	23 August 2015
7.	圣湖高原能量宝	Company	PRC	29	17262136	23 August 2015
8.	圣湖记忆	Company	PRC	29	17262137	23 August 2015
9.	圣源牧场	Company	PRC	29	17262139	23 August 2015

No.	Trademark	Name of Applicant	Place of Application	Class	Application Number	Application Date
10.	高原能量宝	Company	PRC	29	17182672	11 August 2015
11.	青海大牧场	Company	PRC	29	17183530	11 August 2015

ii. Trademarks registered by our Group in Hong Kong

As at the Latest Practicable Date, we are the owner of the following trademarks in Hong Kong which we consider to be or may be material to the business of our Group:

No.	Trademark	Registered Owner	Place of Registration	Class	Registration Number	Duration of Validity
1.		Company	Hong Kong	16,29,32	303324564	10 March 2015 to 9 March 2025
2.		Company	Hong Kong	16,29	303324573	10 March 2015 to 9 March 2025

(b) Patents

As at the Latest Practicable Date, we had registered the following patents which we consider to be or may be material to the business of our Group in the PRC:

No.	Name of Patent	Type of Patents	Name of Proprietor	Patent No.	Validity Period
1.	Packaging bags (Shenghulilezhen Pure Milk) (包裝袋(聖湖利樂枕純牛奶))	Design	Company	ZL 2010 3 0161161.1	7 May 2010 to 6 May 2020
2.	Packaging bags (concentrated yogurt) (包裝袋(濃縮酸牛奶[1]))	Design	Company	ZL 2014 3 0367356.X	29 September 2014 to 28 September 2024
3.	Packaging bags (concentrated yogurt) (包裝袋(濃縮酸牛奶[2]))	Design	Company	ZL 2014 3 0367456.2	29 September 2014 to 28 September 2024

No.	Name of Patent	Type of Patents	Name of Proprietor	Patent No.	Validity Period
4.	Packaging bags (concentrated yogurt) (包裝袋(濃縮酸牛奶[3]))	Design	Company	ZL 2014 3 0367377.1	29 September 2014 to 28 September 2024
5.	Packaging bags (concentrated yogurt) (包裝袋(濃縮酸牛奶[4]))	Design	Company	ZL 2014 3 0368109.1	29 September 2014 to 28 September 2024

(c) Domain names

As at the Latest Practicable Date, the following domain names were registered and principally used by our Group in its business operations:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1.	lzzhuangyuan.com	Zhuangyuan Dairy (蘭州莊園乳業有限責任公司)	24 November 2010	25 November 2015
2.	shenghuruye.com	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	5 November 2012	5 November 2019
3.	shenghuruye.cn	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	31 March 2008	31 March 2019
4.	lzzhuangyuan.cn	Company	19 August 2015	19 August 2016
5.	西部乳業集團	Company	24 January 2011	25 January 2016
6.	西部乳業集團.中國	Company	24 January 2011	24 January 2016
7.	xiburuye.com	Company	24 January 2011	25 January 2016
8.	8816123.com	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	23 June 2014	23 June 2019
9.	qhdmc.cn	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
10.	qhdmc.com	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
11.	qhhry.cn	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
12.	shenghu.qh.cn	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2015
13.	yongdaobu.cn	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	14 November 2014	14 November 2019

No.	Domain Name	Registrant	Date of Registration	Expiry Date
14.	yongdaobu.com	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	14 November 2014	14 November 2019
15.	永道布.com	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	15 November 2014	15 November 2019
16.	永道布.中國	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	15 November 2014	15 November 2019
17.	聖湖乳業.cn	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
18.	聖湖乳業.中國	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
19.	青海大牧場.cn	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	15 November 2014	15 November 2019
20.	青海大牧場.com	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	15 November 2014	15 November 2019
21.	青海大牧場.中國	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	15 November 2014	15 November 2019
22.	青海湖.net	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
23.	青海湖乳業.cn	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
24.	青海湖乳業.com	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
25.	青海湖乳業.中國	Qinghaihu Dairy (青海青海湖乳業有限責任公司)	6 November 2012	6 November 2019
26.	莊園牧場.com	Company	29 August 2014	29 August 2019
27.	莊園牧場.cn	Company	11 August 2011	11 August 2016
28.	莊園牧場集團.cn	Company	4 January 2011	4 January 2016
29.	莊園牧場集團	Company	6 January 2011	6 January 2016
30.	莊園牧場集團.中國	Company	4 January 2011	4 January 2016
31.	zhuangyuanmuchang.com	Company	31 December 2010	31 December 2015

Save as disclosed herein, there are no other patents, trademarks or other intellectual or industrial property rights which are material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of Interest – interests and short positions of the Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), the interest or short/long position of Directors, Supervisors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules to be notified to our Company and the Hong Kong Stock Exchange, once the Shares are listed are as follows:

Interest in our Company

Name of Shareholder	Number of Shares Held After the Global Offering	Nature of Interest	Approximate Percentage of Shareholding in the Relevant Class of Shares After the Global Offering	Approximate Percentage of Shareholding in the Total Share Capital of the Company After the Global Offering
Mr. Ma Hongfu [(1)]	78,092,100 Domestic Shares	Beneficial owner/ Interest of controlled	74.11%	55.58%

Note 1: Mr. Ma Hongfu holds 97.38% equity interests in Zhuangyuan Investment and 39.44% equity interests in Lucky Cow. Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.

(b) Particulars of service contracts

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles and provisions on arbitration.

Save as disclosed above, none of our Directors or Supervisors has entered or has proposed to enter into any service agreement with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(c) Directors', Supervisors' and senior management's remuneration

The aggregate amount of fees, salaries, contributions to pension scheme, discretionary bonuses, housing and other allowances and other benefits in kind granted to the Directors, Supervisors and senior management in respect of each of the three years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 were approximately RMB883,000, RMB1,199,000, RMB1,381,000 and RMB643,000, respectively.

Under the arrangements in force at the date of this prospectus, our Directors, Supervisors and senior management will be entitled to receive remuneration and benefits in kind which, for the year ending 31 December 2015, is expected to be approximately RMB2,860,638.24 in aggregate.

None of the Directors or Supervisors or any past Directors or Supervisors or the five highest paid individuals of any member of our Group has been paid any sum of money for the three years ended 31 December 2014 and the three months ended 31 March 2015 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a Director or Supervisor of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended 31 December 2014 and the three months ended 31 March 2015.

2. Substantial Shareholders

Save as disclosed in the section headed "Substantial Shareholders" in this Prospectus, our Directors, Supervisors and chief executive are not aware of any other person, not being a Director, Supervisor, or chief executive of our Company, who has an interest or short position in the Shares and underlying Shares of our Company which, once our H Shares are listed, would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

3. Agency fees or Commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

4. Related Party Transactions

During the two years immediately preceding the date of this prospectus, our Company has not engaged in any material related party transactions.

5. Disclaimers

Save as disclosed herein:

(a) none of our Directors or chief executive of our Company has any interest or short position in the H Shares, underlying H Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules once the Shares are listed;

(b) none of our Directors or experts referred to under the heading "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) taking no account of Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director, Supervisor or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;

(f) none of the experts referred to under the heading "Consents of experts" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(g) save as disclosed in this prospectus, so far as is known to our Directors, none of our Directors, their respective associates or shareholders of our Company who, to the knowledge of our Directors, owned more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group; and

(h) none of our Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with our business.

D. OTHER INFORMATION

1. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

2. Indemnity

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favour of our Company on 23 September 2015, to give certain indemnities in favour of our Company. For details of the Deed of Indemnity, please refer to the section headed “Business – Historical Non-compliance Incidents”.

3. Litigation

During the Track Record Period and up to the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

4. Sole Sponsor

The Sole Sponsor has declared its independence pursuant to Rule 3A.07 of the Hong Kong Listing Rules.

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, all the H Shares in issue and to be issued as mentioned in this prospectus (including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option). A sponsor’s fee of HK$4,000,000 will be paid by our Company to the Sole Sponsor.

5. Preliminary Expenses

As at 31 March 2015, we incurred approximately RMB9.5 million of listing expenses for the Global Offering, of which approximately RMB7.2 million and RMB1.7 million were charged to the consolidated statements of profit or loss for the year ended 31 December 2014 and the three months ended 31 March 2015, respectively, as administrative expenses. The remaining RMB0.6 million was recognised as deferred expenses, which is expected to be charged against equity upon successful Listing under the relevant accounting standards.

6. No Material Adverse Change

Saved as disclosed in this prospectus, the Directors confirm that there has been no material adverse change in our Group’s financial or trading position since 31 March 2015.

7. Promoters

The promoters of our Company are Mr. Ma Hongfu, Mr. Hu Kaisheng, Mr. Zheng Jiaming, Zhuangyuan Investment, Lucky Cow, Caiding Investment, Caicheng Investment, Chongqing Fukun, and Shanghai Rongyin.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Compliance adviser

Our Company has appointed GF Capital as the compliance adviser upon Listing in compliance with Rule 3A.19 of the Hong Kong Listing Rules.

9. Taxation of Dividends and on Gains from Sale

Under the current practice, no tax is payable in Hong Kong in respect of dividends paid by our Company.

No tax is imposed in Hong Kong in respect of capital gains. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the gains are derived from or arise in Hong Kong will be subject to Hong Kong profit tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers could prove that the investment securities are held for long-term investment purpose.

Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profit tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

For further information relating to taxation, please refer to Appendix III headed "Taxation and Foreign Exchange" of this prospectus.

Intending holders of the H Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the H Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering accepts responsibility for any tax effect on, or liabilities of, holders of H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in H Shares or exercise of any rights attaching to them.

10. Qualification of Experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualifications
GF Capital (Hong Kong) Limited	A corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity
KPMG	Certified Public Accountants
Gansu Zheng Tian He Law Firm	PRC legal advisers
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Biological assets valuer

11. Consents of Experts

Each of the experts named in paragraph D10 of this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

12. Interests of Experts in our Company

None of the experts named in paragraph D10 of this Appendix is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

13. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

14. Restrictions on Share Repurchases

Please refer to "Appendix V – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions – PRC Laws and Regulations – Restrictions on purchase and subscription of its own securities" in this prospectus for details.

In addition, all repurchases of H Shares shall be made in accordance with relevant provisions of the Hong Kong Listing Rules.

15. Miscellaneous

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

(iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in our Company or any of our subsidiaries;

(b) save as disclosed in this prospectus, there are no founder, management or deferred shares or any debentures in our Company or any of our subsidiaries;

(c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;

(d) no company within our Group is presently listed on any stock exchange or traded on any trading system;

(e) all necessary arrangements have been made to enable the H Shares to be admitted into CCASS for clearing and settlement;

(f) save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures;

(g) there is no arrangement under which future dividends are waived or agreed to be waived; and

(h) the Company currently does not intend to apply for the status Sino-foreign Investment Joint Stock Limited Company and does not expect to be subject to the PRC Sino-foreign Joint Venture Law.

16. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents enclosed to this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the paragraph headed "Statutory and General Information – D. Other Information – 11. Consents of Experts" in Appendix VI to this prospectus; and

(c) a copy of each of the material contracts referred to in the paragraph headed "Statutory and General Information – B. Further Information about our Business – 1. Summary of Material Contracts" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of DLA Piper Hong Kong at 17/F, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the Accountants' Report prepared by KPMG, the text of which is set out in "Appendix I – Accountants' Report" to this prospectus;

(c) the report on the unaudited pro forma financial information of our Group prepared by KPMG, the texts of which are set out in "Appendix II – Unaudited Pro Forma Financial Information" to this prospectus;

(d) the industry report prepared by Frost & Sullivan relating to, among others, the dairy industry and market in the PRC;

(e) the PRC legal opinions issued by Gansu Zheng Tian He Law Firm, our PRC legal advisers, dated 30 September 2015 in respect of our general matters and property interests of our Group;

(f) the material contracts referred to in the paragraph headed "Statutory and General Information – B. Further Information about our Business – 1. Summary of Material Contracts" in Appendix VI to this prospectus;

(g) the written consents referred to in the paragraph headed "Statutory and General Information – D. Other Information – 11. Consents of Experts" in Appendix VI to this prospectus;

(h) the service contracts referred to in the paragraph headed "Statutory and General Information – C. Further Information about Directors, Supervisors and substantial shareholders – 1(b) Particulars of Service Contracts" in Appendix VI to this prospectus; and

(i) the PRC Company Law, the Special Regulations and the Mandatory Provisions together with unofficial English translations thereof.

Lanzhou Zhuangyuan Pasture Co., Ltd.*
蘭州莊園牧場股份有限公司