中國現代牧業控股有限公司
China Modern Dairy Holdings Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1117

GLOBAL OFFERING

MODERN FARMING

现代牧业

Joint Global Coordinators, Joint Bookrunners, Joint Sponsors
(in alphabetical order)

citi UBS

Joint International Lead Managers

citi UBS KKR Deutsche Bank

Joint Hong Kong Lead Managers

citi UBS Deutsche Bank

現代牧業馬鞍山牧場實景圖
Modern Dairy Ma An Shan Farm

IMPORTANT

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

MODERN FARMING

现代牧业

China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering :	1,200,000,000 Shares (comprising 800,000,000 new Shares and 400,000,000 Sale Shares, subject to the Over-allotment Option)
Number of International Offer Shares :	1,080,000,000 Shares (comprising 680,000,000 new Shares and 400,000,000 Sale Shares, subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares :	120,000,000 Shares (subject to adjustment)
Maximum Offer Price :	HK$3.69 per Hong Kong Offer Share, plus 1% brokerage, SFC transaction levy of 0.003%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value :	HK$0.10 each
Stock code :	1117

Joint Global Coordinators, Joint Bookrunners, Joint Sponsors
(in alphabetical order)

citi UBS

Joint International Lead Managers

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Joint Hong Kong Lead Managers

citi UBS Deutsche Bank

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around 20 November 2010 and, in any event, not later than 24 November 2010. The Offer Price will be not more than HK$3.69 and is currently expected to be not less than HK$2.89. If, for any reason, the Offer Price is not agreed by 24 November 2010 between the Joint Global Coordinators (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders) , the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) may, with the consent of the Selling Shareholders and the Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see "Structure of the Global Offering".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in our Shares commences on the Hong Kong Stock Exchange. See "Underwriting — Grounds for Termination".

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered or sold, pledged or transferred within the United States except that the Offer Shares may be offered, sold or delivered to QIBs in reliance on Rule 144A or other exemption(s) from registration under the US Securities Act or outside the United States in reliance on Regulation S under the US Securities Act.

15 November 2010

Application lists open[2]	11:45 a.m. on 18 November 2010
Latest time to lodge **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC[3]	12:00 noon on 18 November 2010
Latest time to complete electronic applications under **White Form eIPO** service through the designated website www.eipo.com.hk [4]	11:30 a.m. on 18 November 2010
Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on 18 November 2010
Application lists close	12:00 noon on 18 November 2010
Expected Price Determination Date	20 November 2010
Announcement of the Offer Price, the level of indication of interest in the International Offering, results of the applications and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	25 November 2010
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, or Hong Kong business registration numbers where appropriate) to be available through a variety of channels (see paragraph headed "**Results of Allocations**" in the section headed "How to Apply for the Hong Kong Offer Shares") from	25 November 2010
Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function	25 November 2010
Despatch of share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[5]&[7]	25 November 2010
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[6]&[7]	25 November 2010
Dealings in Shares on the Stock Exchange to commence on	26 November 2010

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 18 November 2010, the application lists will not open or close on that day. See "How to Apply for the Hong Kong 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 18 November 2010, the dates mentioned in this section headed "Expected Timetable" may be affected. A press announcement will be made by us in such event.

(3) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Hong Kong Offer Shares — How to apply by giving electronic application instructions to HKSCC" in this prospectus.

(4) You will not be permitted to submit your application through the designated website at **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 an application reference number from the designated website at or 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) Share certificates for the Offer Shares will become valid certificates of title at 8:00 a.m. on 26 November 2010 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

(6) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.

(7) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have indicated in their applications that they wish to collect any refund cheques and share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong may do so between 9:00 a.m. to 1:00 p.m. on 25 November 2010. Applicants being individuals who opt for personal collection may not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations must produce, at the time of collection, identification and (where applicable) authorization documents acceptable to Computershare Hong Kong Investor Services Limited at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Hong Kong Offer Shares — If your application for the Hong Kong Offer Shares is successful (in whole or in part)" in this prospectus for details. Uncollected share certificates and refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications. Further information is set out in the sections headed "How to Apply for the Hong Kong Offer Shares — If your application for the Hong Kong Offer Shares is successful (in whole or in part)" and "Refund of your money — additional information" in this prospectus.

Particulars of the structure of the Global Offering, including the conditions thereto, are set out in the section headed "Structure of the Global Offering" in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by China Modern Dairy Holdings Ltd. solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, any of the Underwriters, any of their respective directors, or any other person or party 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 it 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 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 that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association. As of 30 June 2010, we had approximately 72,000 dairy cows at 11 large-scale dairy farms across China. We were among the first companies in China to adopt a large-scale industrialized free-stall dairy farming business model. All of our standardized dairy farms are designed and constructed with a capacity of raising up to 10,000 dairy cows per farm. We commenced business in 2005 and our first farm became operational in Maanshan, Anhui province in 2006. Since then, we have expanded to 5 of the 6 Regions in China. Our farms are situated across the PRC in strategic geographic locations, which are close to downstream dairy product processing plants and the feed supply sources required by our farms. Our operations were further bolstered by investments by KKR, CDH and Brightmoon since 2008, who have assisted us in establishing international corporate governance practices and have provided us with financial capital for continued growth as well as value adding operational improvements.

Our farms are designed and constructed with modern and scientific layouts to ensure high milk yields and cost efficiency. We believe our raw milk is amongst the highest quality and safest milk in China. We also believe that we operate the best large-scale dairy farms in China, with highly experienced management, comprehensive facilities and the advanced breeding, feeding and herd management technology. For further details about our farm facilities and herd management, please refer to the sections headed "Business — Our Dairy Farms" and "Business —Herd Management" of this prospectus.

We have enjoyed significant growth during the Track Record Period, driven largely by our ability to expand rapidly by replicating our business model in new domestic markets. In addition, our growth has also been driven by rising demand for high-quality and safe raw milk following the melamine incident in China's milk industry in 2008. In 2010, we were ranked the number one fastest growing enterprise in China by the China Entrepreneur magazine (中國企業家), an independent magazine which started publication in 1985 and is sponsored by the Economic Daily Press Group (經濟日報報業集團). We believe significant opportunities are presented by China's dairy industry due to the sustained rapid growth of milk consumption, a continued scarcity of high quality raw milk, and a growing demand for large-scale dairy farms in China. We believe we are well-positioned to capitalize on these opportunities. The table below sets out our total number of milkable cows, heifers and calves, at each financial year end and average milk yield per milkable cow for the periods indicated:

	FY2008	FY2009	FY2010
Milkable cows	14,964	20,427	26,607
Heifers and calves	9,394	23,532	45,584
Average milk yield per milkable cow. .	6.1 tons/annum	6.9 tons/annum	7.3 tons/annum

We expect to further strengthen our market leading position in the dairy farming industry in China. By the end of 2010, we plan to substantially complete the construction of 5 new farms with a capacity of raising up to 10,000 dairy cows per farm, with a corresponding increase in our total herd count to more than 90,000 dairy cows. The funding for the construction of the 5 new farms is primarily through capital contribution from shareholders, cash flow from operations and loans from banks. We do not intend to apply the net proceeds from the Global Offering on the construction of these 5 new farms. The table below sets out details of our farms that are currently under construction.

Farm	Location (province)	Expected size (square meters)	Expected number of heifers	Outstanding investment to be made* (RMB million)
Baoji II	Shaanxi	666,670	6,000	140
Feidong II	Anhui	666,670	6,000	110
Saibei III	Hebei	666,670	6,000	185
Tongliao	Inner Mongolia	666,670	6,000	230
Tongshan.	Hubei	666,670	6,000	230

*All outstanding investments are expected to be made by June 2011.

During the Track Record Period, our raw milk sales volume grew at a CAGR of 68.2%, from 55,888 tons in FY2008 to 96,306 tons in FY2009 and to 158,081 tons in FY2010. During the same period, our sales of milk produced grew at a CAGR of 79.1%, from RMB183.9 million in FY2008 to RMB334.0 million in FY2009 and to RMB589.8 million in FY2010.

OUR RELATIONSHIP WITH MENGNIU

We started to sell our raw milk to Mengniu, our largest customer, in 2006 when our first farm commenced production. During the Track Record Period, we sold substantially all of our raw milk to Mengniu. We were very reliant on Mengniu as a customer and sales to Mengniu Group accounted for approximately 98.9%, 99.6% and 97.6% of our total sales of milk produced in FY2008, FY2009 and FY2010, respectively.

We believe our strategic partnership with Mengniu Group is mutually beneficial to both us and to Mengniu Group. The partnership is beneficial to us in securing long-term demand from a high-quality customer. In addition, it is also strategically important to Mengniu in addressing consumers' concerns about milk safety by ensuring a source of high-quality raw milk, particularly for use in their high-end products. Mengniu currently has a number of suppliers and does not rely on our supply which constituted less than 5% of Mengniu's raw milk requirement during the Track Record Period. We believe that, given our strategic relationship, there is significant room for us to expand our business with Mengniu.

In October 2008, we entered into a 10 year off-take raw milk supply agreement (the "**Off-Take Agreement**") with Mengniu (Inner Mongolia) commencing from 24 October 2008 following arm's length negotiations. The Off-Take Agreement calls for Mengniu (Inner Mongolia) to purchase all of our raw milk production subject to certain caps. The Off-Take Agreement also provides us with flexibility to sell up to 30% of our raw milk produced daily at each dairy farm to any third parties except to two of Mengniu's competitors at our discretion. The pricing of the raw milk sold to Mengniu (Inner Mongolia) is determined through a formula which is calculated with reference to a base price with upward adjustments for meeting certain quality standards, such as the level of fat and protein content and other upward adjustments if our farms are within an agreed proximity to Mengniu Group's dairy processing plants. The Off-Take Agreement also guarantees that the base price and upward adjustment paid by Mengniu Group for our raw milk will not be lower than the base price it pays to other mid- to large-scale dairy farms in the same region (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases). For further details about our Off-Take Agreement with Mengniu (Inner Mongolia), please refer to the section headed "Relationship with Mengniu" in this prospectus.

While we expect to continue to derive a substantial portion of our revenue from sales to Mengniu Group, we plan to expand our customer base and to develop our own premium branded dairy products in order to reduce customer and product concentration risk. Furthermore, in light of the high demand for, and serious shortage of high quality raw milk in PRC, the scale of our Group's dairy farm operations and the location of, large-sized milk products manufacturers (other than Mengniu) in regions where our Group's dairy farms are located, we believe that it would not be difficult for us to find alternative customers should the Off-Take Agreement be terminated or Mengniu defaults under the Off-Take Agreement.

The largest shareholder of Mengniu is COFCO Corporation which is interested in approximately 20.03% of the issued share capital of Mengniu. We have entered into a strategic partnership agreement with a subsidiary of COFCO Corporation pursuant to which the subsidiary of COFCO Corporation will provide us concentrate feedstocks, corn fiber and wheat germ. COFCO Corporation has also agreed, through a subsidiary, to subscribe for such number of Shares which may be purchased with an aggregate amount of US$30 million at the Offer Price (assuming an Offer Price of HK$3.29 being the mid-point of the Offer Price range, the subsidiary of COFCO Corporation will subscribe for approximately 1.47% of the Shares issued and outstanding upon completion of the Global Offering).

As at the Latest Practicable Date, save as disclosed in this prospectus and apart from (i) an aggregate of approximately 1.0% of the issued share capital of Mengniu being held by certain senior management of the Company and certain shareholders of the PRC Shareholders Holdcos, (ii) two shareholders (each interested in less than 0.2% of our Shares as at the Latest Practicable Date) of Youmu are executive directors of Mengniu, and (iii) that Mengniu has agreed to subscribed for such number of Shares which may be purchased with an aggregate amount of HK$150 million (assuming an Offer Price of HK$3.29 being the mid-point of the Offer Price range, Mengniu will subscribe for approximately 0.95% of Shares issued and outstanding upon completion of the Global Offering), none of the Group's shareholders had any relationship with Mengniu or its associates.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and distinguish us from our competitors:

- Industry leader in the dairy farming sector in China which is well-positioned to benefit from increasing demand for dairy products and government support for the dairy industry
- Proven and replicable business model with highly visible growth prospects
- Comprehensive, modern and scientific operations resulting in high milk quality and milk yields as well as improved cost efficiency
- Stringent standards of quality and safety which effectively address milk safety concerns
- Strategic partnership with Mengniu, the leading dairy product manufacturer in China
- Eco-friendly production with lower operation costs
- Experienced management team with a proven track record and aligned interests, supported by high quality financial investors

OUR BUSINESS STRATEGY

Our principal goal is to further strengthen our position as the market leader in China's large-scale dairy farming industry. We continuously seek opportunities to achieve sustainable growth of our business and to enhance shareholders' value. We intend to achieve this goal by implementing the following strategies:

- Continue to replicate our successful business model across China and further broaden our customer base
- Improve our milk yield and quality by continuing to adopt and develop comprehensive, modern and scientific breeding and feeding techniques and know-how
- Enhance the operating efficiency of our farms by further improving comprehensive, modern and scientific farm management practices
- Develop new business initiatives and products to diversify our revenue stream

OUR HISTORY AND DEVELOPMENT

The history of our business can be traced back to September 2005 when Leading Farming was incorporated by, among others, Mengniu (Maanshan), Ms. Gao, Ms. Deng Yuan and certain individuals. Leading Farming was a holding company which held the major operating subsidiaries, assets and businesses of our Group prior to it having been acquired by our Company. In 2006, Leading Farming's first dairy farm, located in Maanshan, Anhui Province, became operational, and we have since enjoyed significant growth, driven largely by our ability to expand rapidly in domestic markets by replicating our business model which we had successfully implemented in Maanshan.

On 7 July 2008, Modern Farm, our principal operating subsidiary, was incorporated in the PRC by, among others, a group of individuals who were also shareholders of Leading Farming. Through a series of transfers, Modern Farm acquired all the assets, businesses and operating subsidiaries of Leading Farming. On 30 July 2008, our Company was incorporated in the Cayman Islands as the holding company of our Group. In December 2008, as part of a plan to streamline our corporate structure, we, through Modern Farm, disposed the entire equity interest in Leading Farming to a third party while retaining the underlying business of Leading Farming.

In November 2008, our Company (via Aquitair) made our first round of Equity Financing with an investment of RMB150.6 million and subscribed for a 9.96% equity interest in Modern Farm. At that time, our Company was wholly-owned by Advanced Dairy I which was in turn owned by Advanced Dairy (a subsidiary of KKR) and Brightmoon. In December 2008 (the second round of Equity Financing), our Company injected an additional capital of RMB545.6 million into Modern Farm thereby increasing our equity interest in Modern Farm to 33.73%. In February 2009, Crystal Dairy (an indirect wholly-owned subsidiary of CDH) became a shareholder of our Company (via Advanced Dairy I). In March and June 2009, we made our third and fourth round of Equity Financings with additional investments of RMB614.7 million and RMB68.2 million respectively, as a result of which our equity interest in Modern Farm was increased to 50.05%. As of August 2009, Advanced Dairy I was held as to 67.35% by Advanced Dairy, 22.45% by Crystal Dairy and 10.20% by Brightmoon, respectively. As a result of a distribution of Shares held by Advanced Dairy I to its Shareholders, Advanced Dairy, Crystal Dairy and Brightmoon became direct shareholders of our Company on 5 November 2010. For further details on the investments by the Financial Investors, please refer to the section headed "Our History and Structure — Information regarding the Financial Investors".

With a view to further increasing our shareholding interests and consolidating control in Modern Farm and its subsidiaries, our Company has undergone a series of reorganization comprising the Onshore Acquisition and Offshore Subscription. The Onshore Acquisition involved an equity transfer agreement entered into between Aquitair and the PRC Selling Shareholders whereby Aquitair agreed to acquire an additional 47.63% interest in Modern Farm from the PRC Selling Shareholders at the consideration of RMB903,116,860. Through Offshore Subscription, we first issued 48.76% of our Shares (nil-paid) to the PRC Shareholders Holdcos (companies set up by the PRC Selling Shareholders or their ultimate shareholders) pursuant to a subscription agreement (the "**Subscription Agreement**") in which the total subscription price was equal to the consideration for the Onshore Acquisition. As a result, the resultant effective interest of the PRC Selling Shareholders (or their ultimate shareholders) in Modern Farm before and after the Offshore Subscription and the Onshore Acquisition will remain unchanged.

The Offshore Subscription was financed by a bridge loan ("**Bridge Loan**") extended to the PRC Shareholders Holdcos by Bank of China International Limited ("**BOCI**") on 1 November 2010. As security for the Bridge Loan, charges over the shares of the PRC Shareholders Holdcos and the Shares held by the PRC Shareholders Holdcos (collectively, the "**Share Pledges**") were, amongst others, given in favor of an associate of BOCI. The proceeds of the Bridge Loan were used to settle the subscription price of the Offshore Subscription and were remitted onshore by our Company and paid to the PRC Selling Shareholders in order to complete the Onshore Acquisition on 5 November 2010. As advised by our PRC legal advisor, all requisite PRC governmental and regulatory approvals and consents (including the local MOFCOM approval, SAIC and SAFE amendment registration) in relation to the Pre-Listing Reorganization have already been obtained on 5 November 2010. The Bridge Loan will be partially repaid by a term loan facility to be obtained from Bank of China, Macau Branch, in the aggregate amount of around US$130 million before the Listing Date, which will be secured by collateral provided by PRC Selling Shareholders, other than the Share Pledges. It is expected that the Share Pledges would be released immediately before the completion of the Global Offering and the remaining outstanding balance of the Bridge Loan in the amount of around US$9 million will be fully repaid through a sell-down of some of their Shares in the Global Offering.

For further details of the reorganization, please refer to the section headed "Our History and Structure — Pre-Listing Reorganization" in this prospectus.

Through our rapid growth and successful operation during the Track Record Period, our business has expanded its footprint to 5 of the 6 Regions across China, with a total of 11 farms situated in strategic geographic locations which are close to downstream dairy product processing plants and relevant feed supply sources.

The Company adopted 31 December as its financial year end date on the date of its incorporation. However, the Directors believe that a financial year end date of 30 June best presents the results of the Group on a comparable basis following the completion of the Equity Financings in June 2009. Accordingly, the Company changed its financial year end date from 31 December to 30 June pursuant to a resolution passed at a board of directors' meeting on 6 August 2010.

As a result of the above transfers, this prospectus includes three accountants' reports, which are set forth in Appendix IA, Appendix IB and Appendix IC, respectively:

- the accountants' report of Leading Farming, which includes the consolidated financial statements for the financial year beginning 1 July 2007 and ended 30 June 2008 and for the 6 day period beginning 1 July 2008 and ended 6 July 2008;
- the accountants' report of Modern Farm, which includes the consolidated financial statements of Modern Farm from 7 July 2008, being the date of its incorporation, to 30 June 2010; and
- the accountants' report of our Company, which includes the consolidated financial statements of our Group for the period beginning 30 July 2008, being the date of our incorporation, to 30 June 2010.

SELLING SHAREHOLDERS

Pursuant to the International Underwriting Agreement, Advanced Dairy, Crystal Dairy, Jinmu, Yinmu, Xinmu and Youmu will sell 228,016,518 Shares, 75,983,482 Shares, 11,301,067 Shares, 38,293,683 Shares, 36,797,375 Shares and 9,607,875 Shares respectively, representing approximately 4.75%, 1.58%, 0.24%, 0.80%, 0.77% and 0.20% of the total issued share capital of our Company immediately following completion of the Global Offering without taking into account the Over-allotment Option and any Share which may be issued pursuant to the exercise of the Management Options.

For more details of the Selling Shareholders, please see the section headed "Relationship with Shareholders — Selling Shareholders" in this prospectus.

RISK FACTORS

There are certain risks involved in our operations. These risks can be categorized into (i) risks relating to our business; (ii) risks relating to the PRC dairy industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering. A detailed discussion of the risk factors are set forth in the section headed "Risk Factors". The following is a list of the risk factors:

Risks Relating to Our Business

- We rely substantially on a single customer.

- Product contamination could result in reduced sales, product liability, damage to our reputation, and subject us to regulatory action.
- The outbreak of any major diseases among our cows could materially and adversely affect our business.
- Increases in feed prices and disturbances to our feed supply could adversely affect our business and results.
- The future growth of our business partly depends on the quality and supply of heifers and bull semen.
- We may not continue to benefit from favorable government policies.
- We rely on a single product.
- The quality of our milk and milk yield are influenced by a number of factors, some of which are beyond our control.
- We may be unable to adequately manage future rapid growth.
- Disruption of operations at our farms and production facilities could adversely affect our business in material respects.
- We rely on a single logistics provider to transport our raw milk, and if we are unable to deliver our raw milk to customers in a timely manner, our results could be adversely affected.
- Our branded milk and other new products may not achieve market acceptance.
- We recorded net current liabilities during the Track Record Period.
- The availability of credit, fluctuations in the interest rates of our bank and other borrowings and our level of indebtedness could affect our expansion plans and financial performance.
- We are in the process of applying for environmental permits for some of our farms.
- We are subject to uncertainty with respect to our farms that use leased collectively-owned agricultural or forestry land.
- Our insurance coverage and government compensation may not be sufficient to cover all of our potential losses.
- Intellectual property rights.
- We may be unable to retain or secure key qualified personnel, key senior management or other personnel for our operations.
- Certain shareholders may exert significant influence over our Company and could cause our Company to act in a way that may not be in the best interests of the shareholders who subscribe for Shares in the Global Offering.
- Improvements to our risk management and internal control systems may not be adequate or effective.
- Our results may be adversely affected if there are failures in our information systems.
- Labor disputes could adversely affect us.
- Litigation or legal proceedings could expose us to liability, divert our management's attention and negatively impact our reputation.
- We have a limited operating history.
- We have not obtained building ownership certificates for certain buildings which we occupy.
- We cannot assure you that future negative publicity relating to our Directors will not have an adverse impact on us.

Risks Relating to the PRC Dairy Industry

- The existence of tainted or contaminated milk produced in the PRC could negatively affect the image of the PRC milk industry.

- We may be subject to higher compliance costs if PRC environmental protection laws become more onerous.
- Any major outbreak of diseases among cows could cause consumers to avoid dairy products.
- Our industry could face slower potential market growth.

Risks Relating to Conducting Business in the PRC

- Our business, financial condition, results and prospects could be negatively affected by political, economic and legal developments and changes in government policies in the PRC.
- The legal system in China has inherent uncertainties that could limit the legal protections available to our shareholders.
- Government control of currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends.
- It may be difficult to effect service of process upon us or our directors or executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.
- The New Tax Law may affect tax exemptions on dividends received by us and by our Shareholders, as well as increase our enterprise income tax rate.
- PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our major PRC subsidiaries.
- PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially and adversely affect us.
- An outbreak of severe acute respiratory syndrome ("**SARS**"), avian influenza A ("$\mathbf{H_5N_1}$"), influenza A virus subtype H_1N_1 ("$\mathbf{H_1N_1}$") or other epidemic, if uncontrolled, could have a negative impact on our production, sales and distribution operations, as well as affect consumer demand for dairy products.

Risks Relating to the Global Offering

- There has been no prior market for our Shares, and the liquidity and market price of our Shares following the Global Offering may be volatile.
- Our forecast consolidated profit attributable to owners of our Company for the year ending 30 June 2011 will involve gains or losses that may arise on revaluation of our dairy cows, which are subject to certain estimates and assumptions.
- Investors will experience immediate dilution to their attributable net tangible book value as the Offer Price of our Shares is higher than our net tangible book value per Share.
- Certain facts and statistics in this prospectus relating to the PRC, the Chinese economy and the dairy industry derived from official government publications may not be reliable.
- Any future sales, or perceived sale, of a substantial amount of our Shares in the public market could have an adverse effect on the prevailing market price of our Shares.
- We may not be able to pay any dividends on our Shares.
- Forward-looking statements contained in this prospectus are subject to risks and uncertainties.
- You should not rely on any information contained in press articles or other media regarding the Group and the Global Offering.

IMPACT OF THE MELAMINE INCIDENT ON THE GROUP

Our results have historically been affected by a number of factors which were beyond our control. For example, the melamine incident put downward pressure on market prices of milk in the PRC, though our average sales price for raw milk did not decrease following the melamine incident, primarily due to our high safety standards and increased demand for raw milk from reliable sources. In addition, in 2009 and 2010, several media reports stated that there had a number of infants in the PRC found with high hormone levels due to the milk powder these infants consumed. For further information about the factors affecting our results during the Track Record Period, see "Financial Information — Significant Factors Affecting Our Results".

Following the melamine incident, the Chinese government reacted to the incident by introducing a series of new laws, regulations and policies aimed at strengthening regulation on the food safety of dairy products and restoring the public's confidence in the safety and quality of dairy products. For further details about the new or revised laws and regulations, please refer to the section headed "PRC Regulatory Overview - New or revised laws and regulations after the melamine incident in 2008 aimed at strengthening regulation on food safety for the dairy industry" in this prospectus. We were not negatively affected by these new or revised regulations passed following the melamine incident. As advised by our PRC legal advisor, we have complied with all of these newly implemented and revised laws and regulations.

We place great emphasis on quality control at every step of our production. As confirmed by our heifer suppliers, the heifers we have imported have never been fed hormonal growth substances since they were born. As advised by our PRC legal advisor, we have complied with all applicable PRC regulatory requirements for import of heifers.

Since the commencement of our business in 2005, through the Latest Practicable Date, we have not received any complaints about quality or safety issues with our products nor have we been subject to any product dispute and/or recall or return of product which could have a material adverse effect on our financial condition or results of operations. We do not use hormonal growth substances to feed our dairy cows and we do not add any additives or chemical substances, including melamine and hormone substance, to our raw milk to increase its fat and/or protein content before sale.

There has been no significant negative impact on the Group's operations and financials as a result of the above melamine and hormone incidents in the PRC.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth in the following pages, for the periods indicated, the selected financial data from the consolidated financial information of Leading Farming and Modern Farm, our predecessor holding company and current operating subsidiary, respectively. For more detailed information, see Appendices IA, IB, and IC, which contain the Accountants' Reports of Leading Farming, Modern Farm and our Group, respectively. The consolidated financial statements have been prepared in accordance with IFRS.

Consolidated Statements of Comprehensive Income Data

The following table sets forth the data from the consolidated statements of comprehensive income of our underlying business for the periods indicated.

	FY2008	FY2009	FY2010
		RMB (thousands)	
Sales of milk produced	183,882	334,015	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	19,107	70,573	60,620
Other income	11,800	25,036	65,371
Farm operating expenses	(130,786)	(263,746)	(437,616)
Employee benefits expenses	(16,850)	(47,152)	(66,695)
Depreciation	(10,827)	(22,068)	(44,174)
Other gains and losses	(546)	(1,490)	(613)
Other expenses	(7,269)	(32,145)	(28,275)
Bargain purchase gain	—	3,257	—
Profit before finance costs and tax	48,511	66,280	138,393
Finance costs	(10,573)	(23,606)	(29,765)
Profit before tax	37,938	42,674	108,628
Income tax charge	(56)	—	(73)
Profit and total comprehensive income for the year/period	37,882	42,674	108,555
Profit and total comprehensive income attributable to:			
Owners	37,878	42,674	108,555
Non-controlling interests	4	—	—

SUMMARY

The table below sets forth selected data from the consolidated statements of comprehensive income of our Group for the periods indicated.

	Eleven Month Period Ended 30 June 2009	FY2010
	RMB (thousands)	
Sales of milk produced	—	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	—	60,620
Other income	—	65,371
Farm operating expenses	—	(437,616)
Employee benefits expense	—	(66,695)
Depreciation	—	(44,174)
Other gains and losses	—	(613)
Other expenses	(9,947)	(29,474)
Share of result of an associate	57,356	—
Loss on deemed disposal of an associate	(55,520)	—
(Loss) profit before finance costs and tax	(8,111)	137,194
Finance costs	—	(29,765)
(Loss) profit before tax	(8,111)	107,429
Income tax charge	—	(73)
(Loss) profit and total comprehensive (expense) income for the period/year	(8,111)	107,356
(Loss) profit and total comprehensive (expense) income attributable to:		
Owners of the Company	(8,111)	53,132
Non-controlling interests	—	54,224
	(8,111)	107,356

Summary Balance Sheet Data

The table below sets forth selected data from the consolidated statements of financial position of our underlying business for the periods indicated.

	As of 30 June		
	2008	2009	2010
	(RMB thousands)		
Total current assets	34,389	942,472	503,241
Total non-current assets	920,451	1,963,149	3,398,124
Total assets	954,840	2,905,621	3,901,365
Total current liabilities	285,029	447,999	742,061
Total non-current liabilities	370,327	304,010	895,817
Total liabilities	655,356	752,009	1,637,878
Net current (liabilities) assets	(250,640)	494,473	(238,820)
Net assets	299,484	2,153,612	2,263,487
EQUITY			
Equity attributable to owners	297,188	2,153,612	2,262,167
Non-controlling interests	2,296	—	1,320
Total equity	299,484	2,153,612	2,263,487

The table below sets forth selected data from the consolidated statements of financial position of our Group for the periods indicated.

	As of 30 June	
	2009	2010
	(RMB thousands)	
Total current assets	945,102	504,672
Total non-current assets	2,264,503	3,699,478
Total assets	3,209,605	4,204,150
Total current liabilities	447,947	742,061
Total non-current liabilities	300,595	892,350
Total liabilities	748,542	1,634,411
Net current assets (liabilities)	497,155	(237,389)
Net assets	2,461,063	2,569,739
EQUITY		
Equity attributable to the owners of the Company	1,383,602	1,436,734
Non-controlling interests	1,077,461	1,133,005
Total equity	2,461,063	2,569,739

Summary Cash Flow Data

The following table summarizes the cash flows for our underlying business for the periods indicated.

	FY2008	FY2009	FY2010
		(RMB thousands)	
Net cash from (used in) operating activities	52,968	(146,585)	120,200
Net cash used in investing activities	(285,574)	(907,130)	(1,180,821)
Net cash from financing activities	141,689	1,784,805	579,059
Net increase (decrease) in cash and cash equivalents for the year/period	(90,917)	731,090	(481,562)
Cash and cash equivalents at the beginning of the year/period	97,409	—	731,090
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	6,492	731,090	249,528

PROFIT FORECAST FOR THE YEAR ENDING 30 JUNE 2011

The profit forecast of our Group for the year ending 30 June 2011 is prepared on the bases and assumptions as set out in Appendix III to this prospectus. We believe that on the basis and the assumptions set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, the forecast consolidated net profit attributable to owners of the Company for the year ending 30 June 2011 will be no less than RMB188.0 million. (1)

Forecast consolidated net profit attributable to the owners of the Company(1)(2) . . . . .not less than RMB188.0 million (HK$217.9 million)

Forecast consolidated net profit for the year(1) . . . . .not less than RMB210.4 million (HK$243.9 million)

Unaudited pro forma forecast earnings per Share(1)

(a) Weighted average(3). . . . . .RMB0.0405 (HK$0.0470)

(b) Fully diluted(4) . . . . .RMB0.0400 (HK$0.0463)

Notes:

(1) Solely for your convenience, forecast consolidated net profit and forecast earnings per Share are converted into Hong Kong dollars at the PBOC Rate of HK$1.00 to RMB0.8626 prevailing on 29 October 2010. You should not construe such conversion as a representation that the Renminbi amounts could actually be converted into Hong Kong dollar amounts at the rate indicated or at all.

(2) The forecast consolidated net profit attribute to owners of the Company for the year ending 30 June 2011 reflects an estimated gain arising from changes in fair value, less costs to sell, of dairy cows of RMB25.7 million for the year ending 30 June 2011. The gain arising from changes in fair value, less costs to sell, of dairy cows is calculated (i) on the same basis that has been adopted by the Group in valuing its biological assets and (ii) on the assumption that there will be no material change in the key parameters which have been used in determining the fair value of the Group's biological assets as at 30 June 2010. The forecast fair value of the Group's biological assets as at 31 October 2010 and

30 June 2011 is valued by Sallmanns (including the underlying assumptions). The extent of any gain arising from changes in fair value less, costs to sell, of dairy cows for the year ending 30 June 2011 is dependent on market conditions and other factors that are beyond our control. See "Financial Information — Significant Factors Affecting Our Results — Changes in the Fair Value of Biological Assets" and the section of Appendix III headed "Assumptions with respect to change in fair value of biological assets" for further information.

(3) The calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis is calculated by dividing the forecast consolidated profit attributable to the owners of the Company for the year ending 30 June 2011 by a weighted average of 4,645,036,712 Shares assumed to be issued and outstanding during the year ending 30 June 2011. The weighted average of 4,645,036,712 Shares is calculated based on 2,049,600,000 Shares issued and outstanding at 1 July 2010 (taking into account of the effect of replacement of US$ shares on 30 July 2010), the weighted average of 1,795,436,712 Shares issued in aggregate on 30 July 2010 and 800,000,000 Shares to be issued pursuant to the Global Offering on the assumption that the Global Offering and the Capitalization Issue had been completed on 1 July, 2010. The number of Shares does not take into account the number of Shares to be issued upon exercise of the Management Options.

(4) The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis is calculated by dividing the forecast consolidated profit attributable to the owners of the Company for the year ending 30 June 2011 by an adjusted weighted average of 4,706,437,193 Shares which comprise the weighted average of 4,645,036,712 Shares applied for the calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis as set out in note (3) and the effect of 61,400,481 diluted potential shares arising from the Management Options which assuming had been granted to replace the MF Options on 1 July 2010 and outstanding for the year ending 30 June 2011, which is calculated based on the estimated average market price of the Shares at HK$2.89, the lower Offer Price.

Sensitivity analysis

The following table illustrates the sensitivity of the estimated fair value of dairy cows of RMB2,730.5 million as of 30 June 2011 to changes in the key assumptions.

Change in	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Milk prices (RMB'000)	339,109	211,943	84,777	42,389	(42,389)	(84,777)	(211,943)	(339,109)
Feed costs (RMB'000)	(252,155)	(157,597)	(63,038)	(31,520)	31,520	63,038	157,597	252,155
Prices of heifers and calves (RMB'000)	174,620	109,137	43,654	21,828	(21,828)	(43,654)	(109,137)	(174,620)

Change in	1.5%	1.0%	0.5%	-0.5%	-1.0%	-1.5%
Discount rate (RMB'000)	(41,518)	(27,913)	(14,075)	14,319	28,887	43,710

Key assumptions underlying valuation of the Group's dairy cows assets as at 30 June 2011 are set out below:

Raw milk price (RMB/Kg)	3.91
Feed cost (RMB per Kg of milk sold)	2.28
Discount rate	9.24%

The following table illustrates the sensitivity of the consolidated net profit attributable to the owners of the Company to levels of fair value of the Group's dairy cows for the year ending 30 June 2011:

Changes in the estimated fair value of dairy cows less costs to sell as of 30 June 2011 compared to the relevant estimated fair value of dairy cows of RMB2,730.5 million	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Increase/(decrease) in profit attributable to owners of the Company								
Amount (RMB'000)	136,992	85,620	34,248	17,124	(17,124)	(34,248)	(85,620)	(136,992)
Percentage	73%	46%	18%	9%	-9%	-18%	-46%	-73%

The following table illustrates the sensitivity of the consolidated net profit attributable to the owners of the Company to levels of the Group's feed costs for the year ending 30 June 2011:

Changes in the estimated feed costs for the year ending 30 June 2011 compared to the estimated feed costs of RMB645.0 million and in the feed cost assumption underlying valuation of the Group's dairy cows.	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Increase/(decrease) in profit attributable to owners of the Company								
Amount (RMB'000)	(200,815)	(125,509)	(50,203)	(25,103)	25,102	50,203	125,509	200,815
Percentage	-107%	-67%	-27%	-13%	13%	27%	67%	107%

The following table illustrates the sensitivity of the consolidated net profit attributable to the owners of the Company to levels of the Group's average milk selling price for the year ending 30 June 2011:

Changes in the estimated average milk selling price for the year ending 30 June 2011 compared to the estimated average milk selling price of RMB3.84/Kg and in the milk price assumption underlying valuation of the Group's dairy cows.	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Increase/(decrease) in profit attributable to owners of the Company								
Amount (RMB'000)	290,422	181,514	72,605	36,303	(36,304)	(72,606)	(181,514)	(290,422)
Percentage	154%	97%	39%	19%	-19%	-39%	-97%	-154%

The following table illustrates the sensitivity of the consolidated net profit attributable to the owners of the Company for the year ending 30 June 2011 to levels of the discount rate used in its dairy cows fair value valuation:

Changes in the estimated discount rate for the year ending 30 June 2011	1.5%	1.0%	0.5%	-0.5%	-1.0%	-1.5%
Increase/(decrease) in profit attributable to owners of the Company						
Amount (RMB'000)	(25,747)	(17,306)	(8,725)	8,873	17,896	27,074
Percentage	-14%	-9%	-5%	5%	10%	14%

An increase in feed costs generally will lead to an increase in average milk selling prices and vice versa. The sensitivity analysis above assumes the change only relates to one variable, while other variables remain unchanged. It is reasonable to evaluate the sensitivity of the net profit to feed costs and milk prices together. However, occasionally, feed costs and milk prices may not change at the same time or to the same extent.

This sensitivity illustration is intended for reference only, and any variation could exceed the amounts indicated. Investors should note in particular that (i) this sensitivity illustration is not intended to be exhaustive and is limited to the impact of changes in key assumptions including the fair value of our biological assets less costs to sell, milk prices, feed costs, and prices of heifers and calves (ii) the profit forecast is subject to further and additional uncertainties generally. While we have considered for the purposes of the profit forecast what we believe is the best estimate of, among other assumptions, the gain arising from changes in fair value, less costs to sell, of dairy cows for the year ending 30 June 2011, our actual revaluation gain or loss for the year ending 30 June 2011 may differ materially from our estimate and is dependent on market conditions and other factors that are beyond our control.

OFFERING STATISTICS

	Based on an Offer Price of HK$2.89 per share	Based on an Offer Price of HK$3.69 per share
Our Company's capitalization upon completion of the Global Offering [1]	HK$13,872 million	HK$17,712 million
Prospective price/earnings multiple:		
(a) on a pro forma fully diluted basis[2]	62.42 times	79.70 times
(b) on a weighted average basis[3]	61.49 times	78.51 times
Unaudited pro forma adjusted net tangible asset per Share[4]	HK$0.9941	HK$1.1234

Notes:

(1) The calculation of market capitalization is based on 4,800,000,000 Shares expected to be issued immediately upon completion of Global Offering and the Capitalisation Issue.

(2) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share for the year ending 30 June 2011 on a pro forma fully diluted basis at the respective Offer Prices of HK$2.89 and HK$3.69 per Share, assuming that the Global Offering had been completed on 1 July 2010.

(3) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share for the year ending 30 June 2011 on a weighted average basis at the respective Offer Prices of HK$2.89 and HK$3.69, assuming that the Shares issued pursuant to the Global Offering were issued on 1 July 2010.

(4) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II "Unaudited Pro Forma Financial Information" in this prospectus and on the basis of 800,000,000 Shares in issue at the respective offer price of HK$2.89 and HK$3.69 pursuant to the Global Offering were issued on 1 July 2010.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$2,515 million, after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming an Offer Price of HK$3.29 per Share, being the midpoint of the offer price range stated in this prospectus. We intend to use these net proceeds for the following purposes:

- approximately 40% or HK$1,006 million will be used to import high-quality Holstein dairy heifers from Australia or New Zealand;
- approximately 30% or HK$755 million will be used for new farm construction. We expect to increase the number of farms to 30 by the end of 2015, although we do not have any definite plans at present in relation to the location and detailed budgeted capital expenditure for all the new farms to be constructed;

- approximately 20% or HK$503 million will be used for purchasing suitable farm facilities, including, among other things, milking systems, feed processing machinery, electricity generating machines, herd management software; and
- the remaining amount of not more than 10% or HK$251 million will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the 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 midpoint of the estimated offer price range.

If the Offer Price is set at the high end of the price range, we estimate that the aggregate net proceeds to be received by us from the Global Offering will be approximately HK$2,825 million. If the Offer Price is set at the low end of the price range, we estimate that the aggregate net proceeds to be received by us from the Global Offering will be approximately HK$2,204 million.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments with licensed banks in Hong Kong and/or the PRC.

We estimate that the net proceeds to be received by the Selling Shareholders from the Global Offering will range from approximately HK$1,114 million (assuming an Offer Price of HK$2.89 per Share, being the low end of the proposed Offer Price range) to HK$1,424 million (assuming an Offer Price of HK$3.69 per Share, being the high end of the proposed Offer Price range), after deducting the underwriting fees and commission (including any discretionary incentive fee which may be payable by the Selling Shareholders to the Joint International Lead Managers) payable by the Selling Shareholders in relation to the Global Offering and assuming the Over-allotment Option is not exercised. In the event that the Over-allotment Option is exercised in full, certain of the Selling Shareholders will receive additional net proceeds ranging from approximately HK$505 million (assuming an Offer Price of HK$2.89 per Share, being the low end of the proposed Offer Price range) to HK$644 million (assuming an Offer Price of HK$3.69 per Share, being the high end of the proposed Offer Price range). We will not receive any of the net proceeds from the sale of the Sale Shares by these Selling Shareholders in the Global Offering or as a result of the exercise of the Over-allotment Option.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of Shareholders.

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings.

"Advanced Dairy I"	Advanced Dairy I Company Limited, an exempted company incorporated under the laws of the Cayman Islands, and an investment holding company
"Advanced Dairy"	Advanced Dairy Company Limited, an exempted company incorporated under the laws of the Cayman Islands, and an investment holding company, being one of our Controlling Shareholders, a Selling Shareholder and a subsidiary of KKR
"Affiliate"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Anhui Sijibao"	現代牧業集團（安徽）四季寶有機肥有限公司 (Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd.), a limited liability company incorporated in the PRC on 26 May 2008, which is wholly owned by Modern Farm
"Application Forms"	WHITE application form(s) and YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them
"Articles of Association" or "Articles"	the articles of association of the Company, conditionally adopted on 31 October 2010 and as amended from time to time
"associate"	has the meaning ascribed thereto under the Listing Rules
"Aquitair"	Aquitair Holdings Limited, a private company limited by shares incorporated under the laws of Republic of Ireland, an investment holding company which is an indirectly wholly-owned subsidiary of our Company
"Baoji Modern Farm"	現代牧業(寶雞)有限公司 (Modern Farming (Baoji) Co., Ltd.), a limited liability company incorporated in the PRC on 2 December 2008, which is wholly owned by Modern Farm
"Baoji Sijibao"	寶雞四季寶有機肥有限公司 (Baoji Sijibao Organic Fertiliser Co., Ltd.), a limited liability company incorporated in the PRC on 18 September 2009, which is wholly owned by Anhui Sijibao
"Board"	the board of directors of the Company

"Brightmoon"	Brightmoon Limited, a limited liability company incorporated under the laws of British Virgin Islands, engaged in private equity investment, and is one of our Controlling Shareholders
"business day"	any day (other than Saturday and Sunday) on which banks in Hong Kong are generally open for normal banking business
"CAGR"	compound annual growth rate
"Capitalization Issue"	the issue of 3,990,000,000 Shares to be made upon capitalization of certain sums standing to the credit of our share premium account referred to in the paragraph entitled "Resolutions in Writing of the Shareholders of Our Company passed on 31 October 2010" in Appendix VI to this prospectus
"Cayman Companies Law"	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"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 personal 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 or a CCASS Custodian Participant or a CCASS Investor Participant
"CDH"	CDH China Fund III, L.P., an exempted limited partnership organized and existing under the laws of the Cayman Islands, engaged in private equity investment
"Chabei Cooperative"	張家口察北現代牧業奶牛專業合作社 (Zhangjiakou Chabei Modern Farming Dairy Professional Cooperative), a farmers' cooperative established in the PRC, which was controlled by Leading Farming before Leading Farming was disposed by us in December 2008

"Chabei Modern Farm"	現代牧業(察北)有限公司 (Modern Farming (Chabei) Co., Ltd.), a limited liability company incorporated in the PRC on 17 November 2008, which is wholly owned by Modern Farm
"Chabei Sijibao"	張家口察北四季寶有機肥有限公司 (Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd.), a limited liability company incorporated in the PRC on 19 April 2010, which is wholly owned by Anhui Sijibao
"China" or "PRC"	the People's Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to "China" and the "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong Special Administrative Region
"Citi"	Citigroup Global Markets Asia Limited
"Company" or "our Company"	China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司) (formerly known as Advanced Dairy II Company Limited), a company incorporated in the Cayman Islands on 30 July 2008 as an exempted company under the laws of the Cayman Islands
"Controlling Shareholders"	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, collectively refers to Advanced Dairy, Crystal Dairy and Brightmoon
"Crystal Dairy"	Crystal Dairy Holdings (CDH) Limited, an exempted company incorporated under the laws of the Cayman Islands and an investment holding company, being one of our Controlling Shareholders, a Selling Shareholder and an indirect wholly-owned subsidiary of CDH
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Deutsche Bank"	Deutsche Bank AG, Hong Kong Branch
"Datamonitor"	The Datamonitor Group is a business information and market analysis company
"Eastern China Region"	includes Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Shanghai and Zhejiang

"Equity Financings"	four rounds of capital injections made by the Financial Investors (via Aquitair) into Modern Farm, the details of which are set out in the sub-section headed "Equity Financings" under the section headed "Our History and Structure" in this prospectus
"Director(s)"	the director(s) of the Company
"Feidong Modern Farm"	現代牧業(肥東)有限公司 (Modern Farming (Feidong) Co., Ltd.), a limited liability company incorporated in the PRC on 2 December 2009, which is wholly owned by Modern Farm
"Feidong Sijibao"	肥東四季寶有機肥有限公司 (Feidong Sijibao Organic Fertiliser Co., Ltd.), a limited liability company incorporated in the PRC on 18 September 2009, which is wholly owned by Anhui Sijibao
"Financial Investors"	Advanced Dairy, Crystal Dairy and Brightmoon
"FY2008"	the financial year beginning 1 July 2007 and ending 30 June 2008
"FY2009"	the financial period beginning 7 July 2008 and ending 30 June 2009
"FY2010"	the financial year beginning 1 July 2009 and ending 30 June 2010
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Green Application Form(s)	the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
"Group" or "our Group"	our Company and its subsidiaries
"Helingeer Modern Farm"	和林格爾現代牧業有限公司 (Helingeer Modern Farming Co., Ltd.) (formerly known as 內蒙古蒙牛澳亞示範牧場有限責任公司 (Inner Mongolia Mengniu AustAsia Model Dairy Farm Co., Ltd.)), a limited liability company incorporated in the PRC on 12 July 2004, which is wholly owned by Modern Farm

"Hengsheng Modern Farm"	現代牧業(察北)恒盛有限公司 (Modern Farming (Chabei) Hengsheng Co., Ltd.) (formerly known as (張家口察北恒盛牧業有限公司 (Zhangjiakou Chabei Hengsheng Farming Co., Ltd.)), a limited liability company incorporated in the PRC on 25 June 2009, which is wholly owned by Modern Farm
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong Companies Ordinance"	the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong
"Hong Kong Offer Shares"	the 120,000,000 new Shares (subject to adjustment) being offered by us for subscription pursuant to the Hong Kong Public Offering
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the several underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 12 November 2010 relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters and us, as further described in the section headed "Underwriting — Underwriting Arrangements and Expenses" in this prospectus
"Hongya Modern Farm"	洪雅現代牧場有限公司 (Hongya Modern Farm Co. Ltd.), a limited liability company incorporated in the PRC on 14 June 2007, which is wholly owned by Modern Farm
"Hongya Sijibao"	洪雅四季寶有機肥有限公司 (Hongya Sijibao Organic Fertiliser Co., Ltd.), a limited liability company incorporated in the PRC on 16 September 2009, which is wholly owned by Anhui Sijibao
"IFRS"	International Financial Reporting Standards

"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
"Inner Mongolia Dairy Products"	現代牧業(內蒙古)乳品銷售有限公司 (Modern Farming (Inner Mongolia) Dairy Product Sales Co., Ltd.), a limited liability company incorporated in the PRC on 30 April 2010, in which Modern Farm owns a 56% equity interest and the remaining 44% equity interest is owned by Mr. Li Xinming, a shareholder of Xinmu
"International Offering"	the offering of initially an aggregate of 1,080,000,000 Shares by us and the Selling Shareholders to professional and institutional investors and other investors as further described in the section headed "Structure of the Global Offering"
"International Offer Shares"	the 1,080,000,000 Shares (subject to adjustment as described in the section headed "Structure of the Global Offering") being offered by us and the Selling Shareholders for subscription and purchase pursuant to the International Offering together, where relevant, with any additional Shares to be sold pursuant to the exercise of the Over-allotment Option
"International Underwriters"	the several underwriters of the International Offering
"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering and to be entered into by, among others, us, the Selling Shareholders, the Joint Global Coordinators and the International Underwriters on or about 20 November 2010, as further described in the section headed "Underwriting — International Offering" in this prospectus
"Jinmu"	Jinmu Holdings Co Ltd., an exempted company incorporated in the Cayman Islands and an investment holding company held by certain PRC Individual Shareholders, being one of the PRC Shareholders Holdcos and a Selling Shareholder
"Joint Global Coordinators", "Joint Bookrunners" or "Joint Sponsors"	Citi and UBS (in alphabetical order)

"Joint Hong Kong Lead Managers"	Citi, UBS and Deutsche Bank
"Joint International Lead Managers"	Citigroup Global Markets Limited, UBS, KCM and Deutsche Bank
"Joint Lead Managers"	Joint Hong Kong Lead Managers and Joint International Lead Managers
"KCM"	KKR Capital Markets LLC
"KKR"	KKR Asian Fund L.P., an exempted limited partnership organized and existing under the laws of the Cayman Islands and is engaged in private equity investment
"Laoniu Farming"	老牛(和林格爾)牧業發展有限公司 (Laoniu (Helingeer) Farming Development Co., Ltd.), a company incorporated in the PRC and an investment holding company held by 28 individuals, being one of the PRC Selling Shareholders
"Latest Practicable Date"	8 November 2010, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
"Leading Farming"	馬鞍山領先牧業有限公司 (Maanshan Leading Farming Company Limited), a company established in the PRC on 2 September 2005, being our predecessor holding the major operating subsidiaries of our Group before our acquisition
"Listing"	the listing of our Shares on the Main Board
"Listing Date"	the date, expected to be on 26 November 2010, on which dealings in the Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Lux Co"	Advanced Dairy Company (Luxemburg) Limited, a Luxemburg incorporated company and an investment holding company, a direct wholly-owned subsidiary of our Company
"Maanshan Advanced Farming"	馬鞍山先行牧業投資有限公司 (Ma Anshan Advanced Farming Investments Company Limited), a limited liability company incorporated in the PRC and an investment holding company

"Maanshan Feedstock"	馬鞍山現代牧業飼草有限公司 (Maanshan Modern Farming Feedstock Co., Ltd.), a limited liability company incorporated in the PRC on 24 February 2009, which is wholly owned by Modern Farm
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Management Options"	the options issued by us on 31 October 2010 to the MF Grantees, details of which are set out in the sub-section headed "D. Other Information - 2. Management Options" under the section headed "Statutory and General Information" in this prospectus
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company
"Mengniu"	China Mengniu Dairy Company Limited (stock code: 2319), a company incorporated in the Cayman Islands whose shares are listed on the Hong Kong Stock Exchange, which is the holding company of Mengniu (Inner Mongolia) and Mengniu (Maanshan)
"Mengniu Group"	Mengniu and its subsidiaries
"Mengniu (Inner Mongolia)"	內蒙古蒙牛乳業(集團)股份有限公司 (Inner Mongolia Mengniu Dairy (Group) Company Limited), a limited liability company incorporated in the PRC, being a 93.29%-owned subsidiary of Mengniu (Mr. Deng is a beneficial owner of 0.55% equity interest in Mengniu (Inner Mongolia)) and a shareholder of Modern Farm
"Mengniu (Maanshan)"	蒙牛乳業(馬鞍山)有限公司 (Mengniu Dairy (Maanshan) Company Limited), a limited liability company incorporated in the PRC, being a wholly-owned subsidiary of Mengniu (Inner Mongolia) and a shareholder of Modern Farm
"MF Grantees"	Ms. Gao, Mr. Han Chunlin and Mr. Sun Yugang, being grantees of the MF Options

"MF Options"	the options granted by the then shareholders of Modern Farm to the MF Grantees on 17 June 2009, the details of which are set out in the sub-section headed "D. Other Information - 2. Management Options" under the section headed "Statutory and General Information" in this prospectus, which were swapped to the Company level and replaced by the Management Options on 31 October 2010
"Modern Farm"	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.) (formerly known as 馬鞍山現代牧業有限公司 (Ma Anshan Modern Farming Co. Ltd)), a non-wholly subsidiary of our Company which is owned as to 97.68% by our Company, 1.55% by Mengniu (Inner Mongolia) and 0.77% by Mengniu (Maanshan)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Deng"	Deng Jiuqiang (鄧九強), the chairman of our Group and an executive Director
"Ms. Gao"	Gao Lina (高麗娜), the chief executive officer of our Group and an executive Director
"Ms. Deng Yuan"	Deng Yuan, daughter of Mr. Deng, being one of the PRC Selling Shareholders and a shareholder of Yinmu (those shares of Yinmu held by Ms. Deng Yuan are held on behalf of herself)
"North Eastern Region"	includes Heilongjiang, Jilin and Liaoning
"North Western Region"	includes Gansu, Ningxia, Qinghai, Shaanxi and Xinjiang
"Northern China Region"	includes Beijing, Hebei, Inner Mongolia, Shanxi and Tianjin
"Offer Price"	the final Hong Kong dollar price per Share (exclusive of brokerage fee, Hong Kong Stock Exchange trading fee and SFC transaction levy) at which the Offer Shares are to be subscribed pursuant to the Hong Kong Public Offering
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares sold pursuant to the exercise of the Over-allotment Option
"Offshore Subscription"	the subscription of Shares by the PRC Shareholders Holdcos, details of which are set out in the sub-section headed "Pre-Listing Reorganization" under the section headed "Our History and Structure" of this prospectus

"Onshore Acquisition"	the acquisition of 47.63% equity interest in Modern Farm by Aquitair, the details of which are set out in the sub-section headed "Pre-Listing Reorganization" under the section headed "Our History and Structure" in this prospectus
"Over-allotment Option"	the option to be granted by Advanced Dairy and Crystal Dairy to the Joint Global Coordinators on behalf of the International Underwriters pursuant to which Advanced Dairy and Crystal Dairy may be required to sell up to an additional aggregate of 180,000,000 Shares (in aggregate representing 15% of the Offer Shares initially being offered under the Global Offering) at the Offer Price
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC Government" or "Chinese Government"	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organizations of such government or, as the context requires, any of them
"PRC Individual Shareholders"	the 31 individual shareholders of Modern Farm holding an aggregate of 42.86% equity interests in Modern Farm before the completion of the Onshore Acquisition
"PRC Selling Shareholders"	the PRC Individual Shareholders and Laoniu Farming
"PRC Shareholders Holdcos"	Jinmu, Yinmu, Xinmu and Youmu
"Pre-Listing Reorganization"	the reorganization of our Group comprising the Onshore Acquisition and the Offshore Subscription, the details of which are set out in the sub-section headed "Pre-Listing Reorganization" under the section headed "Our History and Structure" in this prospectus
"Price Determination Agreement"	the agreement to be entered into by the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or around 20 November 2010 but no later than 24 November 2010, on which the Offer Price is fixed for the purposes of the Global Offering
"Principal Share Registrar"	Maples Finance Limited
"Qualified Institutional Buyers" or "QIBs"	qualified institutional buyers within the meaning of Rule 144A

"Regions"	includes Eastern China Region, North Eastern Region, North Western Region, Northern China Region, South Western Region and Southern China Region
"Regulation S"	Regulation S under the US Securities Act
"Renminbi" or "RMB"	the lawful currency for the time being of the PRC
"Rule 144A"	Rule 144A under the US Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAFE Circular"	the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Bank in China by Domestic Residents (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by SAFE on 21 October 2005 and effective from 1 November 2005
"Saibei Modern Farm"	張家口塞北現代牧場有限公司 (Zhangjiakou Saibei Modern Farm Co. Ltd.), a limited liability company incorporated in the PRC on 1 December 2005, which is wholly owned by Modern Farm
"Saibei Sijibao"	張家口塞北四季寶有機肥有限公司 (Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd.), a limited liability company incorporated in the PRC on 26 April 2010, which is wholly owned by Anhui Sijibao
"SAIC"	State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"Sale Shares"	the 400,000,000 Offer Shares being offered for sale by the Selling Shareholders at the Offer Price under the International Offering
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"Selling Shareholders"	Advanced Dairy, Crystal Dairy and the PRC Shareholders Holdcos
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"Shandong Trading"	山東蒙牛國際貿易有限責任公司 (Shandong Mengniu International Trading Co., Ltd.), a limited liability company incorporated in the PRC on 5 November 2003, which is wholly owned by Modern Farm
"Shangzhi Modern Farm"	尚志現代牧場有限公司 (Shangzhi Modern Farm Co., Ltd.), a limited liability company incorporated in the PRC on 25 May 2006, which is wholly owned by Modern Farm
"Shangzhi Sijibao"	尚志四季寶有機肥有限公司 (Shangzhi Sijibao Organic Fertiliser Co., Ltd.), a limited liability company incorporated in the PRC on 16 September 2009, which is wholly owned by Anhui Sijibao
"Share(s)"	ordinary share(s) with nominal value of HK$0.10 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"South Western Region"	includes Guizhou, Sichuan, Tibet, Yunnan and Chongqing
"Southern China Region"	includes Guangdong, Guangxi, Hainan, Henan, Hubei and Hunan
"sq. m."	square meters
"Stabilizing Manager"	UBS AG, Hong Kong Branch
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into on or about 20 November 2010 between UBS (or its affiliates or any person acting for it) and Advanced Dairy and Crystal Dairy pursuant to which Advanced Dairy and Crystal Dairy will agree to lend certain Shares to the Stabilizing Manager
"Tongliao Modern Farm"	現代牧業(通遼)有限公司 (Modern Farming (Tongliao) Co., Ltd.), a limited liability company incorporated in the PRC on 12 June 2010, which is wholly owned by Modern Farm
"Tongshan Modern Farm"	現代牧業(通山)有限公司 (Modern Farming (Tongshan) Co., Ltd.), a limited liability company incorporated in the PRC on 15 May 2010, which is wholly owned by Modern Farm
"Track Record Period"	the periods comprising the three financial years ended 30 June 2008, 2009 and 2010
"UBS"	UBS AG, Hong Kong Branch

"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "USA"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"US Securities Act"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"we", "us" or "our"	our Company or our Group (as the context may require)
"Wenshang Modern Farm"	汶上現代牧場有限公司 (Wenshang Modern Farm Co. Ltd.), a limited liability company incorporated in the PRC on 12 May 2006, which is wholly owned by Modern Farm
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website at **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"Xinmu"	Xinmu Holdings Co Ltd., an exempted company incorporated in the Cayman Islands and an investment holding company, held by certain PRC Individual Shareholders, being one of the PRC Shareholders Holdcos and a Selling Shareholder
"Yinmu"	Yinmu Holdings Co Ltd., an exempted company incorporated in the Cayman Islands and an investment holding company, held by certain PRC Individual Shareholders, being one of the PRC Shareholders Holdcos and a Selling Shareholder
"Youmu"	Youmu Dairy Holding Co Ltd., an exempted company incorporated in the Cayman Islands and an investment holding company, held by the shareholders of Laoniu Farming, being one of the PRC Shareholders Holdcos and a Selling Shareholder

** denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes only*

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this prospectus in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usages of these terms.

"bull"	a male bovine animal
"calf" or "calves"	a young female bovine animal up to 6 months of age from birth
"cattle"	a group of bovine animals including bulls, calves, cows and heifers
"dairy cows"	milkable cows, heifers and calves
"dry cow"	a milkable cow in between lactation cycles
"heads" or "heads of cattle"	the number of cattle as specified
"heifer"	a female bovine animal older than 6 months that has not given birth to a calf or bull
"large-scale farms" or "large-scale dairy farms"	farms with over 1,000 heads, typically have higher levels of capital investment and use more advanced technology
"milkable cow"	a female bovine animal that has given birth to a calf or bull, including both dry cows and milking cows
"milking cow"	a milkable cow in a lactation cycle
"ton"	metric ton

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "plan", "seek", "will", "would" or similar words or statements, in particular, in the sections entitled "Our Business" and "Financial Information" in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus and the following:

- Our business and operating strategies and our ability to implement such strategies;
- Our ability to further develop and manage our projects as planned;
- Our dividend policy;
- Changes in laws and PRC Government regulations (including laws and government regulations on taxes), policies and approval processes in the regions where we develop or manage our projects;
- Future developments and competitive environment for the PRC dairy and dairy farming industry;
- Changes in economic conditions and competition in the cities in which we operate, including a downturn in the property markets and general economy in China;
- Exchange rate fluctuations and restrictions; and
- Catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters.

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. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. 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 our intentions 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.

In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares. Any of the events or factors described below could materially and adversely affect our business, financial condition or results and the market price of the Offer Shares could fall significantly.

RISKS RELATING TO OUR BUSINESS

We rely substantially on a single customer.

Since we began our operations, substantially all of our sales of milk produced have been to Mengniu, our main customer, which accounted for 98.9%, 99.6% and 97.6% of our sales of milk produced in FY2008, FY2009 and FY2010, respectively. We expect that sales to Mengniu will continue to represent a significant portion of our annual sales of milk produced for the foreseeable future. Our agreement with Mengniu allows us to sell all of our raw milk produced annually to Mengniu each year through 2018 while providing us with the flexibility of selling up to 30% of our raw milk produced daily to certain other processors or directly to end-customers at our discretion, which could potentially hinder our ability to expand our customer base. In addition, under the terms of our contract with Mengniu, we have agreed not to sell our products to two of Mengniu's competitors, which, except for Mengniu, have the largest market shares in the China dairy industry, thereby limiting the customers to whom we can sell our products. We extend Mengniu credit terms ranging from 15 to 30 days.

If for any reason Mengniu breaches its contractual obligations to purchase our raw milk, we may be unable to find an alternative buyer for our raw milk within a reasonable period of time, which could result in a significant decrease in our sales volume and could materially and adversely affect our results and financial condition. Additionally, if Mengniu were to declare bankruptcy, the agreement would be terminated. If Mengniu were to fail to make timely payments, we may be unable to recover significant amounts of trade receivables and our cash flows and financial position could be adversely affected. Therefore, we are indirectly subject to Mengniu's operating risks to the extent that those risks could cause Mengniu to breach its contract with us or discontinue purchasing our raw milk.

Product contamination could result in reduced sales, product liability, damage to our reputation, and subject us to regulatory action.

Our results and financial condition could be materially and adversely affected by product contamination. Our products have not been found to have contaminants and we have not been subject to product liability claims. However, there is a risk that contamination could take place during the production and transportation of our raw milk. As part of the raw milk sales process, when our raw milk is delivered to our customers, the raw milk undergoes standard quality and safety inspections. If our raw milk is found to be contaminated during the inspection process, we could be subject to sales returns or delivery of our raw milk could be refused, which could reduce our sales and damage our relationships with our customers. Following delivery of our raw milk to our customers, our raw milk is used in our customers' downstream products. If those downstream products are contaminated, and if the contamination can ultimately be traced back to our raw milk, rather than to raw milk provided to our customers by other suppliers, we could be subject to product liability claims by individuals for damages, including, among other things, medical expenses, disability and wrongful death. In addition, under the terms of our contract with Mengniu, we have agreed to indemnify Mengniu for losses arising from product contamination, if the product contamination can ultimately be determined to be the result of our negligence. Furthermore, adverse publicity about the quality of our milk, whether valid or not, could adversely affect our reputation.

In addition to product liability claims, if our products are found to be contaminated, we may be subject to regulatory action. To provide protection to consumers in relation to the purchase or consumption of food, the Food Safety Law of the PRC ("**Food Safety Law**") took effect on 1 June 2009. If we are found to be in violation of this law, we could be subject to penalties including monetary fines, confiscation of equipment and/or the revocation of licenses needed to conduct our business, which could materially and adversely affect our results and financial condition.

The outbreak of any major diseases among our cows could materially and adversely affect our business.

A major outbreak of any illness or disease at any of our dairy farms could have a significant impact on our raw milk production capacity and volume. Although we carry insurance policies to cover us against losses related to cow diseases, and we may also be entitled to receive government compensation in the event of an outbreak of a disease, we cannot assure you that these will be sufficient to cover all of our losses in the event of an outbreak. In the past, our farms have not experienced any major outbreaks. However, any major outbreak of disease, such as foot and mouth disease, bovine tuberculosis ("**bovine TB**") or any other serious disease at our dairy farms may also lead to significant shortfalls in our raw milk production which could materially and adversely affect our results and financial condition.

Increases in feed prices and disturbances to our feed supply could adversely affect our business and results.

We require a substantial amount of feed to supply our dairy farms. We have not experienced any major disturbances or feed shortages in the past. As a percentage of sales of milk produced, our feed costs were 63.3% in FY2008, 73.5% in FY2009 and 67.2% in FY2010. Although we grow a portion of our feed on our own farms, we currently purchase the majority of our supplies from third-party farmers and producers, some of which are located outside of China, and we expect to continue to do so in the future. We have typically purchased concentrates centrally from large national suppliers, through short-term purchase agreements varying in length between one and three months. For concentrates, in July 2010 we entered into a 1 year supply agreement with a subsidiary of China National Cereals, Oils and Food Stuffs Corporation ("**COFCO**"). For forages, the contracts typically range from 8 to 12 months. As with most agricultural products, the cost and supply of feed are generally subject to market conditions, which may be affected by, among other things, adverse weather conditions, various plant diseases, pests and other acts of nature. In the event of price increases or disturbances in the feed supply, we may be unable to obtain sufficient quantities of feed on acceptable terms or at all. Any inability to procure sufficient quantities of feed or to pass on increased costs to our customers could have a material adverse effect on our business, financial condition and results.

The future growth of our business partly depends on the quality and supply of heifers and bull semen.

The quality and quantity of our dairy cows are important factors in the production of raw milk. We import heifers from Australia and New Zealand to support our new farms. The expansion of our business by adding new dairy farms depends on our ability to obtain sufficient numbers of heifers from exporters in Australia and New Zealand. Any failure to do so, or to find alternative sources of heifers for our new farms, could adversely affect our growth prospects. To improve the milk yield of our herd, we inseminate our cows by using bull semen from international sources. Should our supply of bull semen be disrupted, 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.

We may not continue to benefit from favorable government policies.

Our results have been positively affected by government policies which benefit the PRC dairy farming industry. We have received preferential tax treatment and subsidies as a result of PRC government policies which assist the dairy industry in order to promote, among other things, improved industrialization and specialization levels of the husbandry industry, accelerate the breeding and promotion of fine breeds of livestock and increase milk yield of dairy cows. For more information, see "Financial Information — Significant Factors Affecting Our Results — Government Policy" and "Financial Information — Description of selected line items of our consolidated statements of comprehensive income — Income tax charges". If these government policies change, our results could be materially and adversely affected.

We rely on a single product.

Our principal business is the production of high-quality raw milk. The primary source of our income has been and we anticipate in the near future will continue to be, high quality raw milk, or other products which use raw milk as an ingredient, such as processed milk or yogurt. Our sales volume is highly dependent on and sensitive to fluctuations in our raw milk production volume and pricing. If for any reason our production volume, the quality of our raw milk or selling prices are reduced, our results would be materially and adversely affected. In addition, we plan to significantly increase our production volume and as such, if we are unable to successfully increase our production of raw milk at the rate we anticipate, our growth prospects could be negatively affected.

The quality of our milk and milk yield are influenced by a number of factors, some of which are beyond our control.

The quality of our milk and milk yield are influenced by a number of factors that are beyond our control, including, but not limited to, the following:

- seasonal factors, with dairy cows generally producing more milk in temperate weather as opposed to cold or hot weather, meaning that extended unseasonally cold or hot weather could potentially lead to lower than expected raw milk production. For example, milk yield and quality is typically lower in hotter summer months;
- feed supply factors, with the volume and quality of milk produced by dairy cows being linked closely to the nutritional quality of the feed provided; and
- potential outbreaks of diseases among cows in China.

Adverse developments affecting any of the above factors or other factors which could influence raw milk production could potentially lower our raw milk production volume, which could materially and adversely affect our results and financial condition.

We may be unable to adequately manage future rapid growth.

We have grown rapidly over the last few years. Our sales of milk produced grew from RMB183.9 million in FY2008, to RMB334.0 million in FY2009 and RMB589.8 million in FY2010, representing a CAGR of 79.1%. We have already built 11 dairy farms, with 5 additional dairy farms currently under construction. Our business growth could place a strain on our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and controls will be adequate to support our future growth. Failure to effectively manage our expansion may lead to increased costs and reduced profitability and may adversely affect our growth prospects.

In addition, as we expand our business into new regions, we may encounter regulatory, personnel and other difficulties that may increase our expenses or may be unable to find suitable parcels of land for new farms, which could delay our plans or impair our ability to become profitable in these regions. One of our strategies is to replicate our successful model of standardized large-scale industrialized free stall dairy farming at our new farms. If we are unable to successfully replicate this model and maintain standards across all of our farms, the quality of raw milk we produce, and our efficiency could be reduced.

Establishing new farms requires significant capital. Each time we open a new farm we build production facilities and bring in additional heifers. There is typically a lag time of between 1 to 2 years between our investment of capital and the production and sale of raw milk. Since we have expanded rapidly during the Track Record Period by adding additional farms, and intend to continue to do so in the near future, we have incurred, and expect to incur additional costs in relation to our expansion, and expect that there will continue to be a time lag before we are able to generate sales from our investment in new farms. This time lag has affected, and we expect to continue to affect, our results, due to the fixed costs associated with new farms, financial condition by contributions to our net current liabilities position and our cash flows.

Disruption of operations at our farms and production facilities could adversely affect our business in material respects.

Damage to, or disruption at our farms and production facilities due to events such as utility supply disturbances, bad weather, fire, natural disasters, terrorism, strikes, various contagious diseases or other reasons could materially affect our business. Also, we may experience difficulties and delays inherent in the production and sale of our products, such as:

- forced closing or suspension of our dairy farms;
- our failure, or the failure of any of our suppliers, distributors, or retailers, to comply with applicable regulations and quality assurance guidelines that could lead to temporary product seizure or recalls, production shutdowns or delays and product shortages; and
- other production or distribution 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.

Although we have not experienced material disruptions due to the events mentioned above, any failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively respond to such events if they occur, could materially and adversely affect our business, financial condition and results.

We rely on a single logistics provider to transport our raw milk, and if we are unable to deliver our raw milk to customers in a timely manner, our results could be adversely affected.

We currently rely on a logistics provider, which is a connected person of the Company, to transport our raw milk from our dairy farms to our customers. Our business relationship with our logistics provider began in 2007. Our logistic provider is a professional raw milk logistics company engaged in the raw milk delivery business in the PRC with an established customer base, which includes certain sizeable dairy product companies in the PRC. Further details about our logistic provider are set forth in the section headed "Business — Logistics" in this prospectus. We renew our contract with our logistics provider on an annual basis through a competitive bidding process.

Due to the perishable nature of raw milk, if our products are not delivered to our customers in a timely manner and under controlled temperature conditions, our products could spoil. Therefore, any delay in transporting our products, due to bad weather, technical problems, the failure of our logistics provider to timely pick up or deliver our products, the need to replace our logistics provider or for any other reason, could affect our sales volume and our relationships with our customers.

Our branded milk and other new products may not achieve market acceptance.

We are currently conducting a trial sale of branded products. Achieving market acceptance for our branded products may require substantial marketing efforts and the expenditure of significant funds. There is substantial risk that consumers may not accept or be as receptive to our products than we expect. In addition, we intend to market our products as premium products and to adopt a corresponding pricing model, which may not be accepted by consumers. Market acceptance of these products will depend, in large part, upon our ability to inform potential customers that the distinctive characteristics of our products justify their higher pricing. These products may not be accepted by consumers or be able to compete effectively against other premium dairy products. Lack of market acceptance would negatively affect our growth prospects for our branded and other new products.

In addition to further enhancing our strong position in the dairy industry, one of our goals is to become an organic fertilizer provider in China. If our organic fertilizer fails to achieve market acceptance, our growth prospects could be negatively affected.

We recorded net current liabilities during the Track Record Period.

The expansion of our business has been capital intensive. We recorded net current liabilities of RMB250.6 million as of 30 June 2008, RMB238.8 million as of 30 June 2010 and RMB187.9 million as of 30 September 2010. The net current liabilities position was mainly due to the current portion of bank borrowings, which were primarily used for feed purchases and was also due to trade payables related to feed purchases to primarily support the increased number and proportion of heifers in our herd, which are recorded as non-current assets. The feed purchases were primarily related to the addition of new farms. For further information about the net current liabilities position, see "Financial Information — Liquidity — Net Current Liabilities and Working Capital Sufficiency." We may continue to have net current liabilities in the future as our business expands. In the future, if sufficient funds are unavailable to meet our needs or refinancing cannot be obtained on commercially acceptable terms, or at all, then we may not be able to repay our borrowings, particularly our short-term borrowings, upon maturity. This could have a material adverse effect on our expansion plans, financial condition and results.

The availability of credit, fluctuations in the interest rates of our bank and other borrowings and our level of indebtedness could affect our expansion plans and financial performance.

We have obtained bank loans that support our business expansion by providing financing for our new farms and purchases of other farms as well as for working capital purposes. As of 30 June 2010 and 30 September 2010, our total outstanding borrowings were RMB1,225.1 million and RMB1,427.6 million, respectively. See "Financial Information — Indebtedness" for more information. There has been no delay or default in repayment of our bank borrowings during the Track Record Period. Interest rates in China were lowered in 2008 as a result of the PRC government's economic stimulus plan in response to the global economic crisis. As the world economy recovers, our interest rates on outstanding loans may increase, which would increase our finance costs. In addition, the PRC government has recently adopted a number of measures in relation to monetary policy, including increasing the reserve ratio of commercial banks, which may have the effect of restricting money supply and the availability of credit. If these measures result in PRC banks reducing their volumes of commercial loans, our access to financing to fund our expansion plans may be adversely affected.

In addition, we have benefited from favorable government policies which support lending in the farming sector. If those government policies change, our access to capital could be reduced, which could negatively affect our working capital levels as well as our growth prospects.

We have substantial debt service obligations and expect to incur additional debt to finance our planned development projects. Some of our agreements with our lenders require certain of our subsidiaries to maintain certain asset and liability ratios, current ratios and quick ratios. Currently we are in compliance with the covenants in our loan agreements. Our indebtedness could impact our financial condition and operations in a number of ways. Increasing debt could make it more difficult for us to satisfy our debt obligations as they become due, impair our ability to obtain additional financing in the future for working capital needs, capital expenditures, development projects, acquisitions or general corporate purposes, require us to comply with financial and other covenants that impose significant restrictions on our existing and future business operations, and subject us to interest rate risk.

We are in the process of applying for environmental permits for some of our farms.

Under PRC law, we are required to go through and pass an environmental completion acceptance inspection for each of our farms from local environmental bureaus prior to starting formal production (the "**Inspection**"). Depending on the requirements of the local environmental bureau, prior to applying for Inspection, we may be required to first obtain a trial permit and to start trial production, following which, we must apply for Inspection by the local environmental bureau within 3 months of obtaining the trial permit. Certain local environmental bureaus do not require a trial permit before applying for Inspection. Currently, 6 of our farms have passed Inspection, and the remaining 5 farms are in the process of applying for Inspection. As advised by our PRC legal advisor, the applications for the Inspection by the 5 remaining farms together with the operation of all our 11 farms are in compliance with all applicable PRC environmental laws and regulations. To the best of our knowledge, 3 of the remaining 5 farms are expected to pass Inspection prior to our Listing and the other 2 farms are expected to pass Inspection by the end of 2010. In addition, given that 6 farms constructed by the Group have successfully passed Inspection, our PRC legal advisor consider the risk of the remaining 5 farms failing Inspections to be minimal. A permit is granted when a farm meets the relevant requirements at the time of Inspection by the relevant local environmental bureau. As advised by our PRC legal advisor, it is very unlikely that the relevant local environmental bureau would immediately order cessation of a farm if it would be unable to pass its initial Inspection. In the event that a farm does not pass its initial inspection, the relevant local environmental bureau will usually first issue a warning letter together with a request of changes to be made. However, if any of our other farms are unable to successfully pass Inspection, we may be subject to fines, incur additional costs, and receive government orders to stop production at the relevant farm(s) until re-application for Inspection and approval.

We are subject to uncertainty with respect to our farms that use leased collectively-owned agricultural or forestry land.

We currently have a total of 11 farms in operation. Of these farms, 4 have obtained state-owned granted land use rights, while the remaining 7 use leased land. Of the 7 farms using leased land, 2 use leased state-owned land and the other 5 use collectively owned agricultural or forestry land and have signed long-term lease contracts with the committees of the local villages or townships that own the agricultural or forestry land. In the aggregate, the five farms using the collectively owned agricultural lands recorded sales of milk produced of RMB243.6 million in FY2010. Of our five farms under construction, one uses state-owned granted land, and four use leased state-owned or collectively owned agricultural or forestry land. Relevant PRC laws and regulations allow large-scale farming operators of livestock, such as us, to lease agriculture or forestry land from rural collective economic organizations. We are in compliance with the recording requirements of the local land administration authorities and have obtained a Rural Land Contractual Operation Rights

Certificate (《農村土地承包經營權證》) issued by the relevant county level government. As advised by our PRC legal advisor, there was no dispute nor challenge against us on the lease and use of the collectively-owned land during the Track Record Period. However, long-term leasing of collectively owned rural land is subject to uncertainties such as termination or breach by the local villages or townships, which 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.

Our insurance coverage and government compensation may not be sufficient to cover all of our potential losses.

We have insurance policies for all of our eligible dairy cows and heifers against losses caused by diseases, accidents and natural disasters. Generally, cows and heifers are only eligible for coverage when they are over 12-15 months old in China. For all of our imported heifers, our suppliers provide insurance during transit until they reach Chinese ports. For further information see "Our Business — Insurance". In addition, in the event that we incur certain types of losses, we may be entitled to government compensation. Pursuant to the Law of the PRC on Animal Epidemic Prevention, which became effective on 1 January 2008, when animals are slaughtered and animal products and relevant goods destroyed through mandatory measures taken to prevent, control or eliminate epidemics, or due to stress caused by mandatory vaccinations, governments at or above the county level must provide compensation. However, the amounts of such compensation would be determined by the government, and may be insufficient to cover all related losses. In addition, even if we do receive compensation from insurance companies or the government for the replacement of lost dairy cows, there is no assurance that any replacement dairy cows would be of the same genetic quality as the lost dairy cows, which could lower our milk yield per cow.

We also maintain insurance coverage for our main production facilities and equipment. However, these insurance policies have limits on the total amount of indemnification and do not cover all potential losses. As a result, we may be required to use our own resources to cover financial and other losses, damages and liabilities, including those caused by fire, bad weather, disease, civil strife, strikes, natural disasters, terrorist incidents, industrial accidents or other causes. Also, any defective product claim or business interruption may result in substantial costs to us. Losses incurred or payments we may be required to make may have a material adverse effect on our business, financial condition and results.

Intellectual property rights

We submitted an application on 13 August 2010 to the Trade Marks Registry of the Intellectual Property Department of the Government of Hong Kong for registration of our Company's logo included on the cover of this prospectus as a trademark. As of the Latest Practicable Date, the registration of such trademark had not yet been approved by the Trade Marks Registry and we had not received any notice of objection to the registration of the trademark from any other third party. However, there can be no assurance that the use of such logo by the Company will not infringe the intellectual property rights of any third party or otherwise violate any laws of Hong Kong. Any liability claim in relation to the use of such logo by our Company made or threatened to be made against us in the future, regardless of its merits, could result in costly litigation and strain our administrative and financial resources.

We may be unable to retain or secure key qualified personnel, key senior management or other personnel for our operations.

We depend on certain key qualified personnel, key senior management and other employees in our business, including those personnel set out in the section headed "Directors, Senior Management and Employees" in this prospectus. The expertise, industry experience and contributions of our senior management are crucial to our success. There can be no assurance that such persons will continue to provide services to us or will honour the agreed upon terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain personnel for our future operations and development may have a material adverse effect on our business.

Certain Shareholders may exert significant influence over our Company and could cause our Company to act in a way that may not be in the best interests of the Shareholders who subscribe for Shares in the Global Offering.

Following our Listing, our Company will be owned in the aggregate as to approximately 75% by the Financial Investors and the PRC Shareholders Holdcos (assuming no exercise of the Over-allotment Option and the Management Options). Although our operations are generally run independently by our management, these Shareholders, subject to our Articles of Association and applicable laws and regulations, will be in a position to control or influence our Company's major policy decisions, including, but not limited to, those relating to our overall strategy and investment, such as:

- exerting influence over our Board regarding the selection of the senior management of our Company and our Company's major business decisions;
- approving or rejecting our Company's dividend distributions;
- approving or rejecting our Company's annual budgets and/or business plans; and
- effecting corporate transactions without the approval of the minority shareholders of our Company.

To the extent that these shareholders have interests that conflict with those of our shareholders who purchase Shares in the Global Offering, subject to applicable laws and regulations, they may take actions that would not be in the best interests of our shareholders who purchase Shares in the Global Offering.

Improvements to our risk management and internal control systems may not be adequate or effective.

We have established risk management and internal control systems consisting of relevant organizational framework policies, procedures and risk management methods that we believe are appropriate for our business operations. We seek to continue to improve our risk management systems from time to time. However, we cannot assure you that our risk management and internal control systems will be sufficiently effective in ensuring, among other things, the accurate reporting of financial results and in preventing fraud. In addition, as some of our risk management and internal control policies and procedures are relatively new, we may need to establish and implement additional risk management and internal control policies and procedures to further improve our systems from time to time. Since our risk management and internal control systems depend on their implementation by our employees, we cannot assure you that such implementation will not involve any human error or mistakes. If we fail to timely adopt, implement and modify, as applicable, our risk management policies and procedures, our business, financial condition and results could be materially and adversely affected.

Our results may be adversely affected if there are failures in our information systems.

We rely on an information technology system for the management of our dairy farms. Our software allows us to monitor each cow and track every step of the production process, significantly enhancing our operating efficiency. We have not experienced any major information system failure in the past. However, we cannot assure you that we will not incur any damage or interruption caused by power outages, computer viruses, hardware and software failures, telecommunications failures, fires and other similar events relating to our information technology system in the future. If serious damage or significant interruption occurs, our operations may be disrupted and as a result our financial condition may be adversely affected.

Labor disputes could adversely affect us.

Our ability to successfully operate our business is dependent on our ability to maintain a stable workforce at our dairy farms. Recently, a number of manufacturing plants in the PRC have experienced disruptions as a result of labor disputes which have led to work stoppages. We cannot assure you that such disputes will not arise in the future. If our operations are disrupted for any period of time as a result of labor disputes, our production volume could be reduced, which could materially and adversely affect our results and hinder our growth.

Litigation or legal proceedings could expose us to liability, divert our management's attention and negatively impact our reputation.

We are currently not involved in any litigation or legal proceedings that we believe could have a material adverse effect on our financial condition. However, we may at times be involved in litigation or legal proceedings during the ordinary course of business operations, or related to, among other things, product or other types of liability, labor disputes or contract disputes. If we become involved in any litigation or other legal proceedings in the future, the outcome of such proceedings could be uncertain and could result in settlements or results which could adversely affect our financial condition. In addition, any litigation or legal proceedings could involve substantial legal expenses as well as significant time and attention of our management, diverting their attention from the operations of our Company.

We have a limited operating history.

We first commenced business operations in 2005. Our farms became operational and began producing milk in 2006. Therefore, we have a limited operating history for evaluating the viability and sustainability of our business and growth. Certain risks associated with companies with relatively short operating histories include, among other things, the ability to diversify revenue sources, effectively manage a rapidly growing business, respond effectively to regulatory changes and raise sufficient capital for the expansion and ongoing operations of business operations.

We have not obtained building ownership certificates for certain buildings which we occupy.

We have not yet obtained title certificates that allow us to freely transfer, mortgage or dispose of some of our buildings under PRC laws and regulations. As of the Latest Practicable Date, we had not obtained building ownership certificates for 130 of our 156 buildings. These buildings are mainly ancillary buildings and we do not consider them to be crucial to our business and operations. As of 30 September 2010, these buildings had a total net book value of approximately RMB81.1 million. As of 30 September 2010, these 130 buildings represented 7.5% of the total net book value of our buildings. See Appendix IV — "Property Valuation" for further details. As advised by our PRC legal advisor, if these buildings were considered as change of land use purposes from agriculture-use land to construction land without relevant approval, we may be ordered by relevant government authorities to (i) return the land occupied by such buildings; and (ii) demolish the structures and installations built on such land within a specified period of time to restore the land to agriculture-use. We may also be subject to a fine in the amount of RMB30 per square meter of such occupied land. Considering the maximum area of such occupied lands, the potential maximum penalty for us will be up to approximately RMB1,823,000 in total.

We cannot assure you that future negative publicity relating to our Directors will not have an adverse impact on us.

From time to time, there may be negative publicity about our Directors. For example, while Ms. Gao was the general manger of TFGTC, a state-owned export-import company whose business included handling the export of goods by Chinese companies, the US State Department imposed sanctions on TGFTC pursuant to the Iran, North Korea and Syria Nonproliferation Act of 2000 ("**INKSNA**"). The sanctions were imposed in June 2003 after TFGTC exported certain commercial goods which the US government alleged had a dual military use to a third party who, unbeknownst to Ms. Gao, apparently on-sold these commercial goods to end customers in a manner raising certain US government concerns under the INKSNA. Following a brief suspension of TFGTS's export license in conjunction with an investigation by PRC authorities, TFGTC's export license was renewed by the PRC government without any findings of wrongdoing or penalties imposed on TFGTC. The sanctions did not name Ms. Gao individually, either in her personal capacity or in her official capacity with TFGTC, and they were lifted by the US Government in June 2005. Irrespective of whether this type of publicity relates to our Directors or to us, we cannot assure you that future negative publicity relating to our Directors will not have an adverse impact on us.

RISKS RELATING TO THE PRC DAIRY INDUSTRY

The existence of tainted or contaminated milk produced in the PRC could negatively affect the image of the PRC milk industry.

The PRC milk industry has been subject to product recalls due to product contamination in the past. For example, in 2008, sales of milk formula contaminated with melamine caused the death of a number of infants as well as illness in nearly 300,000 others. In addition, in 2009 and 2010, further incidents of substandard milk formula contaminated with melamine were also uncovered. None of our products were involved in these incidents. In 2008, China's Administration of Quality Supervision, Inspection and Quarantine found that the products of at least 22 Chinese milk and formula producers were contaminated with melamine, which caused significant negative publicity for the entire dairy industry in China. In addition, in August 2010 there was further negative publicity concerning the dairy industry when three infants in the PRC were reported to have experienced pubescent development, which was allegedly caused by estrogen hormones found in a particular local brand of milk formula. The mere publication of information asserting that our raw milk contains or has contained melamine or other contaminants could damage our reputation and have a material adverse effect on us, regardless of whether these reports have any basis in fact. In addition, reports of contaminated or tainted milk products produced by other manufacturers in the PRC could negatively affect our industry and our business, even if there is no connection with the milk we produce. Such adverse publicity could negatively affect our results by reducing consumer demand and, in turn, our prices, increase government oversight of our industry, and have an adverse affect on our growth prospects.

We may be subject to higher compliance costs if PRC environmental protection laws become more onerous.

We conduct business in an industry that is subject to PRC environmental protection laws and regulations. These laws and regulations require enterprises engaged in manufacturing and construction that may produce environmental waste to adopt measures effective to effectively control and properly dispose of waste gases, waste water, industrial waste, dust and other environmental waste materials, as well as requiring fee payments from producers discharging waste substances. If failure to comply with such laws or regulations results in environmental pollution, the administrative department for environmental protection can levy fines. If the circumstances of the breach are serious, it is at the discretion of the PRC government to suspend or close any operation failing to comply with such laws or regulations. We cannot assure you that the PRC government will not change the existing laws or regulations or impose additional or stricter laws or regulations, compliance with which may cause us to incur significant capital expenditure, which we may be unable to pass on to our customers by increasing the prices of our products.

Any major outbreak of diseases among cows could cause consumers to avoid dairy products.

A major outbreak of any illness or disease in cows in the PRC could lead to a serious loss of consumer confidence in, and demand for, dairy products. Adverse publicity about these types of concerns, whether valid or not, may discourage consumers from buying dairy products. Therefore, any outbreak of disease among dairy cows in China or elsewhere could negatively affect our growth prospects.

Our industry could face slower potential market growth.

The PRC dairy industry has experienced significant growth. This growth has been, in part, due to increasing demand for dairy products in China. The prices at which we sell our raw milk and the demand for our planned new products could be influenced by the level of consumer demand for dairy products in China. If the demand for dairy products drops for any reason, including changing consumer habits, our results and expansion plans could be adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our business, financial condition, results and prospects could be negatively affected by political, economic and legal developments and changes in government policies in the PRC.

Substantially all of our business assets are located in the PRC and substantially all of our sales are derived from the PRC. Accordingly, our results, financial position and prospects are subject, to a significant degree, to the economic, political and legal developments of the PRC. Political and economic policies of the PRC government could affect our business and financial performance and may result in our being unable to sustain our growth.

In recent years, the PRC government implemented a series of new laws, regulations and policies which imposed stricter standards with respect to, among other things, quality and safety control and supervision and inspection of enterprises engaged in animal husbandry and breeding, and the production and sale of raw milk. See "PRC Regulatory Overview — The Laws and Regulations Relating to the Industry". If the PRC government continues to impose stricter regulations on the dairy industry, we could face higher costs in order to comply with those regulations, which could impact our profitability.

The economy of the PRC differs from the economies of most developed countries in a number of respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange. Before its adoption of reform and open door policies beginning in 1978, the PRC was primarily a planned economy. Since that time, the PRC Government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a significant portion of the productive assets in the PRC, economic reform policies since the late 1970s have emphasized autonomous enterprises and the utilization of market mechanisms, especially where these policies apply to businesses such as ours. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our future business, results or financial condition.

Our ability to continue to expand our business is dependent on a number of factors, including general economic and capital market conditions and credit availability from banks or other lenders. Recently, the PRC government has articulated a need to contain the build-up of a property bubble and may tighten its bank lending policies, including increasing interest rates on bank loans and deposits and tightening the money supply to control growth in lending. Stricter lending policies may, among other things, affect our and our customers' ability to obtain financing which may in turn adversely affect our growth and financial condition. We cannot give any assurances that further measures to control growth in lending will not be implemented in a manner that may adversely affect our growth and profitability over time. In addition, the global economic recession and market volatility that persisted in the past two years may continue and therefore we may not be able to sustain the growth rate we have historically achieved.

The legal system in China has inherent uncertainties that could limit the legal protections available to our shareholders.

Our business and operations are primarily conducted in the PRC and are governed by PRC law, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules, and regulations applicable to foreign investments in China. In addition, our offshore holding companies and certain transactions between them may be subject to various PRC laws and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference, but have limited weight as precedents. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investments in China. However, China has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention.

Government control of currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends.

The RMB is not currently a freely convertible currency. We receive all of our payments from customers in RMB and will need to convert RMB into foreign currencies for the payment of dividends, if any, to holders of our Shares. Under the PRC's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our shareholders if the PRC government restricts access to foreign currencies for current account transactions. Foreign exchange transactions under our capital account continue to be subject to significant foreign exchange controls and require the approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

The exchange rate of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC government and changes in the PRC's and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of RMB to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of RMB appreciated by approximately 2% against the U.S. dollar. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. From 21 July 2005 to 30 December 2009, according to the PBOC official website, the value of RMB has appreciated by approximately 18.7% against the U.S. dollar. On 20 June 2010, the PBOC announced that it intends to further reform the RMB exchange rate regime by increasing the exchange rate flexibility of the RMB.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against the U.S. dollar, the Hong Kong dollar or other foreign currencies. If the appreciation of RMB continues, and as we need to convert the proceeds from the Global Offering and future financing into RMB for our operations, appreciation of RMB against the relevant foreign currencies would reduce the RMB amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of RMB against the Hong Kong dollar could reduce the amount of any cash dividends on our Shares in Hong Kong dollar terms.

It may be difficult to effect service of process upon us or our directors or executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.

We are incorporated in the Cayman Islands. Almost all of our assets, and some of the assets of our Directors are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned, or the Arrangement, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition ad enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in China in order to seek recognition and enforcement of foreign judgments in China.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other western countries or Japan. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

The New Tax Law may affect tax exemptions on dividends received by us and by our Shareholders, as well as increase our enterprise income tax rate.

We are incorporated under the laws of the Cayman Islands and indirectly hold interests in our PRC operating subsidiary. Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which took effect on 1 January 2008, ("**New Tax Law**"), dividends payable by a foreign-invested enterprise to its foreign investors are subject to a 10% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement.

The New Tax Law provides that if an enterprise incorporated outside the PRC has its "de facto management organization" within the PRC, such enterprise may be deemed a PRC resident enterprise for tax purposes and be subject to an enterprise income tax rate of 25% on its worldwide income. "De facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders that are PRC enterprises. It remains unclear, however, how the tax authorities will treat a case such as ours. We cannot assure you that we will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25% enterprise income tax on our global income. In addition, although the New Tax Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, due to the short history of the New Tax Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC incorporated subsidiary to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

Furthermore, the New Tax Law provides that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how "domicile" may be interpreted under the New Tax Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our overseas shareholders as well as gains realized by such shareholders from the transfer of our Shares may be regarded as PRC-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our major PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds from the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment our major PRC subsidiaries are approved to make under relevant PRC laws and the registered capital of our major PRC subsidiaries, and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to our major PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our PRC subsidiaries' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments and would have a material adverse effect on our business, financial condition and results.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially and adversely affect us.

The SAFE Circular requires PRC residents, including both legal persons and natural persons, to register with the competent local SAFE branch before establishing or controlling any company outside the PRC, referred to as an "offshore special purpose company," for the purposes of acquiring any assets of or equity interest in PRC companies and raising funds from overseas. In addition, any

PRC resident who is the shareholder of an offshore special purpose company is required to amend his SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in the PRC. If any PRC shareholder of an offshore special purpose company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore special purpose company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore special purpose company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. Our current beneficial owners who are PRC residents have registered with the local SAFE branch as required under the SAFE Notice. The failure of these beneficial owners to amend their SAFE registrations in a timely manner pursuant to the SAFE Circular or the failure of future beneficial owners of our Company who are PRC residents to comply with the registration procedures set forth in the SAFE Circular may subject such beneficial owners to fines and legal sanctions and may also result in restrictions on our PRC subsidiaries' ability to distribute profits to us or otherwise materially and adversely affect our business.

An outbreak of severe acute respiratory syndrome ("SARS"), avian influenza A ("H_5N_1"), influenza A virus subtype H_1N_1 ("H_1N_1") or other epidemic, if uncontrolled, could have a negative impact on our production, sales and distribution operations, as well as affect consumer demand for dairy products.

An outbreak in the future of SARS, H_5N_1, H_1N_1 or other epidemics, if protracted and uncontrolled, may result in the contraction of such disease amongst our employees or those with whom we conduct business on a regular basis, making it necessary to suspend or close certain parts of our operations to prevent the spread of the disease. In addition, if there is an outbreak of SARS, H_5N_1, H_1N_1 or other epidemics, we cannot assure you that the World Health Organization or the PRC government will not recommend, or even impose, travel restrictions and/or restrictions on the flow of goods to and from areas affected by the virus. For these reasons, an outbreak of SARS, H_5N_1, H_1N_1 or other epidemics could cause significant interruption to our business and have a significant impact upon our sales and profitability. Furthermore, adverse publicity about SARS, H_5N_1, H_1N_1 or other epidemics, whether or not valid, may discourage consumers from buying dairy products or cause production and delivery disruptions. If consumers generally were to avoid dairy products, our sales would decline substantially and we could suffer serious losses.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior market for our Shares, and the liquidity and market price of our Shares following the Global Offering may be volatile.

Prior to the completion of the Global Offering, there has been no public market for our Shares. The initial Offer Price range of the Offer Shares, and the Offer Price will be determined by the Joint Sponsors (on behalf of the Underwriters) and us. The Offer Price may not be indicative of the price at which our Shares will be traded following the completion of the Global Offering. In addition, there can be no guarantee that (i) an active trading market for our Shares will develop, or (ii) if it does develop, that it will be sustained following the completion of the Global Offering, or (iii) that the market price of our Shares will not decline below the Offer Price.

Our forecast consolidated profit attributable to owners of our Company for the year ending 30 June 2011 will involve gains or losses that may arise on revaluation of our dairy cows, which are subject to certain estimates and assumptions.

Our Directors forecast that, on the bases and assumptions set out in Appendix III — "Profit Forecast", and in the absence of unforeseen circumstances, our consolidated net profit attributable to the owners of the Company in accordance with IFRS for the year ending 30 June 2011 is unlikely to be less than RMB188.0 million, In preparing the forecast, we have made a number of assumptions and estimates which are described in Appendix III. The forecast profit attributable to the owners of the Company of RMB188.0 million for the year ending 30 June 2011 reflects an estimated gain arising from changes in fair value, less costs to sell, of dairy cows of RMB25.7 million. Sallmanns estimated such fair value gain for the year ending 30 June 2011 by consistently applying its valuation methodology (which has been adopted for the valuation as of prior balance sheet dates), estimating key assumptions, including but not limited to milk price, feed cost, and price of heifers and calves prevailing, and adopting a discount rate estimate, which assumptions and discount rate estimate (in the absence of any information to suggest anything has changed) are consistent with those adopted in valuation as of 30 June 2010. The extent of any revaluation gain or loss for the year ending 30 June 2011 is dependent on market conditions and other factors that are beyond our control. As a result, we can provide no assurance that the amount of any fair value gain or loss on our dairy cows less costs to sell for the year ending 30 June 2011 will not be materially different from our estimate. We expect the fair value of our dairy cows less costs to sell as at 31 October 2010 and 30 June 2011 to continue to be based on calculations performed by independent professional valuers, involving the use of estimates and assumptions (including but not limited to milk price, feed cost and price of heifers and calves) that are, by their nature, subjective and uncertain, including those described in "Financial information - Description of selected line items of our consolidated statements of comprehensive income - Gain arising from changes in fair values, less costs to sell, of dairy cows", any or all of which could prove to be inaccurate. If any such assumptions, or our estimate of our gain arising on changes in fair value, less costs to sell, of dairy cows proves to be inaccurate, our profit forecast based on those assumptions and such estimate could also be incorrect.

The profit forecast in Appendix III includes a sensitivity analysis illustrating the sensitivity of our profit forecast for the year ending 30 June 2011 to increases and decreases of 8%, 5%, 2% and 1% in our forecast change in fair value of dairy cows less costs to sell for the year ending 30 June 2011, and indicating the resulting forecast profit or loss arising from such increases or decreases for the year ending 30 June 2011. See the section of Appendix III headed "Assumptions with respect to change in fair value of biological assets" for such sensitivity analysis. Such sensitivity analysis is intended for illustrative purposes only, and any variation could exceed such amounts. As illustrated by such sensitivity analysis, our forecast results for the year ending 30 June 2011 may be significantly affected by our actual change in the fair value of biological assets less costs to sell for the year ending 30 June 2011, over which we have no control.

Investors will experience immediate dilution to their attributable net tangible book value as the Offer Price of our Shares is higher than our net tangible book value per Share.

On the assumption that the Management Options are not exercised and without taking into account any changes in our net tangible assets after the Global Offering, other than to give effect to the sale of our Shares pursuant to the Global Offering, assuming an Offer Price of HK$2.89 to HK$3.69 per Share (being the indicative Offer Price range), and after deduction of estimated underwriting fees and expenses, the unaudited pro forma adjusted net tangible assets of the Group attributable to our owners as at 30 June 2010 would have been approximately HK$4,771 million (assuming an Offer Price of HK$2.89) or HK$5,392 million (assuming an Offer Price of HK$3.69) , or an unaudited pro forma adjusted net tangible assets value per Share of HK$0.9941 (assuming an Offer Price of HK$2.89) or HK$1.1234 (assuming an Offer Price of HK$3.69). Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution of HK$1.8959 (assuming an Offer Price of HK$2.89) or HK$2.5666 (assuming an Offer Price of HK$3.69) per Share, representing the difference between the Offer Price and the unaudited pro forma adjusted net tangible assets per Share. If we issue additional Shares in the future, purchasers of our Shares may experience further dilution.

Certain facts and statistics in this prospectus relating to the PRC, the Chinese economy and the dairy industry derived from official government publications may not be reliable.

Facts and other statistics in this prospectus relating to PRC, the Chinese economy and the dairy industry have been derived from various official government publications we generally believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by the Company, the Underwriters or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China.

We have, however, taken reasonable care in the reproduction or extraction of the official government publications for the purpose of disclosure in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

Any future sales, or perceived sale, of a substantial amount of our Shares in the public market could have an adverse effect on the prevailing market price of our Shares.

Future sales of a substantial amount of our Shares by our existing shareholders, or the possibility of such sales, could negatively impact the market price of our Shares from time to time. See "Underwriting — Undertakings" of this prospectus for a more detailed discussion of restrictions that may apply to future sales of our Shares. After these restrictions lapse, the market price of our Shares may decline as a result of future sales of a substantial amount of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could negatively affect the market price of our Shares and our ability to raise equity capital in the future.

We may not be able to pay any dividends on our Shares.

We cannot guarantee when and in what form dividends will be paid on our Shares following the Global Offering. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our IFRS financial statements indicate that our operations have been profitable. For further details on our dividend policy, please refer to the section headed "Financial Information — Dividend Policy" in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on such forward-looking information.

You should not rely on any information contained in press articles or other media regarding the Group and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding the Group and the Global Offering, including but not limited to, coverage in the Hong Kong Economic Times, Oriental Daily News and Hong Kong Economic Journal, which included, among others, certain corporate information about the Group and in particular a statement that our Company is owned by Mr. Niu Gensheng, one of the founders of Mengniu that does not appear in this prospectus. The Company has not authorised the disclosure of any such information in the press or media and does not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any information appearing in any publication is inconsistent or conflicts with the information in this prospectus, we disclaim it. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase our Shares.

In preparation for Listing, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

I. MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that substantially all of our business operations and management are located in the PRC, we consider that it will be unduly burdensome for us to maintain management presence in Hong Kong in order to comply with the requirements under Rule 8.12 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, and the waiver has been granted by the Stock Exchange.

Further details of the waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules are set out in "Directors, Senior Management and Employees — Management Presence in Hong Kong" in this prospectus.

II. CHANGE OF FINANCIAL YEAR END

Pursuant to Rule 8.21 of the Listing Rules, the Stock Exchange will not normally consider an application for listing from a new applicant which has changed the period of its financial year during the latest complete financial year immediately preceding the proposed date of issue of the listing documents. Given that our Company has adopted 31 December as the financial year end date when it was first incorporated and has changed the financial year end to 30 June on 6 August 2010, we have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.21 of the Listing Rules, and the waiver has been granted by the Stock Exchange.

The financial year end of our Company was changed with the view to better reflecting the results of the business under the Company's majority ownership immediately following completion of the Equity Financings in or around June 2009. As the last round of Equity Financings which resulted in the Company, through Aquitair, gaining majority control of Modern Farm was completed in or around June 2009 and 30 June was the nearest month end to completion, we considered it both logical and convenient to change our financial year end date to 30 June to best present the results of operations of the post-completion structure on a comparable basis.

Further details of the Equity Financings are set out in "Our History and Structure — Equity Financings" in this prospectus.

III. NO DEALING IN THE SHARES BY CONNECTED PERSON

Pursuant to Rule 9.09(b) of the Listing Rules, there must be no dealing in the Shares by any connected person from 4 clear business days before the expected hearing date until Listing is granted.

To finance the Offshore Subscription, the PRC Shareholders Holdcos obtained a bridge loan ("**Bridge Loan**") from Bank of China International Limited ("**BOCI**"). As security for the Bridge Loan, charges over shares of each PRC Shareholders Holdco and the Shares held by the PRC Shareholders Holdcos ("**Share Pledges**") were, amongst others, given in favor of an associate of BOCI. The Bridge Loan will be partially repaid by a term loan facility to be obtained from Bank of China, Macau Branch before the Listing Date, which will be secured by collateral provided by PRC Selling Shareholders, other than the Share Pledges. It is expected that the remaining outstanding balance of the Bridge Loan in the amount of around US$9 million will be fully repaid by the PRC Shareholders Holdcos through a sell-down of some of their Shares in the Global Offering. The PRC Shareholders Holdcos will give payment instructions to UBS, the settlement agent, to direct UBS to transfer to their accounts in BOCI upon the Global Offering becoming unconditional such portion (being not less than the remaining outstanding balance of the Bridge Loan) of the proceeds from the sale by the PRC Shareholders Holdcos of the Sale Shares. It is expected that the Share Pledges will be released immediately prior to Listing.

Although the Share Pledges will be released immediately before Listing, the creation of the same by Jinmu, Yinmu and Xinmu constitutes dealings under Rule 9.09(b) as each of Jinmu (being an associate of Ms. Gao), Yinmu and Xinmu (each of Yinmu and Xinmu being a substantial shareholder of our Company upon Listing) will be regarded as a connected person of our Company upon Listing. As for Youmu, since it will hold less than 10% interest in our Company upon Listing and none of its shareholders is a director or chief executive of our Group, it will not be regarded as a connected person of our Company. BOCI is a licensed bank in Hong Kong and is not related, or connected with, the PRC Shareholders Holdcos. The terms and conditions of the agreements between the PRC Shareholders Holdcos and BOCI were on normal commercial terms after arm's length negotiation with BOCI. Accordingly, we have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 9.09(b) of the Listing Rules, and the waiver has been granted by the Stock Exchange.

Further details of the Bridge Loan and the Share Pledges are set out in "Our History and Structure — Pre-listing Reorganization" in this prospectus.

Advanced Dairy I has on 4 November 2010 declared the distribution of the 5,124,000 Shares held by it to its shareholders pro rata to their respective shareholding interest in Advanced Dairy I ("**Distribution**"). Advanced Dairy I ceased to hold any Shares and each of Advanced Dairy, Crystal Dairy and Brightmoon became a direct shareholder of our Company on 5 November 2010, holding approximately 34.51%, 11.5% and 5.23% of the total issued Shares.

The Distribution is not intended to change the ultimate control of the Company and the ultimate control of the Company remains the same before and after the Distribution. Advanced Dairy, Crystal Dairy and Brightmoon will be regarded as a controlling shareholder group for the purpose of the Listing Rules and hence the Shares held by these Financial Investors will be subject to certain lock-up restrictions from the date of this prospectus pursuant to Rule 10.07 (1) of the Listing Rules. For details of such lock-up arrangements, please refer to the section headed “Underwriting” in this prospectus. In addition, the Distribution did not bring any gain or benefit to any connected person. Nonetheless, since the Distribution involved the transfers of Shares held by Advanced Dairy I, a connected person, to its shareholders after the date of hearing but before the Listing Date, we have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 9.09(b) of the Listing Rules, and the waiver has been granted by the Stock Exchange.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to us. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. The Directors confirm, having made all reasonable enquiries 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 facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized 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 authorized by our Company, the Joint Sponsors, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

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

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares in any jurisdiction other than in 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 in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer 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 authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the listing committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in our Shares to be issued or sold pursuant to the Global Offering (including any additional Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option and the Management Options). No part of our Shares 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.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Underwriters, any of their respective directors 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 or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by its principal registrar, Maples Finance Limited in the Cayman Islands and our Company's Hong Kong register of members will be maintained by the Hong Kong Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited.

Dealings in the Shares will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB and US$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK$1.00: RMB 0.8626

HK$7.7513: US$1.00

No representation is made that any amounts in RMB, US$ or HK$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Address	Nationality
Executive Directors		
DENG Jiuqiang (鄧九強)	No. 5, Unit 3, Block 1 No. 24 Courtyard, Renmin Road Xincheng District Huhhot City Inner Mongolia PRC	Chinese
GAO Lina (高麗娜)	Room 301, Unit 1 Block 10, Puzhao Village Taishan District Taian City Shandong Province PRC	Chinese
HAN Chunlin (韓春林)	No. 2, Unit 1 Block 13, No. 4 Courtyard No. 4 Hulun Beier South Road Saihan District Huhhot City Inner Mongolia PRC	Chinese
Non-executive Directors		
WOLHARDT Julian Juul	Flat 11D, Branksome Grande 3 Tregunter Path Mid Levels Hong Kong	Danish
HUI Chi Kin Max (許志堅)	11D, Block 10 Tierra Verde Tsing Yi New Territories Hong Kong	Chinese
LEI Yongsheng (雷永勝)	Room 401, Unit 3 B Area, Bridge Building 10 East University Avenue Saihan District Hohhot City Inner Mongolia PRC	Chinese

Name	Address	Nationality
Independent Non-executive Directors		
LI Shengli (李勝利)	No. 203, Unit 2 New Building No.2 No. 2 Courtyard Yuanmingyuan West Road Haidian District Beijing PRC	Chinese
GUO Lianheng (郭連恒)	No. 13, Unit 1 Management Cadre College Building No. 1 Hailaer West Road Huimin District Huhhot City Inner Mongolia PRC	Chinese
LEE Kong Wai Conway (李港衛)	A9 Europa Garden 48 Kwu Tung Road Sheung Shui New Territories Hong Kong	Chinese

PARTIES INVOLVED

Joint Global Coordinators, Joint Bookrunners and Joint Sponsors (in alphabetical order)	Citigroup Global Markets Asia Limited 50/F, Citibank Tower 3 Garden Road Central Hong Kong
	UBS AG, Hong Kong Branch 52nd Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
Joint Hong Kong Lead Managers	Citigroup Global Markets Asia Limited 50/F, Citibank Tower 3 Garden Road Central Hong Kong

	UBS AG, Hong Kong Branch 52nd Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
	Deutsche Bank AG, Hong Kong Branch 48/F, Cheung Kong Center 2 Queen's Road Central Central Hong Kong
Joint International Lead Managers	Citigroup Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB United Kingdom
	UBS AG, Hong Kong Branch 52nd Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
	KKR Capital Markets LLC 9 West 57th Street Suite 4160 New York New York 10019 United States of America
	Deutsche Bank AG, Hong Kong Branch 48/F, Cheung Kong Center 2 Queen's Road Central Central Hong Kong
Legal Advisors to Our Company	*As to Hong Kong and United States Laws:*
	Norton Rose Hong Kong 38/F, Jardine House 1 Connaught Place Central Hong Kong

As to PRC Law:

Commerce & Finance Law Offices
6F NCI Tower
A12 Jianguomenwai Avenue
Beijing
PRC

As to Cayman Islands Law:

Maples and Calder
53/F, The Center
99 Queen's Road Central
Hong Kong

Legal Advisors to the Underwriters

As to Hong Kong and United States Laws:

Freshfields Bruckhaus Deringer
11th Floor
Two Exchange Square
8 Connaught Place
Central
Hong Kong

As to PRC Law:

Haiwen & Partners
21/F, Beijing Silver Tower
No.2 Dong San Huan North Road
Beijing
PRC

Auditors and Reporting Accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway Road
Hong Kong

Property Valuer

Jones Lang LaSalle Sallmanns Limited
17/F, Dorset House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Receiving Bankers	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong
	The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong
	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kowloon, Hong Kong

CORPORATE INFORMATION

Registered Office	Maples Corporate Services Limited PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Head Office in the PRC	Economic and Technological Development Zone Maanshan City Anhui Province PRC
Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance	Office B, 24th Floor, Alliance Building 130-136 Connaught Road Central Hong Kong
Company Secretary	WONG Lai Wah, *FCPA*
Authorized Representatives	GAO Lina Room 301, Unit 1 Block 10, Puzhao Village Taishan District Taian City Shandong Province PRC WONG Lai Wah Flat 5, 20/F, Block R Luk Yeung Sun Chuen Tsuen Wan New Territories Hong Kong
Audit Committee	LEE Kong Wai Conway (Chairman) HUI Chi Kin Max GUO Lianheng
Remuneration Committee	Julian Juul WOLHARDT (Chairman) GUO Lianheng LI Shengli
Principal Share Registrar	Maples Finance Limited PO Box 1093, Queensgate House Grand Cayman KY1-1102, Cayman Islands

Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Compliance Advisor	Guotai Junan Capital Limited 27/F, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Principal Bankers	Agricultural Development Bank of China Maanshan Branch 37 Hu Dong Zhong Road Maanshan City Anhui Province PRC
	China Construction Bank Maanshan Branch 26 Hu Dong Zhong Road Maanshan City Anhui Province PRC

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We have obtained the market and competitive position data in this prospectus from government publications/sources, industry publications, and from other independent third party sources. None of the information in this Industry Overview section is based on or otherwise derived from reports or sources commissioned by us, our connected persons or the Joint Sponsors.

The dairy market has grown at a rapid pace in China both from a demand and supply perspective. Key drivers of overall demand have been strong economic growth in the PRC and rising rates of urbanization. In addition, growth drivers specific to consumer products and the dairy industry, such as technological advancements, improved product distribution, increasing health awareness and favorable government policies, have also given rise to the increase in demand that has been witnessed. From a supply perspective, longer term growth has been driven by increasing numbers of cows and rising milk yields. The establishment of large-scale farms and advances in technology, farming methods and cow breeding have all led to rising milk supply. In addition, strong government focus on the sector and the resulting implementation of favorable policies have also helped support continued supply side growth.

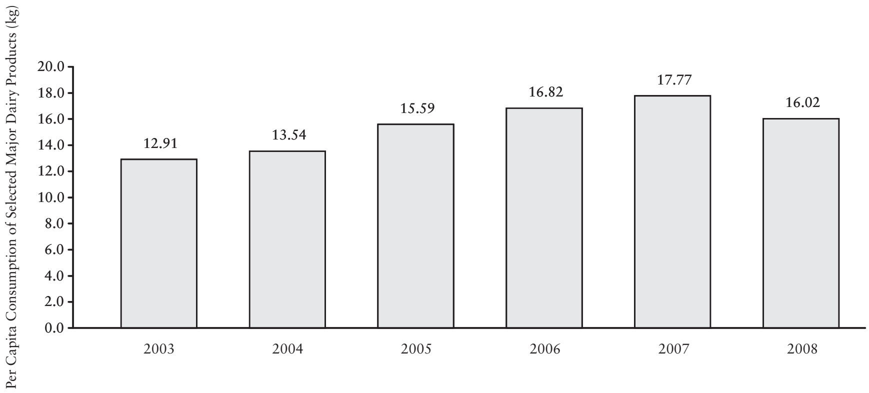
The dairy farming sector is also attractive from a structural perspective. The industry landscape in China remains largely fragmented, which leaves significant growth opportunities for large-scale farms with modern technology and farming processes, such as ourselves, to expand market share through further expansion and improved milk yields supported by government initiatives and policies.

THE MARKET FOR DAIRY PRODUCTS IN CHINA

Market overview

Economic growth and shifts in trends in the consumer products and dairy industry have resulted in significant growth in the consumption of dairy products. Per capita consumption of major dairy products has increased from 12.91kg per capita in 2003 to as high as 17.77kg per capita in 2007, prior to the impact of the melamine incident in 2008. The chart below sets forth per capita consumption of selected major dairy products in China from 2003 to 2008:

Per Capita Consumption of Selected Major Dairy Products in China (2003-2008)



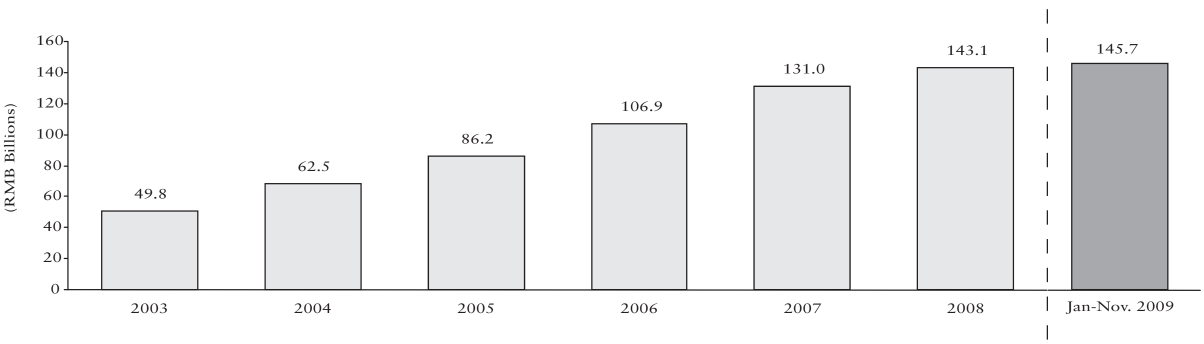
Source: China Dairy Statistical Yearbook 2009

Note: Only includes fresh milk (including pasteurized milk and UHT milk), milk powder (converted at a ratio of 1:7) and yoghurt; other dairy products such as butter, cheese, ice cream, etc. are not included.

Following the demand reduction resulting from the melamine incident in 2008, consumption of dairy products in China has recovered and continued to increase as more stringent quality control procedures and safety laws have been implemented leading to a return of consumer confidence in domestically produced dairy products.

Driven by the significant rise in per capita consumption as well as shifts in product mix and pricing, the overall market value for dairy product consumption in China has grown at a CAGR of 23.5%, from approximately RMB50 billion in 2003 to RMB143 billion in 2008 as illustrated in the chart below:

Total Sales of Dairy Products in China (2003-November 2009)



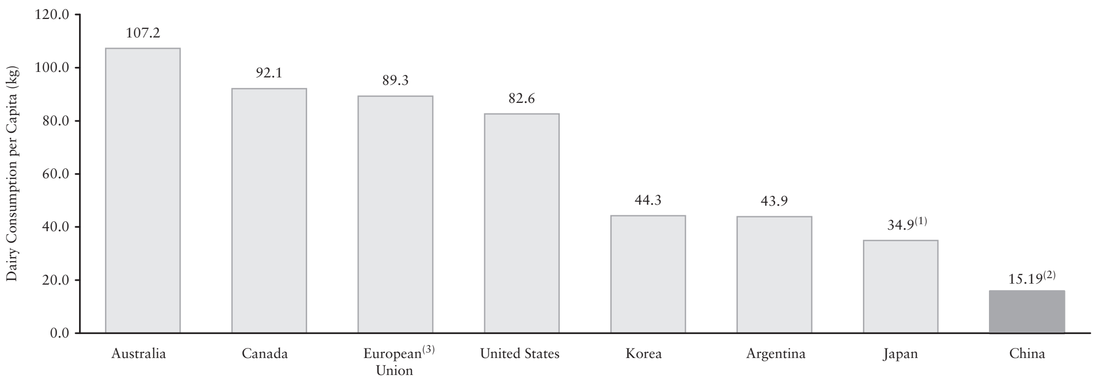
Source: China Dairy Statistical Summary 2010

Furthermore, spending on dairy products in China continued to grow in 2009. According to the China Dairy Association, an independent non-profit organization of national cow breeding and dairy products industry, consumer spending on dairy products for the first 11 months of 2009 had reached RMB145.7 billion, exceeding the total level of spending in 2008. According to Datamonitor, China's Dairy market will grow at a CAGR of 7.1% from 2008 to 2013.

Growth drivers for the dairy industry in China

Although the dairy market in China has experienced significant growth, consumption per capita of dairy products still remains low compared to other countries globally. In 2008, China's urban population per capita consumption of liquid milk was 15.19kg compared to national average per capita consumption of 107.2kg in Australia, the highest per capita consumption level, and 82.6kg in the United States. The chart below sets forth the per capita consumption of liquid milk for selected countries:

Per Capita Consumption of Liquid Milk in Selected Countries (2008)



Source: China Dairy Statistical Yearbook 2009

Notes:

(1) Only 2007 data is available for Japan

(2) China data is based on urban residents consumption only

(3) EU comprises 27 countries

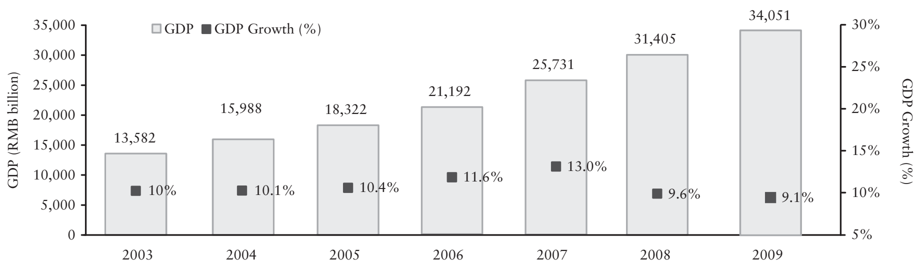
Given the relatively low per capita consumption of dairy products in China combined with China's population growth, we believe there remains significant growth potential for the dairy products market in China.

Rising disposable income, advancements in technology, increasing health awareness and favorable government policies have driven, and are expected to continue to drive growth of dairy producers in China:

i) Rising disposable income and urbanization

The economy in China has continued to grow rapidly since economic reform was introduced in 1978. Since then, the PRC government has continued to emphasize raising economic productivity and improving personal income through market oriented reforms as well as focusing on foreign trade as a major driver of economic growth. Since the introduction of these reforms, the Chinese economy has continued to demonstrate high growth, and more recently has grown at a GDP CAGR of 10.6% between 2003 and 2009, and is now the third largest economy in the world. The table below sets out the nominal GDP and real GDP growth of China between 2003 and 2009:

GDP and Real GDP Growth in China (2003-2009)

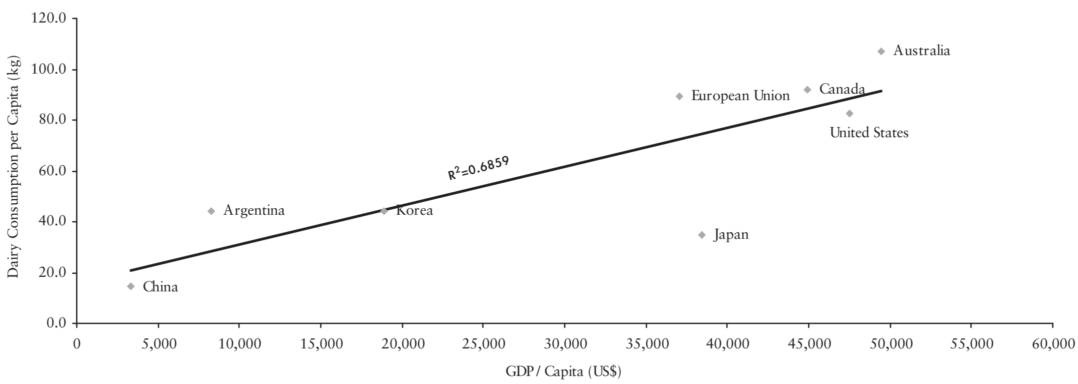


Source: National Bureau of Statistics of China

GDP growth and resulting disposable income growth has been one of the key drivers of the growth in demand for dairy products in China. Dairy products have historically not been considered part of the staple consumer diet in China, and although consumption of dairy products has increased, dairy products are still viewed as discretionary food items. However, with the rise of disposable incomes, consumers have greater willingness to spend on more discretionary goods such as dairy products.

The chart below shows dairy consumption per capita versus GDP per capita for selected countries:

Per Capita Consumption of Liquid Milk vs. GDP per Capita (2008)



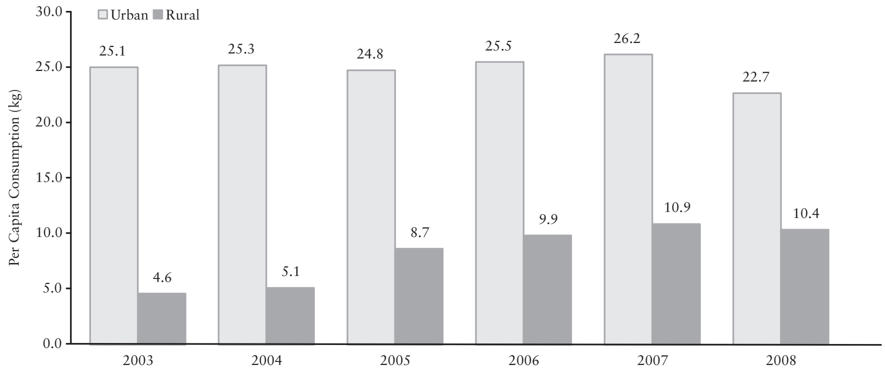
Source: China Dairy Statistical Yearbook 2009

Note: China per capita consumption data is based on urban residents consumption only.

Globally, there appears to be a relatively direct correlation between dairy consumption and GDP per capita. This relationship would suggest that there is significant potential for dairy consumption growth as GDP continues to grow in China.

Urbanization has also been a key driver of growth and more consumers have continued to move away from rural areas to cities earning substantially higher income levels. Per capita consumption of major dairy products is significantly higher in urban areas as compared with rural areas as shown in the chart below:

Urban vs. Rural Per Capita Consumption of Major Dairy Products in China (kg) (2003-2008)

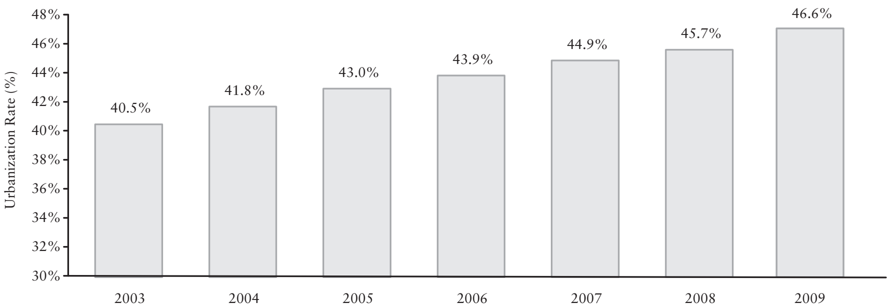


Source: China Dairy Statistical Yearbook 2009

Note: Only includes fresh milk (including pasteurized milk and UHT milk), milk powder (converted at a ratio of 1:7) and yoghurt; other dairy products such as butter, cheese, ice cream, etc. are not included.

In China, urbanization has continued to accelerate as a result of economic growth. Populations in urban areas have increased substantially, due to the significant influx of people from rural areas. The urbanization rate in China has increased from approximately 40.5% in 2003 to 46.6% in 2009. The chart below sets forth the urbanization rate in China between 2003 and 2009:

Urbanization Rate in China (2003-2009)



Source: National Bureau of Statistics of China

Further, according to China's Ministry of Housing and Urban-Rural Development, it is estimated that 300 million Chinese currently residing in rural areas will move to cities over the next 15 years from 2010 to 2025. As such, the overall macroeconomic picture looks favorable for China consumption, including that for China's dairy market.

ii) Advancements in technology

Advancements in technology and developments in milk processing in China have also been a growth driver of the dairy products market. Prior to the introduction of UHT milk processing in China, a large proportion of milk sales comprised powdered milk, given the longer shelf life and the fact that liquid milk was available predominantly only in pasteurized form which required refrigeration. However, the widespread introduction of UHT processed milk in the 1990s allowed for liquid milk to be stored unrefrigerated for a longer period of time, and as a result has led to increased availability of milk nationwide and increased demand for milk by consumers. This development was especially significant in China given the travelling distances involved in supplying the more affluent regions in Southern and Eastern China with milk largely produced in northern regions of China.

iii) Improved distribution of products throughout China

Leading food retail operators such as RT Mart, Wal-Mart, Carrefour and China Resources Enterprise have continued to expand their store network throughout China and are expected to continue their rapid expansion. Rising penetration of modern retail formats such as hypermarkets, supermarkets and convenience stores, notably into more rural areas in China, is expected to significantly improve access to dairy products. Furthermore, significant continued investment in logistics and infrastructure has helped to facilitate continued improvements in the distribution of dairy products to consumers.

iv) Increasing health awareness

In recent years, consumers have become more health conscious and have also become more aware of the health benefits of drinking milk. As a result, and combined with the effect of increasing income, dairy products, and notably liquid milk, have increasingly become a core part of daily diet for many consumers. This trend is especially strong in urban areas and several leading dairy product companies have focused on introducing new products to take advantage of this trend.

v) Favorable and supportive government policies

The PRC government has been a key advocate in promoting milk consumption. For example, the PRC government introduced the *Student Milk Program* in 2000. Under this program, milk from certified producers is distributed to schools under financial support of the government with the goal of improving the health and nutrition of China's primary and middle school students and to encourage the habit of drinking milk. The China Dairy Industry Association expects that approximately 25 million students will be participating in this program by 2015 with annual milk consumption of around 2 million tons from this program.

In addition to the *Student Milk Program*, the government has also proposed to subsidize milk sold in rural areas to promote dairy consumption in an effort to improve the health of rural residents in China. Following the melamine incident, the PRC government has also increased its direct purchases of milk and increased its milk powder reserve to provide support for the dairy industry, balance demand fluctuations and alleviate any pressures on inventory levels.

Current China dairy sector trends

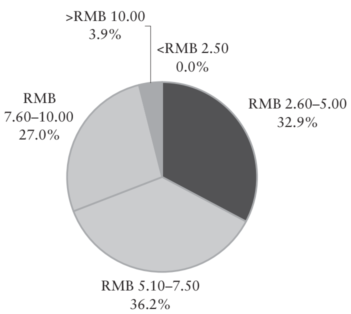
The melamine incident in 2008 had a significant impact on the dairy industry in China, both for consumers and dairy product producers. As discussed in the section "— Raw Milk Supply in China — Raw Milk Distribution and Pricing", the supply chain structure of dairy products in China has been highly fragmented. Historically, the supply of milk from farms to processors had largely relied upon a network of mostly independent milking stations and agents who collected milk from the farms and subsequently delivered it to processors. With over 1 million milk suppliers, a lack of control over the supply chain had led to product tampering and contamination of raw milk. To meet the rising demand amidst supply shortages, raw milk had been watered down to increase overall volumes, but melamine was subsequently found to have been added in an attempt to artificially improve the protein content of the raw milk, and such contamination occurred in this same manner throughout the supply chain.

Partly as a result of the melamine incident, sales of high quality, premium milk are expected to continue to outpace sales of low to mid-end dairy products. The incident has led consumers to focus more on product quality and branding, and has led dairy processors to focus on securing high quality supply of milk. In addition, the increasing focus of consumers on health and wellness, as well as government support for the development of safe and high quality dairy products, has led dairy processors to focus more on the high-end dairy segment. Some of the key current dairy sector trends are outlined below.

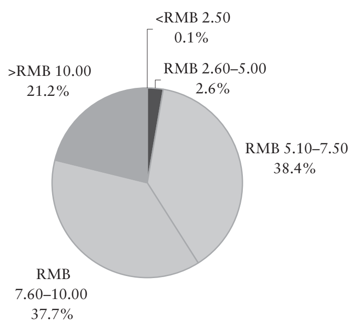
i) Consumer focus on product safety and quality

A number of consumers have become increasingly focused on product quality in recent years. Consumers are now willing to pay more for higher quality dairy products. Based on data from selected regions in China through specific retail channels, there was a significant shift in the demand for high-priced "premium" milk in 2008, the year in which the melamine incident occurred. In 2005, liquid milk priced above RMB10.00 per litre only comprised 3.9% of the market compared to 21.2% in 2008. The chart below sets forth the percentage share of the liquid milk market by average selling price ("ASP"):

Split of Liquid Milk Market by ASP/litre (2005)



Split of Liquid Milk Market by ASP/litre (2008)



Source: China Dairy Statistical Yearbook 2009

Note: The geographic scope shown in this data is not representative for all of China, but only for specific regions as well as through specific retail channels *ii) Dairy processors focused on securing high quality raw milk*

As a result of the melamine incident, dairy companies are focused on securing direct stable sources of high quality raw milk supplies in order to minimize the risk of potential contamination and also for use in manufacturing their premium milk products, a growth area for dairy companies in China and in line with consumer trends. Furthermore, the increasing focus by the government on developing safe and high quality dairy products has also encouraged the development of the high-end dairy segment. Such a backdrop offers large-scale dairy product suppliers like ourselves a low risk, low cost, and high quality value proposition.

iii) PRC government enforcement of stricter food safety regulations

The melamine incident in 2008 prompted the PRC government to review and to enforce stricter regulations regarding food safety, and to improve and tighten oversight of food safety controls and standards. The enforcement of new laws, stricter regimes and harsher punishments are expected to ultimately benefit larger and more modern dairy farm companies compared to smaller household farms. Downstream dairy product producers are expected to become more discerning as to their suppliers and to exert more control over the supply chain given the tougher regime, and as such, are expected to increase their supply from larger, modern dairy cow farming companies and secure more direct sourcing from such companies, as opposed to indirect sourcing through a network of milk stations widely used historically.

The PRC Food Safety Law was approved by the standing committee of the National People's Congress on 28 February 2009, providing a legal basis for the government to strengthen food safety controls. The new Food Safety Law went into effect on 1 June 2009, and provided a new system of standards and regulations covering all of China's food-processing companies and implemented tougher penalties for any breaches of food safety standards. Pursuant to the new laws, the State Council is required to improve enforcement and oversight by setting up a Food Safety Commission through improved central coordination. In addition, the new law stipulates a set of mandatory national food safety standards as the only set of standards. Prior to the enactment of the new law, food safety responsibilities were split up among several different agencies and as such there was no central control or enforcement of regulations and there was inconsistent enforcement of standards.

In addition to improved regulation and enforcement, the new law improves prevention through the establishment of new food safety risk systems to monitor food-borne diseases, food contamination and to assess risks and hazards as well as foods and additives. Such assessments may lead to revisions to food safety standards and regulations as appropriate. Furthermore, the law removes the possibility of a company being exempt from inspection as a "trusted" company.

The new law also enforces new standards for food recall procedures and the enforcement and implementation of regulations. In the event that the preventative systems do not succeed, the law establishes a regime for food recalls whereby if a food producer detects any non-conformity to these standards, it is required to stop production, recall the food in question and issue a notification. In addition, severe punishments are put in place for potential offenders. Enterprises which produce sub-standard food products are subject to claims of up to 10 times the price of the product and potential compensation for the harm the product causes to the consumer. Criminal prosecution is also a possibility in more severe cases.

In addition, under the Conditions for Admission to the Dairy Product Processing Industry 《乳製品加工行業准入條件》released by the NDRC on 18 March 2008, to be able to enter the dairy product processing sector, a company must comply with certain conditions, including conditions related to the company's processing capability and scale, technology and equipment, product quality, environmental health and protection, energy consumption and production safety. Specifically, it requires all newly established dairy processors to have secured a stable supply of raw milk which can be through self-owned or jointly-owned dairy farms or guaranteed through long-term supply contracts, and such supply is required to supply at least 30% of its daily processing capacity.

(iv) Higher focus on new product development

Dairy product manufacturers have increased their focus on new product development to meet consumer demand for more innovative, healthy and diverse product ranges. For example, in 2009, Mengniu introduced a new product to its Suan Suan Ru series that combines pure fruit juice and vegetable juice with fresh milk, new yogurt products blending in healthy ingredients such as grain and jujube, and new "upgraded" milk products positioned to be of premium quality. Through such product innovation, manufacturers hope to combine high quality, new flavors and health benefits of dairy products to capture consumers who are increasing their dairy intake as a part of their diet.

Major operators within the Chinese dairy products market

The Chinese dairy products market is relatively fragmented. Although China Mengniu, Yili and Bright Dairy are the three largest dairy processing companies in China with a consolidated market share of 39.8% in 2009, all other companies have less than 2% market share each. The market shares for dairy products companies in China are shown in the table below:

Market Share of Dairy Products in China (2009)

Company	2009 Revenue (RMB bn)	2009 Market Share
Mengniu	25.7	17.65%
Yili	24.3	16.70%
Bright Dairy	7.9	5.45%
Sanyuan	2.4	1.63%
Shengyuan	1.9	1.32%
Feihe	1.9	1.27%
Others	81.6	55.98%
Total	**145.7**	**100.00%**

Source: China Dairy Statistical Summary 2010

China Mengniu Dairy Company

Founded in 1999, China Mengniu is the leading dairy product manufacturer in China with a market share of 17.7% as of 2009. Based in Inner Mongolia, China Mengniu's principal products comprise liquid milk products, including UHT milk, milk beverages and yogurt, ice cream, and other products such as milk powder and cheese. According to China's National Bureau of Statistics and China

General Chamber of Commerce, China Mengniu has been the no. 1 dairy manufacturer in China based on total sales volume since 2003. In particular, China Mengniu has had leading sales volumes of its liquid milk products since 2003, and of its ice cream products since 2005. In 2009, China Mengniu achieved sales and net income of RMB25.7 billion and RMB1.1 billion respectively.

Inner Mongolia Yili Industrial Group

Established in 1993, Yili is the second largest producer of dairy products in China with a market share of 16.7% as of 2009. Its product portfolio consists of five major product segments: liquid milk, ice cream, milk powder, yogurt and raw milk. It also offers various other products under the Yili brand which include popsicles, milk tea powder, asepsis milk and cheese. Yili primarily operates in China through its eight subsidiaries and is based in Hohhot City in Inner Mongolia. In 2009, Yili recorded sales and net income of RMB24.3 billion and RMB647.7 million, respectively.

Bright Dairy & Food Co.

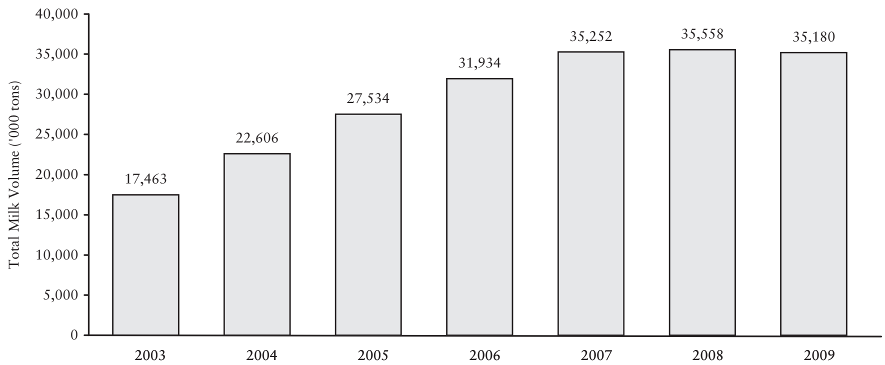
Bright Dairy is a leading producer of dairy products in China with a market share of 5.5% as of 2009. It is primarily engaged in the production of fresh milk, UHT milk, sterilized milk, milk powder, butter, cheese, fruit juice and other products, and also engages in cow breeding, logistics and distribution. Bright Dairy mainly operates and distributes in China and has its major market in Shanghai where it is based. In 2009, Bright Dairy reported sales and net income of RMB7.9 billion and RMB122.5 million respectively.

RAW MILK SUPPLY IN CHINA

Overview

Raw milk production in China has grown rapidly, at a CAGR of 15.3% between 2003 and 2008. In 2009, the melamine incident reduced demand and led to a temporary decrease in raw milk production. The chart below shows the total supply of raw milk in China between 2003 and 2009:

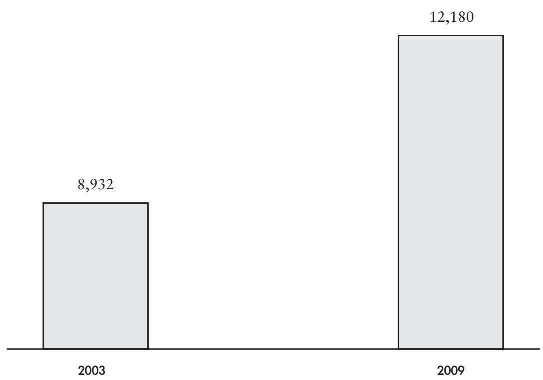
Total Supply of Raw Milk in China ('000 tons) (2003-2009)



Source: China Dairy Statistical Summary 2010

Growth in raw milk production has not only been driven by an increasing number of milking cows, as shown in the chart below, but also through improvements in milk yield per cow. According to the China Dairy Association, the average milk yield per cow in China increased from 3.4 tons/annum in 2000 to 4.8 tons/annum in 2009.

Number of Milking Cows in China ('000s) (2000-2009)



Source: China Dairy Statistical Yearbook 2009

Despite the growth in raw milk production, the dairy farming industry has continued to remain relatively under-developed in China. In 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), the Department of Agriculture summarized the key weakness of China's dairy farming industry as follows:

- Under-developed farming model: (i) less than 35% of the dairy farms in the selected regions have a herd size greater than 20 cows; (ii) lack of good quality forages and scientific feed management; (iii) poor quality automated milking equipment and systems; (iv) low quality raw milk with high bacteria, antibiotics and somatic cell count, and sub-standard milk fat and protein level; (v) occasional violations of raw milk safety policies and regulations;
- Inferior dairy cow breeds: (i) pure-bred Holsteins in the selected regions are less than 50% of the total number of milking cows; (ii) average dairy cow milk production significantly trails the world average of 6,000 kilogram per dairy cow per year and the advanced dairy producing countries average of 8,500 kilogram per dairy cow per year; (iii) relatively small number of high production dairy cows, resulting in slow growth of high quality dairy cows; (iv) lack of quality seed bulls and breeding capacity at many of the seed bull breeding sites in the selected regions;
- Small scale and limited level of industrialization: (i) majority of dairy farms in the selected regions are small open-grazing farms; (ii) milk processors exercise significant leverage and dominate the negotiation process and may even unilaterally set raw milk quality requirements and prices;
- Sub-optimal quality assurance systems: (i) less developed standards and regulations to assure safety and quality of raw milk and the labeling of liquid milk products; (ii) lack of sufficient quality and safety inspection standards and procedures, out-dated methods, and inadequate certification procedures.

According to the Department of Agriculture, the modernization of China's dairy farming industry will focus on the following aspects (i) improve production volumes of dairy cows; (ii) focus on expansion of standardized large-scale dairy farms; (iii) improve the quality of raw milk; and (iv) enhance the operating capacity and safeguard the growth of the domestic dairy industry.

Development Target for Major Dairy Cow Farming Regions*

	Number of cows (million)	Raw Milk Production (million tons)
2010E	13	35
2015E	17	54
2007-2010 CAGR - %	6%	10%
2010-2015 CAGR - %	5%	8%

Source: Development Plan of Major Dairy Cow Farming Regions (2008-2015) - Department of Agriculture

* Refers to 13 provinces and municipal cities, including Hebei, Shanxi, Henan, Shandong, Inner Mongolia, Heilongjiang, Liaoning, Xinjiang, Shaanxi, Ningxia, Beijing, Shanghai and Tianjin.

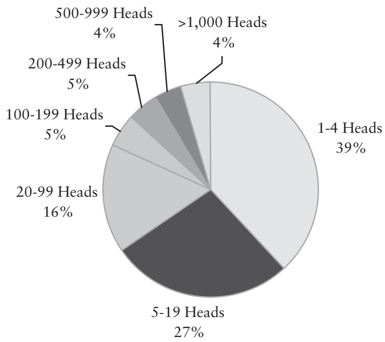
The government's focus on larger scale and modern farms is expected to not only improve the overall efficiency and raw milk production yields, but is also expected to improve the overall efficiency and use of resources. For example, a higher number of larger scale farms and more efficient farming methods such as industrial free stall farming and improved feed management are expected to lead to more efficient use of land compared to free grazing and lower overall feed requirements.

Increasing presence of large scale-farms in China

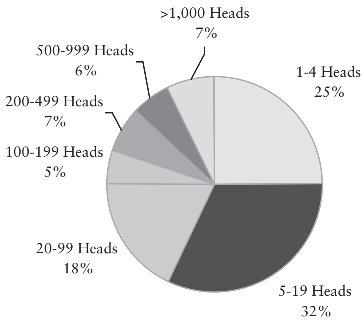
Improving milk production per cow has, in part, been driven by an increasing presence of large-scale farms in China. Large-scale farms, defined here as farms with over 1,000 heads, typically have higher levels of capital investment, use more advanced technology and employ more advanced and standardized farming methods, which result in higher volumes of milk production and higher quality milk than smaller farms in general.

The dairy farming industry in China still remains extremely fragmented and is largely dominated by individual farmers with less than 20 cows per farm. However, over time there has been a shift towards larger scale farms given the significantly higher efficiency and productivity of larger scale farms, as well as more favorable government policies and focus on the safety and quality of milk supply. In 2003, the proportion of the total milk supply in China provided by large-scale farms was approximately 4%. By 2008, this number had increased to 7%. The charts below set out the proportion of milk in China supplied by farms of various sizes in 2003 and 2008:

Split of Supply of Milk by Dairy Farm Size (2003)



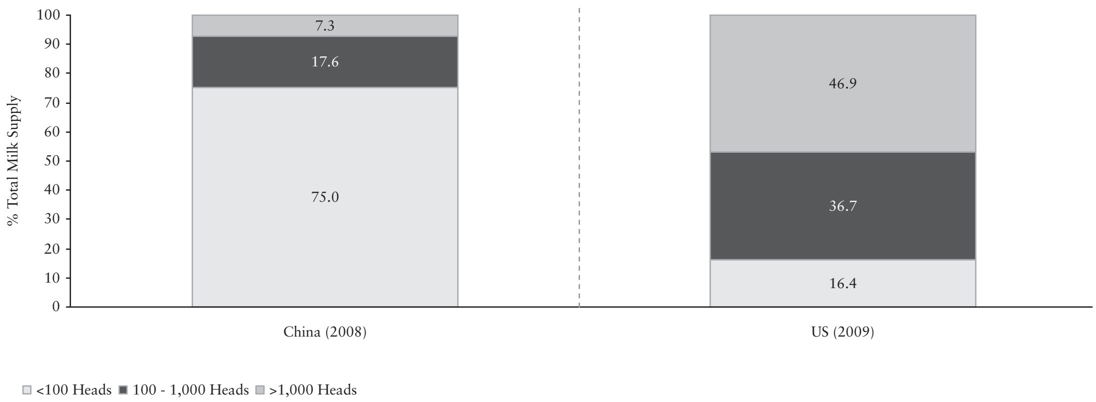
Split of Supply of Milk by Dairy Farm Size (2008)



Source: China Dairy Statistical Yearbook 2009

Although the proportion of large-scale farms have increased, the penetration rate of large-scale dairy cow farming is significantly below that seen in more developed markets such as the USA. In 2009, in the USA, where penetration also continues to increase, approximately 47% of total milk production was produced by farms with over 1,000 heads. This compares to 22% in the USA in 2000 and 7% in China in 2008. The chart below compares the raw milk supply structure in the USA and China:

Split of Raw Milk Production by Farm Size (the USA (2008) vs. China (2009))



Source: China Dairy Statistical Yearbook 2009, USDA

The dairy farming industry in China is expected to continue to shift towards large-scale farms, and combined with an increase in the overall demand for dairy products, this is expected to lead to continued strong growth of the dairy farming sector and raw milk supply. The Government has adopted policies both at a national and regional level which have been implemented to encourage the development of large-scale farms. In June 2009, the National Development and Reform Commission and Ministry of Industry and Information Technology jointly issued a new set of policies governing the dairy industry which significantly increased the required standards of production and product quality for processors such as the banning of free grazing in various regions and more stringent standards concerning product labeling. At a regional government level, other initiatives were implemented including the arrangement of a special budget by the State Development and Reform Commission to fund the reconstruction and expansion of large-scale dairy farms with standardized operating methods.

In addition, since the melamine incident, downstream dairy processors have focused on improving the quality of the raw milk supply. Such a focus by leading downstream processors is expected to in turn continue to focus the dairy farming sector on developing large-scale dairy farms to be able to meet the growing demand for higher quality milk from industrialized dairy farms. Currently, the average quality of raw milk in China remains low compared to other countries. Raw milk offered for sale within the European Union has to meet basic milk quality requirements with a microbe count of less than 100,000/ml and a somatic cell count of less than 400,000/ml. While in China, the new industry standard requires a somatic cell count of less than 2,000,000/ml and there is no requirement for microbe count.

	China Standard[(1)]	EU Standard[(2)]
Protein %	⩾2.8%	N/A
Fat %	⩾3.1%	N/A
Microbe count	⩽2,000K/ml	⩽100K/ml
Somatic cell count	N/A	⩽400K/ml

Notes:

(1) National Food Safety Standard — Raw Milk published on the March 26, 2010.

(2) Raw Milk quality standards in Council Directive 92/46/EEC adopted in EU comprising 15 member countries.

Raw milk distribution and pricing

Given the highly fragmented nature of dairy farming in China, historically, the raw milk supply from dairy farms has typically been channeled through milking stations, a large proportion of which are individually owned.

Historically, small dairy cow and individual farms have typically delivered raw milking to local village milk stations who then distributed the collected milk to intermediary milk stations that collected from several village milking stations before ultimately delivering the milk to the processor. In addition, in-between dairy farms and milk processors, there also existed a network of agents who procured milk from milking stations and on-sold this milk to traders who then consolidated purchases and transported the milk to the processing plant. Such an extensive and large supply chain has been cited as one of the main causes of the melamine incident in 2008 given that several of the milking stations and agents were independent, leading to an overall lack of control over the milk supply. As a result, in 2008, rising demand led to supply shortages, which then led farmers, milking stations and agents to water down the milk to increase overall volumes. This process also led to the addition of melamine to the milk to artificially increase the protein content, thereby contaminating the milk. Such contamination occurred throughout the supply chain, with no single source or group of intermediaries solely responsible.

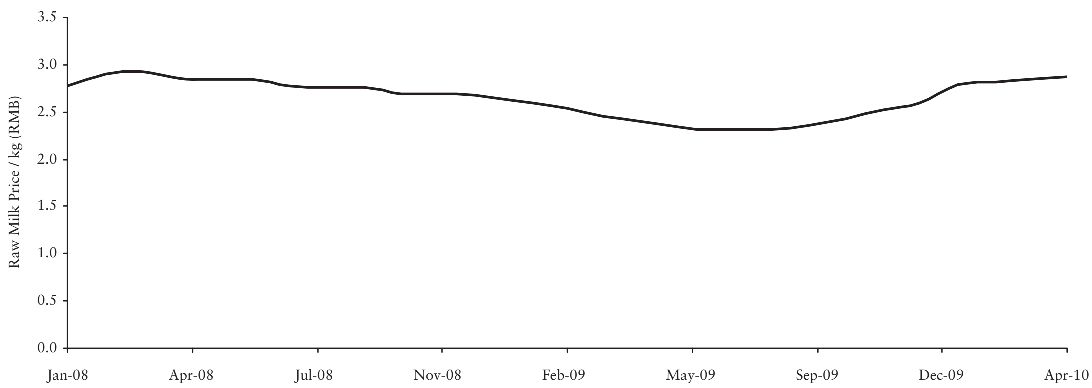
In contrast, several larger modern industrial scale farms such as the Company rely on their own distribution methods to supply milk processors. Rather than going through the network of milk stations and networks, several larger dairy farms deliver milk directly to processors, negotiating with them directly.

In response to the melamine incident, dairy processors have focused on exerting higher levels of control over the supply chain. As a result, several dairy product companies have looked to establish their own milk stations rather than relying on independent middle-men to supply milk, so as to be able to control the milk quality at every stage of the supply chain. They have also looked to establish direct relationships with individual farmers, sourcing directly through them rather than through independent distributors. Since the melamine incident, several dairy product companies have also looked to establish their own modern industrial dairy farms for their exclusive use.

Pricing arrangements in general are bilateral between each party, for example between the farmers and the milk stations or between lower level milk stations and intermediate milk stations. Given the pyramid-like structure within the supply chain in China, at each stage of the supply chain there are several suppliers and few buyers at each stage of the supply chain process and as a result, milk prices have been typically set by the buyer and influenced by the prices paid by milk processors, being the ultimate buyer for the product. For larger dairy farms with direct arrangements with milk processors, prices are typically set through specific bilateral contracts.

There are several factors which affect the price of raw milk, including the quality of the milk as measured by metrics such as protein and fat content, and the price of feed. These factors in turn are affected by changes in the prices of key commodities such as corn, shifts in raw milk supply by region and overall changes in competitive market dynamics for processed dairy products. However, milk prices in China had remained relatively stable in 2008, until the fourth quarter of 2008 and into 2009 when milk prices continued to fall in the wake of the melamine incident as demand declined significantly. During that period, several farms slaughtered or sold their cows, which led to relatively flat growth of the number of dairy cows in China. As a result, as demand started to recover in the fourth quarter of 2009 and early 2010, the supply of milk was not able to increase fast enough to meet demand, and thus milk prices increased in the first quarter of 2010. The chart below shows average monthly prices of raw milk in China since the beginning of 2008:

Average Raw Milk Price Per kg in China (January 2008 — April 2010)



Source: China Dairy Statistical Summary 2010

Competitive Landscape of the Dairy Farming Industry in China

The dairy farming landscape in China is highly fragmented. According to the China Dairy Statistical Yearbook, in 2008 there were over 12.3 million milking cows in China, the majority of which were held by small individual household farms. Dairy farms with lower than 20 cows comprise 57% of the total raw milk supply in China. The Company is the largest dairy farming company in China both in terms of total cows and milking cows as illustrated in the table below:

Top Dairy Farming Companies in China

Company	Number of Cows & Heifers	Number of Milking Cows
Modern Farm	65,000	19,300
Beijing Sanyuan Luhe Dairy Farming (北京三元綠荷奶牛養殖中心)	35,122	18,769
Bright Dairy (上海光明荷斯坦牧業有限公司)	20,000	12,000
Huishan (瀋陽輝山乳業有限責任公司)	30,000	15,000
Shanghai Milk (上海牛奶集團)	25,000	15,000

Source: China Dairy Yearbook 2009.

DAIRY FARMING OVERVIEW

Dairy farming is one of the oldest industries in existence and the processes and procedures in operating and managing a dairy farm have continued to evolve, notably with advancements in technology, into those processes that are in operation in modern industrial scale dairy farms today. Over time, methods and processes have been improved with the ultimate goal of maximizing the output of milk per cow in a cost efficient manner to increase the productivity and profitability of a farm.

In achieving these goals, there are several key factors that need to be taken into consideration. Some of these factors include:

- Dairy cow breeds — Each breed of dairy cow will be more or less suited to a given location and product focus.
- Birth cycle management — Minimizing the days between births of a calf and increasing the chance of a female calf ensure appropriate breeding management is in place.
- Feed management — Determining the optimal feed mix to maximize milk output.
- Overall farm management / operations and conditions — Providing the optimal conditions for cows and adopting efficient processes and operating procedures.

Below, we outline some of the key considerations under each of these factors in order to improve the output and quality of milk as well as profitability.

Dairy Cow Breeds

Although all cows produce milk, there are 6 dairy breeds that are commonly used for dairy farming, all of which are known to produce higher volumes of milk than other breeds:

- Holstein — Originally bred in Northern Germany and North Holland, these cows have been selectively bred for the purpose of milk production. Holsteins are distinctive by their black and white coloring and are known to be readily adaptable to a wide range of conditions and able to produce largest volumes of milk amongst all of the breeds.
- Brown Swiss — Brown Swiss cows originated in the Alps of Switzerland and because they were bred in such harsh climate conditions, they are known to be more resistant to unfavorable or extreme weather conditions. This breed produces, on average, the second largest quantity of milk per cow behind Holsteins and is commonly used for the production of cheese given the high fat-to-protein ratio of its milk.
- Ayrshire — Originally from Ayr County in Scotland, Ayrshire cows are well adapted to rocky farms and harsh weather conditions. This breed of dairy cow can be recognized by their reddish-brown and white markings.
- Guernsey — The Guernsey cow is brown and white in color and particularly known for the rich flavour of its milk which has a yellow color and is extremely rich in butterfat.
- Jersey — Jersey cows are a smaller breed of dairy cattle and as such require lower maintenance costs. They are extremely adaptable to hot climates and are known to be bred in hot climates such as in Brazil. Jersey cows are known to produce milk with high buttermilk and protein contents.
- Milking Shorthorn — Originated in North East England and are characterized by being all-red or all-white in color or with both red and white markings. Milking shorthorns are also dual-purpose breeds and have been bred for both beef and milk.

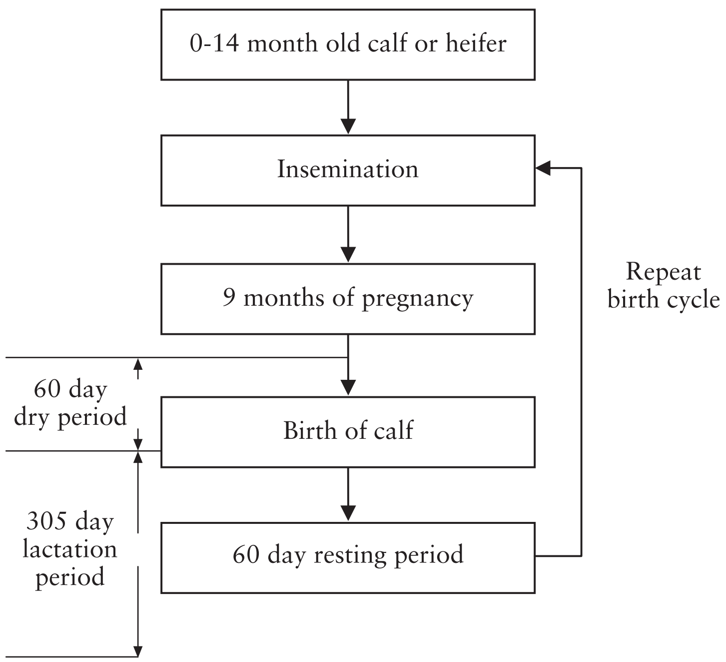
The breed of cow being bred in a particular farm depends typically on the region in which the farm is situated, the local climate, in addition to the purpose of the dairy cow farmer. For example, Holsteins are commonly bred for liquid raw milk given their higher productivity. Even within a particular breed of cow, there can be significant variations which can depend on breeding and feeding techniques and methods and the surrounding environment. As such, breeds can be improved over time through insemination with higher quality cows which helps to improve productivity through each generation.

To operate dairy farms efficiently and to improve output, it is important to spend time on breeding R&D to understand what breeds or cross-breeds may be most suitable or adaptable to the conditions and climate of the farms. In China, although there is a policy restricting the importation of cows from certain countries such as the USA, several dairy farm operators import breeds from other countries such as Australia as well as buy semen from bulls in other countries to inseminate their cows so as to ensure that high quality of cow breeds are maintained. According to the China Dairy Statistical Yearbook 2008, the quality of milk from Australian breeds is generally better in terms of having lower somatic cell count and higher fat and protein content levels, which are some of the key indicators of milk quality in the industry.

Birth cycle management

To maximize the volume of milk produced by a particular cow, it is important to manage the pregnancy cycle to maintain as high levels of milk production between births as possible. Although the cycle varies slightly from cow breed to cow breed, a typical cow may follow the pregnancy cycle and lactation cycle as illustrated below:

Dairy Cow Birth and Lactation Cycles

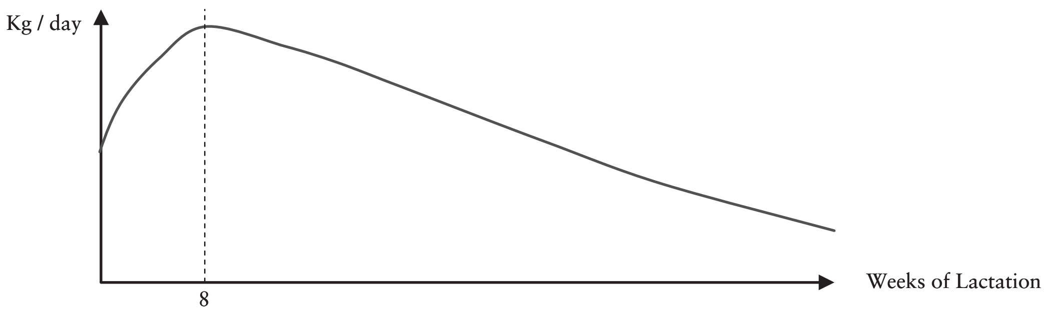


Typically after a female calf is born, it will take 14 months for it to be raised to appropriate breeding weight. At this stage, the heifer will be inseminated and it is important to maximize the chances of impregnation as well as the chances that a female calf is born. As such, certain techniques are used by modern farms, including the use of heat detection technology in which cows are monitored so as to more easily determine the optimal time for insemination in order to maximize the chance of pregnancy. In addition, farms can use sex-controlled semen to maximize the chances that a female calf is born as well as potentially the use of an embryo transfer. Once a successful fertilization has occurred, it takes approximately 9 months for a calf to be born, after which the cow will have a 60 day resting period before fertilization is attempted again.

After calving, the lactation period begins and the cow is typically milked for approximately 305 days before a dry period. To maximize the volume of milk produced by a cow, a sufficient dry period is required to ensure high levels of milk production post calving and typically approximately 60 days is used for the dry period prior to calving.

Initially, 6-8 weeks post calving, milk production is at its highest, following which milk production decreases. A typical lactation curve is shown in the diagram below:

Illustrative Milking Cow Lactation Curve



Given the shape of the lactation curve above, it is clear to see that a cow has the highest milk production post calving. Therefore, in order to maximize the production of milk over the life of a cow, it is important to maximize the frequency of calving, whilst allowing for a sufficient dry period for optimal milk production post calving. If there is significant delay in fertilization following the initial 60 day resting period, then the lactation period is lengthened and milk production may become relatively low towards the later stages. In this regard, it is also important to maximize the chances of a successful fertilization as soon as possible after calving using the techniques described above. In addition, a farm can manage and feed the cows appropriately to increase the chance of fertilization and to conduct breed R&D to breed cows that have a higher chance of fertilization.

Feed management

Ensuring proper nutrition for dairy cows provides the foundation for a productive and profitable dairy cow herd. It is vital not only in ensuring that cows maximize their full milk production and highest milk quality potential, but also in ensuring that they maintain good health and are reproductively efficient. As such, feed management is an important part of overall management of dairy farms.

Feed for cattle can be classified into forages, concentrates and supplements:

- Forages — Forages are characterized as being more fibrous or bulky such as grasses, silages and hay, and generally represent the vegetative portion of the feed. Good quality forages provides significant levels of energy and protein for the cow and is vital for high milk production.
- Concentrates — Concentrates are usually low fiber feeds, such as cereal grains and milling by-products which provide additional energy needed by the lactating dairy cow and protein needed for milk production.
- Additives — Mineral and vitamin supplements can also be added to forages and concentrates to improve nutritional quality.

Forages are typically procured from local farmers or are grown by large scale dairy farm operators themselves who may reserve part of their farms for growing crops such as corn for their own use. In growing their own forages, farms can mitigate some of the raw material price fluctuation that may occur given the commodity nature of forages. Conversely, concentrates and additives in general are procured from specialist feed manufacturers or distributors rather than produced locally or within the dairy farm itself.

Feed is also known as *dry matter* and typically cows are fed a pre-mixed mixture of forages, concentrates and additives. This feeding methodology is known as "Total Mixed Ration" or "TMR". However, not one type of mix of feed meets requirements of all cows in a herd, as nutrient requirements vary between cows depending on a number of factors such as age, stage of lactation, and milk production level. For example, cows in early stages of lactation require significantly higher levels of energy for high volume and high quality milk production as compared to cows in the dry period that require nutrients for body maintenance and fetal growth.

Given that different cows have different feed requirements, it is important for a large-scale industrial farm to introduce *"Grouping Strategies"* whereby cows are grouped together using certain criteria. In order to maximize milk production and maintain high quality output, cows with similar feed requirements can be grouped together and fed a particular TMR that has been specially developed for that group. In grouping cows, a balance needs to be met between productivity improvements and incremental cost of separating cows into specific groups. Separating a herd into several small groups may not be cost efficient from a labor and feed cost perspective.

In addition to grouping, feed management strategies are also important in terms of overall feed costs. As described above, feeds comprise several different components, all of which have a market price and several of which are commodities that carry the risk of potential price fluctuations. If costs of certain feed components become increasingly expensive, it will be important to adjust the mix of feed to lower the overall cost without sacrificing nutritional value.

Overall farm management / operations and conditions

In addition to the specific factors mentioned above, it is important to ensure that the farm operations themselves are run efficiently and effectively. Some other key factors for consideration include:

- Facilities — To maximize milk production, dairy cows need to be kept in optimal living conditions. Important factors to take into account are temperature and humidity, barn designs, milking equipment and methodologies, technology and manure treatment among others.

- Farm Layout — Ensure that transportation costs are minimized within the farm, e.g. milking cows are close to milking halls, taking into account grouping strategies and generally minimizing overall transportation and labor costs.
- Quality Control — Important that procedures are in place to maximize quality of output at every stage of the production process.
- Disease Control — Appropriate measures and controls are in place to minimize incidence and potential spread of disease and sickness.
- Waste Management — Processes and equipment are in place to clear manure from barns and to process them appropriately.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The Group carries out its operations primarily through the 11 dairy farms located in the PRC. The current business operations of the Group mainly include breeding, raising and sale of dairy cows, sale of raw milk, production and sale of dairy products. All these activities are subject to relevant laws, regulations and rules and government policies of the PRC. We summarize the main relevant laws, regulations, rules and industrial policies as follows:

Policies relating to 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》(the "**Catalogue**") jointly issued by the National Development and Reform Commission of the PRC ("**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: 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 be considered the permitted category. The current effective version of the Catalogue was issued on 31 October 2007 and according to the 2007 Catalogue, dairy farming and production of dairy products should both belong to the permitted category.

Policies relating to Modern Husbandry and Dairy Industry

Modern husbandry is an important component of modern agriculture and the dairy industry is an important symbol of the modernization of agriculture. Since 2006, China's State Council, the Ministry of Agriculture of the PRC (中華人民共和國農業部) 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》, which was 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》, which was 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 Revitalization 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等部門奶業整頓和振興規劃綱要的通知》,which was 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計劃(2008-2015)》), which was promulgated by Ministry of Agriculture in January 2009 and the Several Opinions of the Ministry of Agriculture Concerning the Acceleration of the Work of Promoting Standardized 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》, which was issued by the Ministry of Agriculture in March 2010. These governmental documents call for the consolidation, improving industrialization and specialization level of the husbandry industry, acceleration of the breeding and promotion of fine breeds of livestock and poultry, increasing the milk yield of dairy cows and transformation of breeding and raising pattern of livestock and poultry; moreover, these government documents also set forth the various governmental preferential policies and incentives provided to the enterprises in the husbandry and farming sector.

The specific policies and incentives stipulated in the above governmental documents include increasing the fiscal subsidy and support for the raising of dairy cows, expanding the applicable scope of fiscal subsidy for agriculture machinery and equipment to include animal husbandry equipment and milking equipment, establishing a governmental insurance system for dairy cows, supporting the construction of standardized cow raising and breeding farms and strengthening the credit support to cow raising farmers and enterprises, including providing subsidized loans, etc.

New or Revised Laws and Regulations After the Melamine Incident in 2008 Aimed at Strengthening Regulation on Food Safety for the Dairy Industry

In 2008, China experienced a nationwide melamine incident where baby formula milk powder, liquid milk, yogurt and other dairy products sold on the market were found to be contaminated by melamine. The melamine incident led to a loss of trust by the public in most major brands of dairy products sold on the market as to their safety. The Chinese government quickly reacted to the incident by introducing a series of new laws, regulations and policies aimed at strengthening regulation on food safety of dairy products and restoring the public's confidence in the safety and quality of dairy products.

The Outlines of the Restructuring and Revitalization Plan for the Dairy Industry 奶業整頓和振興規劃綱要

The captioned Outlines calls for, among other things, (i) comprehensive inspections and rectification of problems at each stage along the chain of the dairy industry, from dairy farming, procurement of raw milk, processing and production to sales and marketing; (ii) improving and complementing relevant laws and regulations, perfecting product quality standards for dairy products, promoting the technology standardization for the production of fresh milk products, strengthening regulation of milk collection stations, promoting the implementation of the Good Manufacturing Practice for dairy products manufacturers; (iii) encouraging large scale breeding and farming, integration of production and sale of raw milk, optimizing the location of processors of dairy products, promoting the standardization and improving quality control of the dairy farming industry.

With respect to improving the level of dairy farming, the Outlines requires the implementation of the various governmental preferential and support policies and continuously promoting large scale and standardized farming. To ensure the safety and quality of raw milk supply is one of the most important aspects of the PRC government's efforts to ensure safety and quality of dairy products.

Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products《乳品質量安全監督管理條例》and Administrative Regulations of Raw Fresh Milk Production and Procurement《生鮮乳生產收購管理辦法》

According to the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products《乳品質量安全監督管理條例》, which was promulgated by the State Council on 9 October 2008 and became effective on 9 October 2008, dairy animal breeders, raw milk purchasers, dairy products production enterprises and sellers are considered the first responsible persons who shall assume responsibility for the quality and 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 (國務院衛生主管部門) 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 Regulations of Raw Fresh Milk Production and Procurement 《生鮮乳生產收購管理辦法》, which was promulgated by the Ministry of Agriculture on 7 November 2008 and became effective on the same date, provides that dairy animal breeders, purchasers of raw fresh milk and transporters of raw fresh milk shall be responsible for the safety and quality of the raw fresh milk that is produced, purchased, transported or sold by them and are the first responsible parties for the safety and quality of the raw fresh milk handled by them. Raw fresh milk produced, purchased, stored, transported or sold shall comply with the national quality and safety standards for dairy products. No substance is permitted to be added in raw fresh milk during the processes of production, procurement, storage, transportation and marketing. It further provides for licensing requirement for raw milk purchase stations. 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 and they have to meet certain conditions on facilities and staff required to open such a raw fresh milk purchase station.

The Food Safety Law of the PRC《中華人民共和國食品安全法》and its Implementation Regulations《食品安全法實施條例》

The Food Safety Law of the PRC, which was adopted by the Standing Committee of the National People's Congress, PRC ("**NPC**") on 28 February 2009 and became effective on 1 June 2009 and its implementation regulations, which was promulgated by the State Council on 20 July 2009 and became effective on the same date have adopted measures and requirements in the following aspects to improve food safety and prevent of large scale food safety accidents:

(i) Strengthen the role of local government in the supervision and coordination of food safety regulation work. The People's governments at the county level or above shall be responsible to lead, organize and coordinate local food safety supervision and regulation operations on a centralized basis; establish an "all-inclusive" working mechanism for food-safety supervision and regulation, and continuously improve such mechanism; guide and direct the handling of food-safety accidents; implement the "accountability system" for food-safety administration and supervision, and appraise the performance of food-safety supervisory/regulatory departments.

(ii) Strengthen food safety risk monitoring, assessment; early intervention and quick control over food safety accidents.

(iii) Revise the standards for the use of food additives and strengthen regulation of use of food additives.

No food additive may be used in food unless it is deemed technically necessary and has been proven safe and reliable after undergoing risk assessments. The competent health department of the State Council, on the basis of the technical requirements and the results of the food safety risk assessments, is responsible for revising the permitted varieties, scope of use and dosage standards of food additives in a timely manner. A food producer may only use food additives in accordance with the food safety standards, and may not, during the process of food production, use any chemical substances other than approved food additives or any other substances which may potentially cause harm to human health.

When purchasing raw materials for producing food, food additives and food-related products, a producer shall inspect the license and relevant product compliance certification document of the supplier. If a supplier is unable to provide a compliance certification document, the producers are required to carry out an inspection of the raw materials in accordance with the relevant food safety standards. No raw material for food, food additive or food-related products may be purchased or used unless it complies with the relevant food safety standards. A food production enterprise must establish an inspection record system for the purchase of raw materials for producing food, food additives and food-related products which records information such as their names, specifications and quantities, the names and contact information of the suppliers and the date of purchase. Such inspection record must be true and must be retained for at least two years.

(iv) establish a food recall system

The State shall establish a recall system for food products. Where food producers find that the food products they produce are inconsistent with the food safety standards, they shall immediately suspend the production of such food products, recall affected food products which have already been released onto the market, notify the relevant food producers, business operators and consumers, and record the recall and notification details properly.

(v) abolish food safety inspection exemption system

(vi) clarify the fundamental principles in formulating food safety standards. Food safety standards shall be formulated for the purpose of safeguarding public health. Food-safety standards are compulsory standards.

(vii) establish the requirement of a Food Distribution Permit

Pursuant to the Administrative Measures for Food Distribution Permits《食品流通許可證管理辦法》, issued by State Administration for Industry and Commerce on July 30, 2009, operators engaging in food business along the chain of food distribution shall acquire a Food Distribution Permit. The Food Distribution Permit is valid for three years. The Food Distribution Permit is to replace the Food Hygienic Permit under a previous regulation already abolished.

Dairy Product Industrial Policies (2009 Version)《乳製品工業產業政策(2009年修訂)》

Under the Dairy Product Industrial Policies (2009 Version)《乳製品工業產業政策(2009年修訂)》 released by 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 on 26 June 2009 investment in dairy products must comply with certain admission conditions, such as the establishment and composition of enterprises, the scale and capability of processing, technology and equipment, product quality, environmental health and protection, energy consumption and production safety. To engage in dairy products processing and manufacturing, investors shall have stable and controllable bases of raw milk supply. For new 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 projects, the proportion should be no lower than 75%. All the raw milk used by liquid milk production enterprises should be supplied by such stable and controllable supply bases, and for formula milk powder production enterprises, the proportion should be no lower than 50%.

We are a large scale dairy farming operator encouraged by the PRC government. We therefore were not affected by these series of new or revised regulations passed to cope with food safety concerns following the melamine incident. In fact, we enjoy favorable regulatory treatment under these new laws and regulations.

Laws and Regulations Relating to the Food Industry in General

Food Production License

In accordance with the Food Safety Law of the PRC, China has implemented a licensing system on food production and operation.

The Regulations of the PRC on the Administration of Production Licenses for Industrial Products《中華人民共和國工業產品生產許可證管理條例》, which were promulgated by the State Council on 9 July 2005 and became effective on 1 September 2005, put in place a production licensing system for enterprises which produce processed food, such as dairy products, meat products, beverages, rice, noodles, cooking oil, wine, and other processed products which may directly affect human health.

Under the Provisional Detailed Rules for Supervision and Administration of Quality and Safety in Food Production and Processing Enterprises (on trial)《食品生產加工企業質量安全監督管理實施細則(試行)》, which were issued by the General Administration of Quality Supervision, Inspection and Quarantine, PRC ("**AQSIQ**") and became effective on 1 September 2005, food production and processing enterprises must meet the required production conditions for food quality and safety and must obtain food production licenses in accordance with the required procedures. Produced or processed food is only allowed to be sold after passing inspections and obtaining market access labels on food quality and safety.

The effective period for a food production license is three years. If enterprises wish to continue their operation after the expiry of the effective period, they must submit applications to the original quality and technical supervision departments six months before the effective period expires.

Food Standardization

Under the Standardization Law of the PRC《中華人民共和國標準化法》, which became effective on 1 April 1989, and its implementing regulations《中華人民共和國標準化法實施條例》and interpretation provisions《中華人民共和國標準化法條文解釋》, which became effective on 6 April 1990 and 23 July 1990, respectively, standards relating to the protection of personal health and the safety of persons and property, as well as standards imposed by other laws and regulations, are classified as "mandatory standards". Food hygiene standards are part of mandatory standards.

On March 26, 2010, the Ministry of Health revised and re-promulgated the national food safety standard for raw milk — GB19301-2010. The new standard sets forth qualitative and quantitative standards for raw milk with respect to color, smell, protein, fat, microorganism, contaminants level etc. and has come into effect since June 1, 2010. The major details of the new standard for raw milk includes but not limited to: (a) the protein level under the new standard is no less than 2.8 grams per 100 grams raw milk; (b) the bacteria count under the new standard is no more than 200 per milliliter milk; and (c) the new standard has three additional indices compared to the previous national food safety standard, including limitations of pollutants, the limitation of mycotoxin and limitation of residual pesticide. The Company has always put quality of the raw milk it produces as its top priority and the raw milk it produces meets the quantitative quality standards set forth in the new standard.

Food Inspection

In accordance with the Food Safety Law of the PRC, China has implemented an inspection system relating to food production and operations. Under this law, the State and local food safety supervision and administrative departments (食品安全監督管理部門) 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 that engages in the production of food, or in business operations relating to the production of food, may itself inspect the food it produces, or the food may be inspected by the authorized food inspection agent, in order to check compliance with the requirements of the Food Safety Law of the PRC.

Laws and Regulations Relating to the Large Scale Animal Raising and Breeding Industry

Recordal Requirement with Administrative Department for Animal Husbandry and Veterinary Medicine

The Husbandry Law of PRC《中華人民共和國畜牧法》(the "**Husbandry Law**"), which was promulgated by the Standing Committee of the NPC on 29 December , 2005 and became effective on 1 July , 2006, stipulates the following conditions a livestock or poultry breeding farm has to meet:

- to have production premises and supporting facilities commensurate with its scale of breeding;
- to have animal husbandry and veterinary technicians in its service;
- to possess the conditions for epidemic prevention, as provided for by laws and administrative regulations and prescribed by the administrative department for animal husbandry and veterinary medicine under the State Council;
- to have such facilities as methane-generating pits for comprehensive use of, or other facilities for innocuous treatment of, the feces of livestock and poultry, waste water and other solid wastes; and
- to meet other conditions provided for by laws and administrative regulations.

The owner of a breeding farm shall submit the name of the farm, address, strains of livestock and poultry as well as scale of breeding for recording 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 obtain labels and codes for the livestock and poultry.

The Husbandry Law further provides that a livestock or poultry breeding farm shall keep files on breeding.

License for Production and Operation of Breeding Livestock and Poultry

According to the Husbandry Law (《畜牧法》), which was promulgated on December 29, 2005, and became effective on July 1, 2006, and Regulations on Administration of Breeding Livestock and Poultry (《種畜禽管理條例》), which was promulgated on 15 April 1994 and became effective on 1 July 1994, the entities and/or individuals engaging in the production and operations of breeding livestock and poultry or in the commercial production of new born livestock and poultry shall obtain license for production and operation of breeding livestock and poultry. Applicants applying for the license for production and operation of breeding livestock and poultry shall meet various conditions set out in the Husbandry Law and Regulations on Administration of Breeding Livestock and Poultry. The license is issued by local animal husbandry and veterinary medicine authority at or above the county level and is valid for three years.

Certificate for Meeting Animal Epidemic Prevention Conditions

The Law on Animal Epidemic Prevention of the PRC《中華人民共和國動物防疫法》, which was amended and adopted by the Standing Committee of the NPC on 30 August, 2007 and became effective as of 1 January, 2008, provides that animal farming operators shall meet the following conditions for prevention of animal epidemics:

- to be located at certain distance from public places, such as residential areas, sources of drinking water, schools and hospitals as prescribed by the administrative department for veterinary medicine under the State Council;
- The enclosure and isolation of the production area and the engineering design and technological process shall meet the requirements for animal epidemic prevention;
- to have necessary facilities and equipment for innocuous treatment and for cleaning and decontamination of waste water, waste materials, animals that die of diseases, and infected animal products;
- to have technicians for animal epidemic prevention;
- to have a sound system for animal epidemic prevention; and
- other conditions for animal epidemic prevention as laid down by the administrative department for veterinary medicine under the State Council.

An operator of animal breeding farm is required to apply to the administrative departments for veterinary medicine under the people's government at or above the country level for a certificate for Meeting Animal Epidemic Prevention Conditions.

Animal epidemic prevention constitutions shall monitor the arising and spreading of animal epidemic; any entities and individuals engaged in animal raising, slaughtering, isolation, transportation or operation shall 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. According to the National Management Standard of Animal Epidemic Monitoring and Reporting System (on trial) (《國家動物疫情測報體系管理規範(試行)》) issued by the Ministry of Agriculture of the PRC in 10 June 2002, outbreak of certain classified diseases in large scale of livestock rising farms shall be under regular monitoring and all the animal epidemic monitoring information is required to report to the Livestock Husbandry and Veterinary Bureau of Ministry of Agriculture (農業部畜牧獸醫局) within the prescribed time limit.

Compensation Required to be Paid for Eradication of Livestock for Animal Epidemic Prevention Purposes

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. Compensation shall be made for animals that die from mandatory vaccination given in accordance with law. 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.

Laws on Product Quality

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》, promulgated on 22 February 1993, which became effective on 1 September 1993 and subsequently amended on 8 July 2000, is the principal law governing the supervision and administration of product quality, and is applicable to the production and sale of any products in the PRC.

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 seller is responsible for the repair, exchange or refund of the products if the product displays any of the following defects:

(a) the product sold does not have the attribute or function that it should have, and there was no advance explanation or statement made to that effect;
(b) the product sold does not comply with the adopted standards indicated on the product or its package; or
(c) the product sold does not comply with similar product quality as indicated by means of product instruction or sample.

The manufacturer should 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:

(a) it has not circulated the product;
(b) the defect did not exist at the time when the product was circulated; or
(c) 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 should be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products sold if such defect is caused by 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.

The Agricultural Products Safety Law of the PRC (《中華人民共和國農產品質量安全法》)

The Agricultural Products Safety Law of the PRC, which was promulgated by the State Council on April 29, 2006 and became effective on November 1, 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: (a) the quality and safety standards of agricultural products; (b) the production places of agricultural products; (c) the production of agricultural products; and (d) 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, otherwise, the agricultural products shall not be allowed to be sold on the market.

Import Restrictions to Prevent BSE

The Ministry of Agriculture and the AQSIQ promulgated an announcement regarding BSE ("**Bovine Spongiform Encephalopathy**", usually called Mad Cow Disease) in 2001. According to the announcement, it is forbidden to import any cows and heifers directly or indirectly from countries which had found BSE cases within its territories. The announcement also provides a list to show the countries which had found BSE till then, and any country which has found BSE from then on shall be listed into the above list automatically. All of our farms strictly comply with the import policy of the PRC and neither of them has imported any cow or heifer from such countries so far. We also conduct safety inspections over the cows and heifers in our farms regularly. We believes that, due to the strict import policy of PRC and our regular safety inspections, BSE would be under effective control and be prevent from our cows and heifers, and any suspected case (if any) could be found in time.

Laws on 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》promulgated by the National People's Congress on 12 April 1986 and the Law of the PRC on the Protection of Consumers' Rights and Interests《中華人民共和國消費者權益保護法》promulgated by the Standing Committee of the National People's Congress on 31 October 1993, which became effective on 1 January 1987 and 1 January 1994, respectively, both manufacturers and distributors will be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture and distribute.

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

LAWS AND REGULATIONS RELATING TO LABOR MATTERS

The PRC Labor Contract Law《中華人民共和國勞動合同法》, and the Regulations on Implementation of PRC Labor Contract Law《中華人民共和國勞動合同法實施條例》took effect on 1 January 2008 and 18 September 2008, respectively,, imposes certain requirements in respect of human resources management, including, among other things, signing labor contracts with employees, terminating labor contracts, paying remuneration and compensation and making social insurance contributions. In addition, the PRC Labor Contract Law requires employers to provide remuneration packages which are not lower than the relevant local minimum standards.

The PRC Employment Promotion Law《中華人民共和國就業促進法》, which became effective on 1 January 2008, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

The Regulation on Work-Related Injury Insurance《工傷保險條例》, which became effective on 1 January 2004, requires employers to pay work-related injury insurance fees for their employees.

Under the Interim Measures Concerning the Maternity Insurance of Enterprises Employees《企業職工生育保險試行辦法》, which became effective on 1 January 1995, employers must pay maternity insurance fees for their employees.

Under the Interim Regulations Concerning the Levy of Social Insurance Fees《社會保險費征繳暫行條例》, which became effective on 22 January 1999 and the Interim Measures Concerning the Administration of the Registration of Social Insurance《社會保險登記管理暫行辦法》, which were adopted on 19 March 1999, employers in the PRC must apply for social insurance registration with the local social insurance authorities and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.

According to the Regulation on Management of the Housing Fund《住房公積金管理條例》, which became effective on 3 April 1999 and amended on 24 March 2002, enterprises in the PRC must register with the housing fund management centre and then maintain housing fund accounts with designated banks for their employees and contribute to the fund an amount not less than 5% of the employee's average monthly salary in the previous year.

LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

The PRC Production Safety Law《中華人民共和國安全生產法》, which became effective on 1 November 2002, 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 PRC 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.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal regulations governing the distribution of dividends by Equity Joint Ventures ("**EJVs**"):

- the Company Law of the PRC《中華人民共和國公司法》promulgated by Standing Committee of the NPC on 29 December 1993 as amended on 27 October 2005 and;

- the Sino-Foreign Equity Joint Venture Law of the PRC《中華人民共和國中外合資經營企業法》promulgated by the NPC on 8 July 1979 as amended on 15 March 2001; and
- the Implementation Rules of the Sino-Foreign Equity Joint Venture Law of the PRC《中華人民共和國中外合資經營企業法實施細則》promulgated by the State Council on 20 September 1983 as amended on 22 July 2001.

Under the current regulatory regime in China, EJVs in China may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. After making up for any deficit in prior years pursuant to the PRC laws, an EJV in China is required to set aside each year as general reserves at least 10% of its after-tax profit, determined in accordance with PRC accounting standards and regulations, until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. The shareholders of an EJV may, in their discretion, allocate a portion of the enterprise's after-tax profit to such enterprise's staff welfare and bonus funds. EJVs that are in deficit or liquidation may not distribute dividends.

LAWS AND REGULATIONS RELATING TO TAXATION

The key taxes applicable to companies in the PRC are enterprise income tax and value added tax. However, our income from dairy farming operations (sale of cows, calves and raw milk) are exempt from any tax in the PRC. Our income from production and sale of processed dairy products will be subject to enterprise income tax and value added tax.

The Enterprise Income Tax Law of the PRC《中華人民共和國企業所得稅法》and its implementation regulations《中華人民共和國企業所得稅法實施條例》, which became effective on 1 January 2008, impose a uniform enterprise income tax rate of 25% on both domestic and foreign-invested enterprises. A resident enterprise is subject to enterprise income tax on the income derived both inside and outside the territory of the PRC. If an organization or presence is set up in the PRC by a non-resident enterprise, its will be subject to enterprise income tax on the income derived from such organization or presence in the PRC and the income derived from outside the PRC but with actual connection with such organization or presence in the PRC. For a non-resident enterprise which has not set up an organization or presence in the PRC, or has set up an organization or presence but the income derived has no actual connection with such organization or presence, its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax shall be levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in PRC but its earning income is not connected with the abovementioned permanent establishment will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax《中華人民共和國增值稅暫行條例》, which was promulgated on 13 December 1993 and amended on 5 November 2008, and its implementation regulations《中華人民共和國增值稅暫行條例實施細則》, which were promulgated on 15 December 2008, all of which became effective on 1 January 2009, unless stated otherwise, the tax rate for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC shall be 17%.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The Group is subject to environmental protection laws, rules and regulations in the PRC.

According to the Environmental Protection Law of the PRC《中華人民共和國環境保護法》, which became effective on 26 December 1989, the state environmental protection authority is authorized to formulate national environmental quality and discharge standards and monitor the environmental system at the national level.

Other major environmental regulations applicable to our Group include the Law of the PRC on the Prevention and Control of Water Pollution《中華人民共和國水污染防治法》together with the related implementation rules, the Law of the PRC on the Prevention and Control of Air Pollution《中華人民共和國大氣污染防治法》, the Law of the PRC on the Prevention and Control of Solid Waste Pollution 《中華人民共和國固體廢物污染環境防治法》, the Regulation regarding the Administration of Construction Project Environmental Protection《建設項目環境保護管理條例》, and the Law of the PRC on Environmental Impact Assessment《中華人民共和國環境影響評價法》.

Violation of these laws, rules or regulations 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.

LAWS AND REGULATIONS RELATING TO MERGERS AND ACQUISITIONS BY FOREIGN INVESTORS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors《關於外國投資者併購境內企業的規定》("**M&A Provisions**") was promulgated by the MOFCOM, the State Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, the SAIC, CSRC and SAFE on 8 August 2006 and became effective on 8 September 2006 as amended on 22 June 2009.

Under the M&A Provisions, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor:

- the foreign investor purchases by agreement the equity interests of a pure domestic enterprise without foreign investment (a "domestic enterprise") or subscribes for the increased capital of a domestic enterprise, and thus converts the domestic enterprise into a foreign-invested enterprise;
- the foreign investor establishes a foreign-invested enterprise and use such foreign-invested enterprise to purchase by agreement the assets of a domestic enterprise and operates such assets; or
- the foreign investor purchases by agreement the assets of a domestic enterprise and then use such assets as capital contribution to establish a foreign-invested enterprise and operates such assets.

In addition, the M&A Provisions provides that an offshore special purpose vehicle established for listing purposes, and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. Advanced Dairy, Crystal Dairy and Brightmoon, all of which are foreign investors, in aggregate own the majority of the issued and outstanding shares of the

Company and constitute a controlling shareholder group of the Company as disclosed in the Prospectus. Our PRC legal counsel, Commerce & Finance, has advised that we are not required to obtain any approval from CSRC for the Global Offering and Listing because we are not directly or indirectly controlled by PRC companies or individuals.

FOREIGN EXCHANGE CONTROLS

The Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Back in China by Domestic Residents《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(“**SAFE Circular**”) promulgated by SAFE on 21 October 2005 which became effective on 1 November 2005 provides that any PRC individual engaging in equity financing (including convertible bond financing) aboard with enterprise assets or interests within the PRC via overseas special purpose companies shall apply to register with the local branch of foreign exchange administration for foreign exchange registration of overseas investments. Upon accomplishment of overseas financing, the domestic resident may, after accomplishing the procedures for foreign exchange registration of overseas investments or for modification thereof in accordance with the relevant provisions, pay amounts to the special purpose vehicle relating to profits, dividends, liquidation proceeds, equity transfer price, capital reduction, etc. Where a special purpose company has any material change in its capital structure, such as capital increase or decrease, share transfer or swap, merger or division, long term equity or debt investment or creating security interest or providing guarantees to third parties etc., but does not involve a return investment, the domestic resident shall, within 30 days as of the major modification, apply to the foreign exchange administration for modification or filing of foreign exchange registration of the overseas investments. Our PRC legal counsel, Commerce & Finance, has advised that 51 PRC individual shareholders, who have become indirect shareholders and beneficial owners of the Company through four special purpose companies, shall comply with foreign exchange registration requirement under the SAFE Circular. The 51 individual shareholders have completed their foreign exchange registrations for their investment in our Group as required by SAFE Circular.

HISTORY

General

Our Company was incorporated in the Cayman Islands on 30 July 2008 and as a result of the reorganization as set out below became the ultimate holding company of our Group with the business conducted through our PRC-incorporated operating subsidiaries held through Modern Farm. Further details of our shareholding and corporate structure and the reorganization are set out under the paragraphs headed "Domestic Reorganization", "Equity Financings" and "Pre-Listing Reorganization" below.

History and Development

The key milestones of the development of our Group are as follows:

September 2005	Leading Farming was incorporated and our business commenced
2006	Our first dairy farm in Maanshan, Anhui province, commenced operation
2007-2008	New dairy farms in Hebei and Shandong provinces commenced operation
July 2008	Modern Farm was incorporated and acquired our business
November 2008	First round of Equity Financing for purchases of heifers and as general working capital
December 2008	Second round of Equity Financing for purchase of heifers
December 2008	Acquisition of Helingeer Modern Farm in Inner Mongolia
March and June 2009	Third and fourth rounds of Equity Financings for construction of dairy farms in Feidong
2009- 2010	New dairy farms in Sichuan, Shaanxi, Hubei and Heilongjiang provinces commenced operation

We started our dairy farming business in September 2005 when Leading Farming was incorporated in the PRC. At the time of incorporation, Leading Farming was held as to 15% by Ms. Gao, 10% by Mengniu (Maanshan), 25% by Ms. Deng Yuan and the balance by 11 other individuals (none of whom held more than a 10% interest in Leading Farming at that time). Our first dairy farm was located in Maanshan, Anhui province which became operational in 2006. Between 2007 and 2008, various new dairy farms were built in Hebei and Shandong provinces by replicating the successful business model of our farm in Maanshan. To cope with the business expansion, Leading Farming underwent various capital increases and as of July 2008, it was held by 197 individual shareholders (including Ms. Gao and Ms. Deng Yuan), Mengniu (Maanshan) as to 1.98% and Mengniu (Inner Mongolia) as to 3.96%.

On 7 July 2008, Modern Farm was incorporated in the PRC and entered into an equity transfer agreement to acquire the entire equity interest in Leading Farming. To raise capital for funding further growth and expansion, Modern Farm underwent various reorganization and 4 rounds of equity financings during the period from November 2008 to June 2009. As a result, our Company gained control of Modern Farm as from June 2009. Details of such reorganization and equity financings are set out in the paragraphs headed "Domestic Reorganization" and "Equity Financings" below.

Apart from building dairy farms by ourselves, we have also acquired farms with suitable location, scale and management to expand our herd size and raw milk output. In December 2008, Modern Farm as buyer entered into an equity transfer agreement with each of the then shareholders of Helingeer Modern Farm, each an Independent Third Party, as sellers, to acquire the entire equity interest in Helingeer Modern Farm for a total consideration of approximately RMB96.10 million. The consideration was determined with reference to, among others, the net asset value of Helingeer Modern Farm as at 31 December 2008 of approximately RMB99.4 million based on an independent valuation of Helingeer Modern Farm conducted by Inner Mongolia Zhongda Asset Valuation Co., Ltd. (內蒙古中達資產評估有限責任公司) applying an asset-based approach. Helingeer Modern Farm is a company incorporated in the PRC which operated 1 dairy farm in Inner Mongolia, the PRC, with approximately 1,400 calves, 3,500 heifers and 6,130 milkable cows at the time of acquisition. The consideration of RMB96.10 million was funded by a bank borrowing of RMB48 million and internal resources. Approximately half of the consideration was paid in June 2009 and the balance was settled in August 2009.

In subsequent years, various new dairy farms were established by Modern Farm in Sichuan, Shaanxi, Hubei and Heilongjiang provinces. On 30 June 2010, Modern Farm entered into an equity agreement to acquire the entire equity interest in Hengsheng Modern Farm from 2 Independent Third Parties. The consideration was determined by reference to the net asset value of Hengsheng Modern Farm as at 30 June 2010 of approximately RMB5.15 million based on an independent valuation of Hengsheng Modern Farm conducted by Anhui Guoxin Asset Valuation Co., Ltd. (安徽國信資產評估有限責任公司) applying an asset-based approach. Hengsheng Modern Farm is a company incorporated in the PRC which operated 1 dairy farm in Zhangjiakou, the PRC, with approximately 960 calves and heifers and 1,550 milkable cows at the time of acquisition. The actual consideration of RMB5.159 million was settled in full in August 2010 from internal resources.

As at 30 June 2010, we operated 11 dairy farms across the PRC with a total herd size of 72,000 dairy cows , and we were constructing 5 new dairy farms which are expected to come into operation by the end of 2010.

DOMESTIC REORGANIZATION

Incorporation of Modern Farm

In preparation for the Equity Financings, Modern Farm was incorporated on 7 July 2008 with a total registered capital of RMB202.18 million. At the time of incorporation, Modern Farm was held as to 7.05% by Ms. Gao, 3.96% by Mengniu (Inner Mongolia), 1.98% by Mengniu (Maanshan), 10.41% by Ms. Deng Yuan and the balance of 76.6% by 25 other individuals (certain of them were also shareholders of Leading Farming). On 25 August 2008, Maanshan Advanced Farming and the 27 existing individual shareholders of Modern Farm at that time entered into an equity transfer agreement pursuant to which Maanshan Advanced Farming agreed to acquire from these shareholders an aggregate of 26.16% equity interest in Modern Farm for a total consideration of approximately RMB52.89 million. The consideration was determined with reference to the registered capital of Modern Farm at such time. Maanshan Advanced Farming is a company incorporated in the PRC and owned by the 27 individual shareholders of Modern Farm at that time. Upon completion of such transfer, Modern Farm was held as to 26.16% by Maanshan Advanced Farming, 3.96% by Mengniu (Inner Mongolia), 1.98% by Mengniu (Maanshan), 5.09% by Ms. Gao, 7.51% by Ms. Deng Yuan and the balance of 55.30% by the other 25 individual shareholders.

On 16 September 2008, the registered capital of Modern Farm was increased to approximately RMB233.93 million as a result of the capital injections from four individual shareholders. Subsequent to the capital injections and before the Equity Financings (as described below), Modern Farm was held as to 22.61% by Maanshan Advanced Farming, 1.71% by Mengniu (Maanshan), 3.42% by Mengniu (Inner Mongolia), 4.40% by Ms. Gao, 6.50% by Ms. Deng Yuan, 17.03% by 6 employees of our Group (namely Mr. Sun Yugang (孫玉剛), Mr. Ren Meicheng (任美成), Mr. Li Xinming (李新明), Ms. Luo Wei (羅蔚), Mr. Zhang Fulong (張福龍) and Mr. Li Gang (李剛)), and the balance of 44.33% by 23 other individual shareholders.

Streamline of Group structure

Immediately upon its incorporation on 7 July 2008, Modern Farm as buyer entered into an equity transfer agreement to acquire the entire equity interest in Leading Farming from its then 199 shareholders for a total consideration of RMB202.18 million. At the time of such transfer, Leading Farming owned a number of operating subsidiaries engaged in dairy farming. The consideration was determined by reference to the net asset value of Leading Farming. The consideration of RMB202.18 million was settled in two instalments from internal resources. The first instalment of RMB104.31 million was paid in July 2008 and the balance of RMB97.87 million was paid in September 2008. Between October and November 2008, as part of the restructuring plan to streamline the group structure, Modern Farm acquired through a series of transactions from Leading Farming its operating subsidiaries, existing assets and businesses for a total consideration of approximately RMB191.44 million. As a result, Modern Farm became the immediate holding company of 7 PRC-incorporated operating subsidiaries, namely, Wenshang Modern Farm, Hongya Modern Farm, Saibei Modern Farm, Shangzhi Modern Farm, Shandong Trading, Chabei Modern Farm and Anhui Sijibao. In addition, Modern Farm acquired the remaining 30% equity interest in Anhui Sijibao from the then shareholder (who was also a shareholder of Modern Farm) for a total consideration of RMB3 million and as a result, became the sole shareholder of Anhui Sijibao. The consideration was determined by reference to the total capital paid up by the vendor. As a result of the above intra-group restructuring, Leading Farming, as a subsidiary of Modern Farm, ceased to have any operations and businesses and its net asset value was approximately RMB191.65 million comprising receivables of approximately RMB191.21 million from Modern Farm in connection with the above acquisitions and cash of approximately RMB0.44 million.

As part of our reorganization, Modern Farm as seller entered into an equity transfer agreement with Qingdao Ever Nature Trading Co., Ltd. (青島恆天然商貿易有限公司) ("**Qingdao Ever Nature**"), an Independent Third Party, as buyer on 16 December 2008 to sell the entire equity interest in Leading Farming for a total consideration of approximately RMB191.15 million. Such consideration was determined with reference to, among others, the then net asset value of Leading Farming which comprised mainly receivables of approximately RMB191.21 million from Modern Farm. The consideration payable by Qingdao Ever Nature for this transfer was subsequently offset by the receivables owed to Leading Farming from Modern Farm.

Government Approvals

As advised by our PRC legal advisor, all necessary government approvals in relation to the abovementioned reorganization have been obtained.

EQUITY FINANCINGS

Incorporation of our Company and the Equity Financings

Our Company was incorporated in the Cayman Islands on 30 July 2008. Advanced Dairy I became the sole shareholder of our Company on 18 August 2008 when it acquired the entire issued share capital of our Company from the initial subscriber for a nominal consideration. Lux Co and Aquitair also became the intermediary holding companies of our subsidiaries in August 2008.

In November 2008, our Company (via Aquitair) made our first round of Equity Financing with an investment of RMB150.6 million and subscribed for a 9.96% equity interest in Modern Farm pursuant to an equity joint venture contract entered into among the PRC Individual Shareholders, Laoniu Farming, Aquitair, Maanshan Advanced Farming, Mengniu (Inner Mongolia) and Mengniu (Maanshan) (collectively the "**Equity Financings Parties**") dated 24 September 2008 and the consideration was paid on 11 November 2008. The proceeds were mainly used for purchases of heifers and as general working capital. In December 2008, in order to finance further purchases of heifers, our Company injected additional capital of RMB545.6 million into Modern Farm pursuant to an amended and restated equity joint venture contract entered into among the Equity Financings Parties dated 18 November 2008 and the consideration was paid on 9 December 2008, thereby increasing our equity interest in Modern Farm to 33.73%. In March and June 2009, we made our third and fourth round of Equity Financings with additional investment of RMB614.7 million and RMB68.2 million, respectively, pursuant to a second amended and restated equity joint venture contract entered into among the Equity Financings Parties dated 21 January 2009 and a third amended and restated equity joint venture contract entered into among the Equity Financings Parties dated 18 May 2009, respectively. The considerations were respectively paid on 5 March 2009 and 26 June 2009 and were mainly used for financing the construction of our dairy farms in Feidong. As a result of these 4 rounds of investments, our Company (through Aquitair) subscribed for an aggregate of 50.05% equity interests in Modern Farm at a total consideration of approximately RMB1,379.1 million. Together with a capital injection made by Laoniu Farming in September 2008 which acquired an 8.60% equity interest in Modern Farm, the registered capital of Modern Farm was increased from approximately RMB233.93 million to approximately RMB517.75 million. As advised by our PRC legal advisor, all necessary approvals in relation to the Equity Financings have been obtained. Based on the Offer Price range, the amounts of consideration for the four rounds of Equity Financings represent an aggregate discount of approximately 73.0% to the lower end of the stated Offer Price range of HK$2.89 and an aggregate discount of approximately 78.9% to the higher end of the stated Offer Price range of HK$3.69.

Although the Financial Investors have held majority voting rights in Modern Farm since mid 2009, they have not participated in the day-to-day management of the Group's business and neither have they participated in the decision-making process involving the Group's daily operations. The day-to-day management of the Group's business has been vested with Ms. Gao, our executive Director and Chief Executive Officer, and Mr. Sun Yugang, our Chief Financial Officer, with support of local personnel and working teams in each of the dairy farms while Mr. Deng, our Chairman and executive Director, and Ms. Gao have been involved in the strategic planning and formulation of development and expansion policies for the Group. Mr. Han Chunlin also joined the core day-to-day management team of our Group since September 2008 when he first joined us.

While the introduction of the Financial Investors through the Equity Financings provided the Group with necessary capital for funding its acquisition of farms and construction of new dairy farms, the Financial Investors have also brought added value to the Group in the following aspects:

(i) the Group's market development — assisting the executive management of the Group in identifying potential acquisition targets and in the formulation of the Group's business and development strategies and providing advice and recommendations in this regard; and

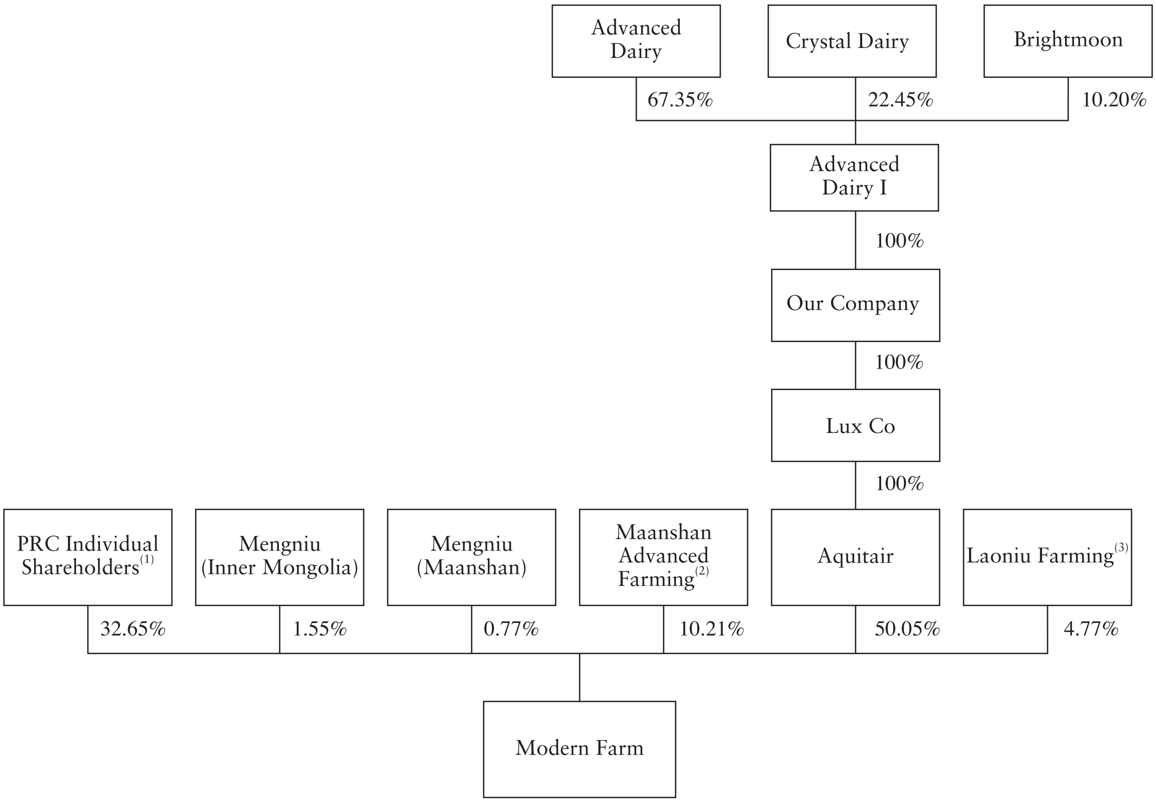
(ii) the Group's management system — assisting the Group in enhancing its operational efficiency and upgrading its management systems and standards.

Hence, save for the inflow of investment capital and the added value brought by the Financial Investors aforesaid, the Group's business strategy, management style and decision-making process have not been affected by the introduction of the Financial Investors.

Arrangement between Aquitair and other shareholders of Modern Farm

Pursuant to the joint venture agreement of Modern Farm, Aquitair has been granted certain rights customary to financial investors. All of these rights will be terminated immediately upon the Listing.

The following chart illustrates the shareholding structure of Modern Farm immediately after the Equity Financings:



Notes:

(1) The PRC Individual Shareholders comprised 31 individuals including Ms. Gao and 6 other senior management namely Mr. Sun Yugang (孫玉剛), Mr. Ren Meicheng (任美成), Mr. Li Xinming (李新明), Ms. Luo Wei (羅蔚), Mr. Zhang Fulong (張福龍) and Mr. Li Gang (李剛) of our Group. None of the PRC Individual Shareholders held 5% or more equity interest in Modern Farm immediately after the Equity Financings. There is no voting arrangement among the PRC Individual Shareholders.

(2) Maanshan Advanced Farming was owned by 27 individuals who were also PRC Individual Shareholders. Its 10.21% equity interest in Modern Farm was subsequently transferred to its shareholders pro rata to their respective equity interest in Maanshan Advanced Farming.

(3) Laoniu Farming was owned by 28 individuals, some of whom were PRC Individual Shareholders.

Information regarding the Financial Investors

Advanced Dairy I

Advanced Dairy I was initially wholly-owned by Advanced Dairy. Immediately before the first and third round of Equity Financing, Brightmoon and Crystal Dairy became shareholders of Advanced Dairy I in October 2008 and February 2009, respectively. As of August 2009, Advanced Dairy I was held as to 67.35% by Advanced Dairy, 22.45% by Crystal Dairy and 10.20% by Brightmoon.

On 4 November 2010, the shareholders of Advanced Dairy I passed a resolution to declare a dividend which would be paid by way of distribution of the 5,124,000 Shares currently held by Advanced Dairy I to its shareholders pro rata to their respective shareholding interest in Advanced

Dairy I. The distribution was complete on 5 November 2010 and as a result of such, each of Advanced Dairy, Crystal Dairy and Brightmoon became a direct Shareholder and held approximately 34.51%, 11.50% and 5.23% respectively of the total issued share capital of our Company at such time.

Advanced Dairy

Advanced Dairy Company Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability, is a subsidiary of KKR Asian Fund L.P., an exempted limited partnership organized and existing under the laws of the Cayman Islands focused on private equity investments in Asia. The general partner of KKR Asian Fund L.P. is KKR Associates Asia L.P., an exempted limited partnership organized and existing under the laws of Cayman Islands. KKR Asian Fund L.P. is advised by Kohlberg Kravis Roberts & Co. L.P., a Delaware limited partnership and a subsidiary of KKR & Co. L.P., whose common units are traded on the New York Stock Exchange (Symbol: KKR).

Crystal Dairy

Crystal Dairy Holdings (CDH) Limited, an exempted company incorporated under the laws of the Cayman Islands, is an indirect wholly owned subsidiary of CDH China Fund III, L.P., an exempted limited partnership organized and existing under the laws of the Cayman Islands focused on private equity investments. The general partner of CDH China Fund III, L.P. is CDH III Holdings Company Limited, a limited liability company organized and existing under the laws of the Cayman Islands. CDH China Fund III, L.P. is managed by CDH Investment Advisory Private Limited, a limited liability company incorporated in Singapore.

Brightmoon

Brightmoon Limited is ultimately owned by Hengxin Limited, a company wholly-owned by an irrevocable discretionary trust established on 30 July 2010 mainly for charitable purposes. Mr. Niu Gensheng is the settlor of such trust, a charitable trust with Credit Suisse Trust Limited as the trustee, but it is not intended that the settlor would receive any benefit from the trust which is derived from Brightmoon Limited and/or its subsidiaries.

Lock-up undertaking by Financial Investors and Lock-up among the Financial Investors

Advanced Dairy, Crystal Dairy and Brightmoon will be regarded as a controlling shareholder group for the purpose of the Listing Rules and hence the Shares held by these Financial Investors will be subject to certain lock-up restrictions from the date of this prospectus pursuant to Rule 10.07 (1) of the Listing Rules. For details of such lock-up arrangements, please refer to the section headed “Underwriting” in this prospectus. In addition, Brightmoon has undertaken to Advanced Dairy and Crystal Dairy that it shall not dispose of or transfer any Shares until the later of the date on which Advanced Dairy and Crystal Dairy cease to hold any Shares and 18 May 2019. Although these Financial Investors will be deemed to be a controlling shareholder group, each of them is independent from the other in terms of ultimate control and decision-making process.

PRE-LISTING REORGANIZATION

With a view to further increasing our Group's control over Modern Farm, the Group had undergone the onshore and offshore Pre-Listing Reorganization steps detailed below.

Onshore Acquisition

With a view to further increasing our shareholding interests and consolidating control in Modern Farm and its subsidiaries, Aquitair (our wholly-owned subsidiary) entered into an equity transfer agreement with the PRC Selling Shareholders on 17 September 2010 pursuant to which Aquitair agreed to, subject to satisfaction of certain pre-conditions customary in a sale and purchase agreement such as obtaining of the necessary approvals and completion of valuation of the subject assets, purchase from the PRC Selling Shareholders an aggregate of 47.63% equity interests in Modern Farm (comprising 42.86% equity interests held by the PRC Individual Shareholders and 4.77% equity interests held by Laoniu Farming) for a consideration of RMB903,116,860. The acquisition was completed on 5 November 2010. The consideration was determined by reference to the net asset value of Modern Farm as at 31 December 2009 of approximately RMB1,890 million based on an independent valuation of Modern Farm conducted applying an asset-based approach for the purpose of this Pre-Listing Reorganization.

Offshore Subscription

With a view to financing the Onshore Acquisition and, at the same time, enabling the PRC Selling Shareholders to continue their investments in our business, our Company entered into a subscription agreement (the "**Subscription Agreement**") with the PRC Shareholders Holdcos (companies set up by the PRC Selling Shareholders or their ultimate shareholders) on 29 July 2010 pursuant to which our Company agreed to issue an aggregate of 4,876,000 new Shares (the "**Subscribed Shares**") to the PRC Shareholders Holdcos at a total subscription price of RMB903,116,860. The total subscription price was equal to the consideration for the Onshore Acquisition.

To facilitate the PRC Selling Shareholders to obtain requisite PRC governmental and regulatory approvals, on 30 July 2010, 573,647 Shares, 1,944,632 Shares, 1,869,546 Shares and 488,175 Shares were issued and allotted as nil paid to the PRC Shareholders Holdcos, respectively, with the payment of the subscription monies deferred. The allotment resulted in the PRC Shareholders Holdcos holding approximately 5.74%, 19.45%, 18.69% and 4.88% respectively, of the enlarged issued share capital of our Company immediately following such allotment, such that the resultant effective interest of the PRC Selling Shareholders (or their ultimate shareholders) in Modern Farm before and after the Offshore Subscription and the Onshore Acquisition will remain unchanged. The PRC Shareholders Holdcos are not parties acting in concert and, save for a few individuals, most of their shareholders are not the same.

To fund the subscription monies for the Offshore Subscription and related costs and expenses (including interest expenses), the PRC Shareholders Holdcos obtained a bridge loan approximately US$139 million ("**Bridge Loan**") from Bank of China International Limited ("**BOCI**") on 1 November 2010. The proceeds of the Bridge Loan were paid by the PRC Shareholders Holders to our Company on 1 November 2010 to pay up the Subscribed Shares and the Offshore Subscription was completed. As security for the Bridge Loan, charges over the shares of the PRC Shareholders Holdcos and the Shares (as held by the PRC Shareholders Holdcos) (collectively, the "**Share Pledges**") were, amongst others, given in favor of an associate of BOCI. The proceeds of the Bridge

Loan were remitted onshore and paid to the PRC Selling Shareholders in order to complete the Onshore Acquisition on 5 November 2010. As advised by our PRC legal advisor, all requisite PRC governmental and regulatory approvals and consents (including the local MOFCOM approval, SAIC and SAFE amendment registration) in relation to the Pre-Listing Reorganization have been obtained and the Onshore Acquisition was completed on 5 November 2010.

The Bridge Loan will be partially repaid by a term loan facility to be obtained from Bank of China, Macau Branch in the aggregate amount of around US$130 million before the Listing Date, which will be secured by collateral provided by PRC Selling Shareholders, other than the Share Pledges.

It is expected that the remaining outstanding balance of the Bridge Loan in the amount of around US$9 million will be fully repaid upon Listing through sale of some of the Shares held by the PRC Shareholders Holdcos in the Global Offering (as described below) and the Share Pledges will be released immediately prior to Listing.

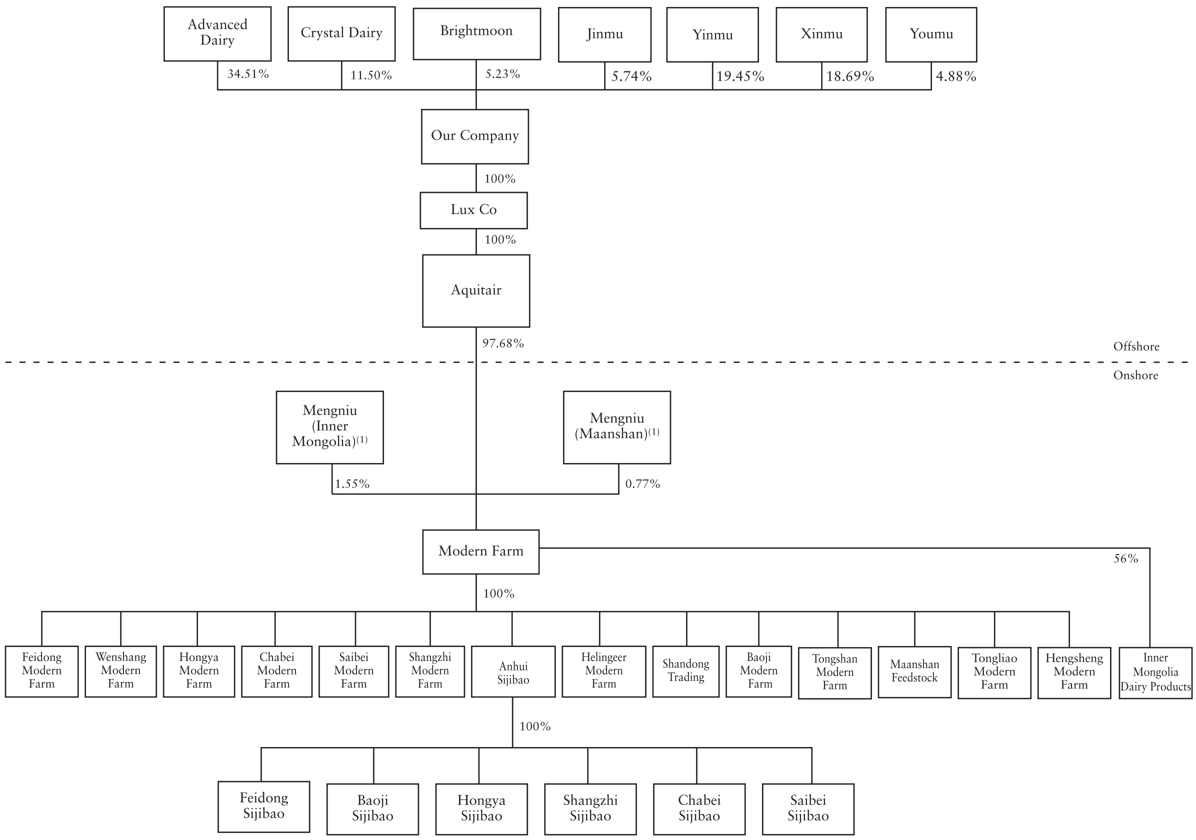
Selling Shareholders

As a means to obtain funds for repaying in full the outstanding Bridge Loan, each of the PRC Shareholders Holdcos will, as a Selling Shareholder, participate in the Global Offering and offer to sell 11,301,067 Shares, 38,293,683 Shares, 36,797,375 Shares and 9,607,875 Shares, respectively. The PRC Shareholders Holdcos will give irrevocable payment instructions to UBS, the settlement agent, to direct UBS to transfer to their accounts in BOCI upon the Global Offering becoming unconditional such portion (being not less than the remaining outstanding balance of the Bridge Loan) of the proceeds from the sale by the PRC Shareholders Holdcos of their respective Sale Shares.

Each of Advanced Dairy and Crystal Dairy will also offer for sale 228,016,518 Shares and 75,983,482 Shares, respectively in the Global Offering. The Shares to be sold by each of Advanced Dairy, Crystal Dairy, Jinmu, Yinmu, Xinmu and Youmu represents approximately 4.75%, 1.58%, 0.24%, 0.80%, 0.77%, 0.20%, respectively, of the total issued share capital of our Company immediately following the completion of the Global Offering without taking into account of the Over-allotment Option and any Shares which may be issued pursuant to the exercise of the Management Options.

CORPORATE AND SHAREHOLDING STRUCTURE

The following chart illustrates the shareholding and corporate structure of our Group as at the Latest Practicable Date:



Notes:

(1) Mengniu (Maanshan) is a wholly-owned subsidiary of Mengniu (Inner Mongolia) and Mengniu (Inner Mongolia) is a 93.29%-owned subsidiary of Mengniu. Mr. Deng is a beneficial owner of 0.55% equity interest in Mengniu (Inner Mongolia).

Reasons for the Pre-Listing Reorganization

The purpose of the Pre-Listing Reorganization is to enable our Company to manage and operate our business in a more efficient manner through the acquisition of a further interest in Modern Farm. Other than moving its equity interest in the business of our Company from a subsidiary level to the Company level, none of the PRC Selling Shareholders will receive any benefit from the Pre-Listing Reorganization and their rights (through the PRC Shareholders Holdcos as Shareholders) do not differ from that enjoyed by other investors whether before or after the Pre-Listing Reorganization.

Based on the current Offer Price range, the subscription price per Share of the Offshore Subscription represents a discount of approximately 81.4% to the lower end of the stated Offer Price range of HK$2.89 and a discount of approximately 85.4% to the higher end of the stated Offer Price range of HK$3.69. Although the subscription price per Share represents a discount to the Offer Price, such price is not linked to the Offer Price and was determined by reference to the net asset value of Modern Farm as at 31 December 2009 of approximately RMB1,890 million based on an independent valuation of Modern Farm conducted applying an asset-based approach when the Subscription Agreement was entered into in July 2010. In addition, no special rights are offered to the PRC Shareholders Holdcos under the Pre-Listing Reorganization.

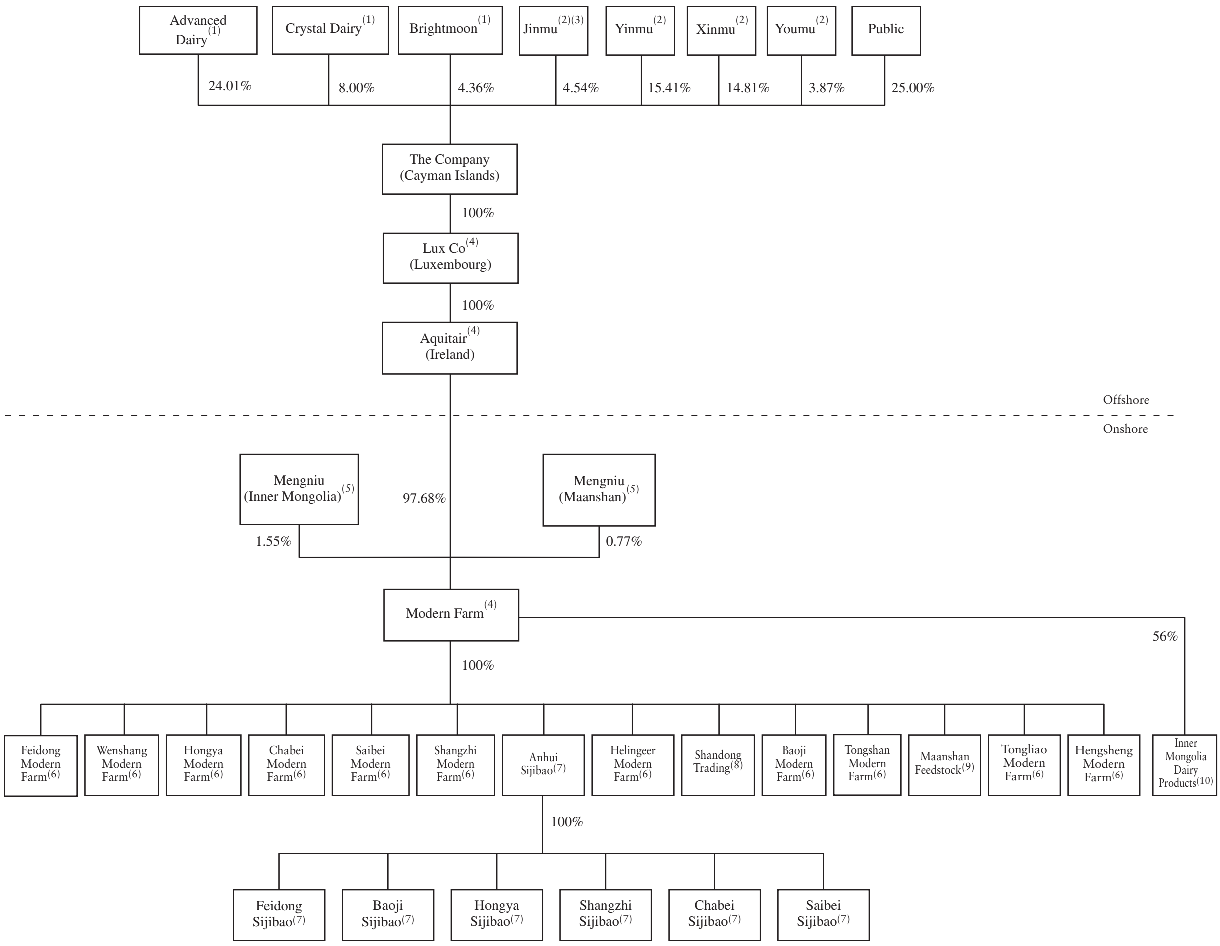
Lock-up arrangement of the PRC Shareholder Holdcos

Each of the PRC Shareholder Holdcos has agreed to undertake to the Joint Global Coordinators that at any time up to 12 months after the Listing Date, it will not directly or indirectly sell, give, assign, transfer, hypothecate, pledge, encumber, grant a security interest in or otherwise dispose of, or grant any right, title or interest in, or suffer to exist any encumbrance on (each a "**Transfer**") any Shares (other than the sale of the Sale Shares). For further details of such lock-up arrangement, please refer to the section headed "Underwriting" in this prospectus.

Each of Jinmu, Xinmu and Yinmu (the "**Covenanters**") agreed that it shall not and shall procure the senior management of the Group from time to time ("**Senior Managers**") shall not effect any Transfer of Shares (other than the sale of the Sale Shares) if, following such Transfer, the total number of Shares Transferred by the Covenanters and the Senior Managers would exceed the lesser of (A) the total number of Shares Transferred by Advanced Dairy, Crystal Dairy and Youmu (the "**Relevant Parties**") after the Listing Date, and (B) 30% of the total number of Shares held by such Covenanters and the Senior Managers as of the Listing Date; provided that this restriction shall not apply (a) if the Relevant Parties or its associates collectively hold less than 2% of the total number of outstanding Shares or (b) upon the fourth anniversary of the date on which the Shares held by Relevant Parties cease to be subject to any lock-up restriction as set out in the section headed "Underwriting" in this prospectus. The Senior Managers further agreed that, for a period of 1 year after the first anniversary of the Listing Date, they shall not effect any Transfer of Shares if, following such Transfer, the total number of Shares Transferred by them would exceed 30% of the total number of Shares directly or indirectly held by them as at the Listing Date.

Corporate and Shareholding Structure upon Completion of the Global Offering

The following chart sets forth the shareholding and corporate structure of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option and the Management Options are not exercised):



Notes:

(1) Advanced Dairy, Crystal Dairy and Brightmoon are our Financial Investors. Please refer to the sub-section headed "Equity Financings - Information regarding the Financial Investors" above for details regarding the shareholders and background of these Financial Investors. Advanced Dairy, Crystal Dairy and Brightmoon will be regarded as a controlling shareholder group for the purpose of the Listing Rules and hence, the Shares held by these Financial Investors will be subject to certain lock-up restrictions from the date of this prospectus pursuant to Rule 10.07(1) of the Listing Rules. For details of such lock-up arrangements, please refer to the section headed "Underwriting" in this prospectus. The Shares held by the Financial Investors will not be counted towards the public float upon completion of the Global Offering. Advanced Dairy and Crystal Dairy are expected to grant an over-allotment option to the International Underwriters which would require Advanced Dairy and Crystal Dairy to sell up to 135,000,000 Share and 45,000,000 Shares if such option is exercised.

(2) Jinmu, Yinmu, Xinmu and Youmu were set up by the PRC Selling Shareholders (i.e. the PRC Individual Shareholders and the shareholders of Laoniu Farming). These individuals include Ms. Gao and 6 other employees of our Group, namely Mr. Sun Yugang (孫玉剛), Mr. Ren Meicheng (任美成), Mr. Li Xinming (李新明), Ms. Luo Wei (羅蔚), Mr. Zhang Fulong (張福龍) and Mr. Li Gang (李剛). There is no voting arrangement among the PRC Shareholders Holdcos.

Except for the three Shareholders of Jinmu (see note (3) below), none of these PRC Selling Shareholders individually holds more than 25% interest in the relevant PRC Shareholders Holdco. The Shares (excluding the Sale Shares to be sold in the Global Offering) held by these PRC Shareholders Holdcos are subject to certain lock-up restrictions. For details of such lock-up arrangements, please refer to the paragraph headed "Pre-Listing Reorganization - Lock-up Arrangement of the PRC Shareholder Holdcos" in this section and the section headed "Underwriting" in the prospectus. As no shareholders of Youmu is an employee or management personnel of the Group, the Shares held by Youmu will be counted as public shares.

(3) Jinmu is held as to 49.12% by Ms. Gao (our Director); as to 25.44% by Mr. Ren Meicheng (任美成); and as to 25.44% by Mr. Sun Yugang (孫玉剛), each a member of our senior management team. None of them is a relative of any other shareholders of the PRC Shareholders Holdcos or a shareholder of Laoniu Farming. The Shares held by Jinmu will not be counted as public shares.

(4) Its principal business is investment holding.

(5) Mengniu (Maanshan) is a wholly-owned subsidiary of Mengniu (Inner Mongolia) and Mengniu (Inner Mongolia) is a 93.29%-owned subsidiary of Mengniu. Mr. Deng is a beneficial owner of 0.55% equity interest in Mengniu (Inner Mongolia).

(6) Its principal business is dairy farming.

(7) Its principal business is production and sales of fertilizers.

(8) Its principal business is import and export agent.

(9) Its principal business is growth and purchases of feedstuff.

(10) Its principal business is processing and sale of fresh milk products. The remaining 44% equity interest in Inner Mongolia Dairy Products is held by Mr. Li Xinming, a connected person of our Company. Please refer to the section headed "Connected Transactions" for details regarding the transactions between Mr. Li Xinmin, and our Group.

OVERVIEW

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association. As of 30 June 2010, we had approximately 72,000 dairy cows at 11 large-scale dairy farms across China. We were among the first companies in China to adopt a large-scale industrialized free-stall dairy farming business model. All of our standardized dairy farms are designed and constructed with a capacity of raising up to 10,000 dairy cows per farm. We commenced business in 2005 and our first farm became operational in Maanshan, Anhui province in 2006. Since then, we have expanded to 5 of the 6 Regions in China. Our farms are situated across the PRC in strategic geographic locations, which are close to downstream dairy product processing plants and the feed supply sources required by our farms. Our operations were further bolstered by investments by KKR, CDH and Brightmoon since 2008, who have assisted us in establishing international corporate governance practices and have provided us with financial capital for continued growth as well as value adding operational improvements.

Our farms are designed and constructed with modern and scientific layouts to ensure high milk yields and cost efficiency. We believe our raw milk is amongst the highest quality and safest milk in China. We also believe that we operate the best large-scale dairy farms in China, with highly experienced management, comprehensive facilities and the advanced breeding, feeding and herd management technology. For further details about our farm facilities and herd management, please refer to the sections headed "Business — Our Dairy Farms" and "Business —Herd Management" of this prospectus.

We have enjoyed significant growth during the Track Record Period, driven largely by our ability to expand rapidly by replicating our business model in new domestic markets. In addition, our growth has also been driven by rising demand for high-quality and safe raw milk following the melamine incident in China's milk industry in 2008. In 2010, we were ranked the number one fastest growing enterprise in China by the China Entrepreneur magazine (中國企業家), an independent magazine which started publication in 1985 and is sponsored by the Economic Daily Press Group (經濟日報報業集團). We believe significant opportunities are presented by China's dairy industry due to the sustained rapid growth of milk consumption, a continued scarcity of high quality raw milk, and a growing demand for large-scale dairy farms in China. We believe we are well-positioned to capitalize on these opportunities. We expect to further strengthen our market leading position in the dairy farming industry in China. By the end of 2010, we plan to substantially complete the construction of 5 new farms with a capacity of raising up to 10,000 dairy cows per farm, with a corresponding increase in our total herd count to more than 90,000 dairy cows.

During the Track Record Period, our raw milk sales volume grew at a CAGR of 68.2%, from 55,888 tons in FY2008 to 96,306 tons in FY2009 and to 158,081 tons in FY2010. During the same period, our sales of milk produced grew at a CAGR of 79.1%, from RMB183.9 million in FY2008 to RMB334.0 million in FY2009 and to RMB589.8 million in FY2010.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and distinguish us from our competitors:

Industry leader in the dairy farming sector in China which is well-positioned to benefit from increasing demand for dairy products and government support for the dairy industry

We are the largest dairy farming company in China in terms of herd size and raw milk output according to the China Dairy Association. We have a nationwide presence, with dairy farms in 5 of the 6 Regions in China, which we believe brings us a competitive advantage by allowing us to be a strategic partner for downstream dairy producers who have processing facilities nationwide. In addition, our significant scale and market leading position enable us to purchase cows, equipment and feed at competitive prices from our suppliers.

We believe that we are well-positioned to capitalize on the continued growth of the dairy products market in China. According to Datamonitor, China's dairy market will grow at a CAGR of 7.1% from 2008 to 2013. In recent years, as Chinese consumers have increasingly focused on nutrition, quality and food safety, high-end dairy products have been a key growth segment. By 2008, high-priced premium milk above RMB10/litre comprised 21.2% of liquid milk market in China compared to 3.9% in 2005. Therefore, dairy processors continue to focus on high-end milk products which, we believe, will continue to drive growth for our raw milk sales given our market leading position and reputation for producing high-quality raw milk. We have been recognized as one of the best dairy farm operators in China by the China Dairy Association due to our consistently high quality standards.

We have enjoyed strong support from Chinese government policies as the government has continued to focus on the development of large-scale dairy farming businesses in order to improve milk safety standards and quality following the melamine incident. We believe we will continue to benefit from these favorable industry policies regarding, among other things, government grants, insurance, tax and financing, which will allow us to enjoy significant benefits over smaller scale dairy cow farmers.

Proven and replicable business model with highly visible growth prospects

We were among the first companies in China to adopt a large-scale industrialized free-stall dairy farming business model. We believe the key elements of our industrialized business model are 1) standardized operating procedures; 2) centralized management functions; 3) automated information systems; 4) uniform farm designs and layouts; and 5) large-scale operations with high replicability. Our farms are equipped with comprehensive facilities and the latest breeding, feeding and herd management technologies, and we have accumulated extensive experience in operating large-scale industrialized free-stall dairy farms in China. Our business model and management experience enable us to operate large-scale farms efficiently, ensuring that comprehensive, modern and scientific practices are applied consistently throughout and high quality standards are maintained at each of our farms, regardless of location.

Our business model is easy to replicate in different Regions in China and each newly constructed farm follows a standard farm design. As such, we have been able to demonstrate a proven track record in expanding our farming model into different Regions across China, and we have a clear expansion plan both in the near-term and the long-term. Since the commencement of business in 2005, we have established 11 farms as of 30 June 2010, and we will continue to build large-scale dairy farms in strategically selected regions in the PRC with the goal of increasing our number of farms throughout China to 16 by the end of 2010.

Comprehensive, modern and scientific operations resulting in high milk quality and milk yields as well as improved cost efficiency

Our farms are equipped with comprehensive facilities which have modern and scientific layouts and barn designs. We have significant dairy farming expertise and industry experience which we employ through advanced breeding, feeding and herd management techniques.

Our comprehensive, modern and scientific practices and dairy farming expertise enable us to consistently produce high-quality and safe raw milk with higher cost efficiency. Raw milk quality is determined by various factors, which include microbe and somatic cell count. The quality of our raw milk is significantly higher than each of the key milk quality ratios as set out in the National Food Safety Standard Raw Milk 2010 (the "**China Standard**") issued by the Ministry of Health of the PRC. In addition, our raw milk quality also exceeds the Raw Milk Quality Standards adopted in the European Union (the "**EU Standard**"). The table below sets forth our key milk quality ratios compared to the average ratios of large-scale farms in China, the China Standard and the EU Standard.

	Our Group	Other Large scale farms in China(1) (Year 2009)	China Standard(2)	EU Standard(3)
Microbe Count(4)	<50k/ml	N/A	≤2,000k/ml	≤100k/ml
Somatic Cell Count(4)	<300k/ml	592k/ml	N/A	≤400k/ml

Notes:

(1) Average of 62 farms, each with more than 1,000 cows and heifers

(2) National Food Safety Standard — Raw Milk published on 26 March 2010.

(3) Raw Milk Quality Standards in Council Directive 92/46/EEC adopted in EU comprising 15 member countries.

(4) Somatic Cell Count and Microbe Count are two of the indicators used to determine milk quality. Generally a lower somatic cell count indicates better animal health, while a lower microbe plate count indicates improved sanitation.

Sources of information: China Dairy Statistical Summary 2010.

Compared with individual farmers and small-scale farms, our raw milk is of considerably higher quality which allows us to charge premium prices. We are also able to achieve higher milk yields as a result of the implementation of our advanced breeding, feeding and herd management techniques. For example, according to the China Dairy Association, the industry average milk yield per cow in China was 4.8 tons/annum and the average milk yield per cow for large-scale farms was 7.0 tons/annum in 2009. In FY2010, the Company achieved an average milk yield per milkable cow of 7.3 tons/annum.

In order to maintain high-quality of milk, we have continued to focus on improving the quality of our feed and to this end, we have a central nutrition management team with substantial first-hand experience and know-how in determining the components and proportion of each feed mix. By adjusting the feed components based on geographical location, cow milking cycles and the price volatility of certain ingredients, we can effectively maintain milk yield and nutrition levels while controlling overall feed costs at the same time.

We also believe our operations enjoy cost advantages compared to individual farmers and small-scale farms. For example, the proximity of our farms to milk processing facilities and feed supply markets allows us to enjoy lower transportation costs. Our scale and market leading position also lower our procurement costs for heifers, feed and equipment. In addition, we believe that as we continue to expand the scale of our operations, our cost efficiency will continue to improve. For example, we believe we can significantly improve our labor efficiency, targeting a ratio of 60:1 dairy cows to employees within the next 5 years compared to a ratio of 30:1 achieved in 2010.

Stringent standards of quality and safety which effectively address milk safety concerns

We believe that we are well-positioned to effectively address the quality and safety concerns of our raw milk customers in China. Unlike individual farmers and small scale farms which dominate China's milk output, we believe our comprehensive, modern and scientific operating procedures and centralized monitoring and quality control systems can minimize the risk of contamination of our raw milk. Since the commencement of our business, there has been no melamine in the raw milk we have produced. We follow international best practices and exercise full control at every step of our production process, including feeding, milking, storage and transportation.

We adopt a stringent selection process in choosing our feed suppliers. We investigate the market to identify suitable suppliers and the candidates are required to submit samples to us. After testing and examination of the samples and evaluation of the candidates, we enter into agreements with our selected suppliers. Upon each delivery, we conduct various sample tests and examinations before the feed is stored in our warehouses and we conduct another round of sample testing before we feed our cows and heifers. In addition, our farms are strategically located close to milk processing plants, and we generally supply raw milk directly to milk processors shortly after the raw milk is produced, thus shortening the transportation process and reducing the risk of contamination and product tampering before it reaches milk processors.

We also implement stringent and standardized disease control practices and risk management policies throughout all of our farms in order to minimize the incidence of disease and sickness. We aim to identify sickness at the earliest possible opportunity to prevent it from spreading among our milking cows and affecting our overall milk production and yield. Such controls include strict disinfection procedures with respect to feeding and living areas as well as daily inspections of a sample of our herd. We also vaccinate different groups of calves, heifers and milkable cows according to the different stages of their growth.

Strategic partnership with Mengniu, the leading dairy product manufacturer in China

In 2008, we signed a 10-year off-take agreement with Mengniu, the leading dairy product manufacturer by revenue in China according to China Dairy Statistical Summary 2010. The agreement allows us to sell all of our raw milk produced daily to Mengniu at a negotiated price while providing us with the flexibility of selling up to 30% of our raw milk produced daily at each dairy farm to certain other processors or directly to end-customers at our discretion. In the absence of a material breach of the agreement or the occurrence of a force majeure event, the agreement will be automatically extended for another 10 years upon expiry in 2018.

We believe that our partnership with Mengniu is beneficial to us in securing long-term demand from a high-quality customer. In addition, it is also strategically important to Mengniu in addressing consumers' concerns about milk safety by ensuring a source of high-quality raw milk, particularly for use in their high-end products. In response to the melamine incident and to comply with new government regulations, Mengniu has gradually shifted its procurement to well-managed large-scale dairy farms that can provide more reliable supplies of raw milk with higher quality and nutritional content. Since there are only few companies that operate large-scale dairy farms in China, we believe we are well-positioned to be the supplier of choice for Mengniu. During the Track Record Period, our current supply to Mengniu had constituted less than 5% of Mengniu's raw milk requirements which leaves significant room for further business expansion with Mengniu.

Whilst the agreement guarantees our sales volume for the long term, we retain the flexibility to sell up to 30% of our raw milk produced daily to certain other dairy processors or for use within our own products. As downstream dairy processors increasingly focus on procuring high-quality and safe raw milk, and due to the limited number of large-scale dairy farm operators in China capable of meeting that demand, the contractual flexibility with Mengniu will allow us to potentially seek opportunities for developing business relationships with other prospective customers.

Eco-friendly production with lower operation costs

We have designed an efficient and comprehensive recycling system that has helped to lower our farm and other operating expenses. Cow waste produced at our farms is continuously cleared and collected every few hours using large barn cleaners known as alley scrapers, and is then deposited into an underground pit from where it flows to a single collection tank. Cow waste is subsequently pumped into an anaerobic digester. The digester produces biogas, which is in turn used to generate electricity that we currently use to supply part of our own energy needs for farm operations, thus reducing our overall operating costs. We use part of the remaining processed waste as bedding for our cows. We also recycle part of the remaining processed waste through our recycling systems to produce fertilizers. Such fertilizers are not only used on our own feed planting fields but are also provided to local farmers who supply feed to us. This has helped us and local farmers to reduce the amount of commercial fertilizers purchased externally. Our cow waste treatment process not only reduces the impact of our operations on the environment but also lowers our operating costs.

Experienced management team with a proven track record and aligned interests, supported by high quality financial investors

We have a highly experienced management team that has led us to become the largest dairy farming company in terms of herd size and raw milk output in China since our establishment in 2005. Our management team comprises former members of Mengniu's management and dairy farming experts. Mr. Deng, our chairman, has more than 10 years of experience in the dairy industry and more than 15 years of experience in dairy-related industries, and was a co-founder of Mengniu. Ms. Gao, our chief executive officer, has significant experience in cross-border trading resource integration and administrative management. Our chief operating officer, Mr. Han Chunlin, has strong operational experience in the dairy food and beverage industry and was the marketing director of the Liquid Milk Department of Mengniu (Inner Mongolia). Our chief financial officer, Mr. Sun Yugang, has extensive experience in auditing and financial management and was a manager of the finance and investment department of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd. prior to joining our Group.

We also have highly experienced personnel who bring their knowledge and expertise to our farm operations on the ground. Our nutrition head office comprises members with extensive experience in the field of animal nutrition. Our operating team also comprises members with extensive working experience at large-scale dairy farms. We believe our management team possesses the leadership, vision and in-depth industry knowledge required to anticipate and take advantage of market opportunities, as well as to formulate effective business strategies to create value for our shareholders.

Our management team further benefits from the experience and know-how of an extensive network of leading domestic and international dairy experts, who have entered into long-term consulting arrangements with us. Pursuant to our arrangements, our expert consultants make regular visits to our farms, evaluate the performance of our operations, offer recommendations to our management, and provide training for our managers and employees in areas such as breeding technologies, feed management, and disease control and prevention.

In addition, our financial investors, KKR, CDH and Brightmoon have provided us with access to an international network and resources that have supported the growth of our business in various respects and assisted us in establishing international corporate governance practices. In particular, at the recommendation of our financial investors, we have entered into long-term consulting agreements with various domestic and international experts with extensive knowledge in operating large-scale dairy farms.

OUR BUSINESS STRATEGIES

Our principal goal is to further strengthen our position as the market leader in China's large-scale dairy farming industry. We continuously seek opportunities to achieve sustainable growth of our business and to enhance shareholders' value. We intend to achieve this goal by implementing the following strategies:

Continue to replicate our successful business model across China and further broaden our customer base

We plan to build additional large-scale dairy farms in strategically selected regions in China, where we expect demand for high quality milk to continue to grow rapidly. As such, we aim to increase our number of farms to 30 by the end of 2015 through the replication of our business model to new farm locations, a strategy which we have successfully demonstrated through our expansion to date. While the climate and temperature characteristics of different regions vary, we make appropriate changes and improvements to adapt to each region. In addition, our experienced feed management team has developed customized solutions for individual farms to include locally grown crops in the feed mix, which helps to reduce costs without reducing the nutritional content of the feed.

While we plan to continue to strengthen our strategic relationship with Mengniu, the leading dairy product manufacturer in China, we also plan to diversify our customer base and develop relationships with new customers that have a strong market presence and target the high-end milk consumption segment in China.

Improve our milk yield and quality by continuing to adopt and develop comprehensive, modern and scientific breeding and feeding techniques and know-how

We have continued to improve our operations since the commencement of our business, resulting in rising milk quality and milk yield. We believe that currently our average milk quality and yield are among the highest produced in China. However, we believe that there is room for continued improvement. For example in the USA, in 2009 the average milk yield per cow was approximately 9.3 tons/annum according to the USDA, which is higher than that achieved by us in 2009 and substantially higher than the average seen in China, and illustrates the potential room for improvement.

As such, we aim to increase our milk yields and quality by adopting comprehensive, modern and scientific breeding and feeding techniques and know-how. To this end, we look to continue to improve the genetic mix of our herd generation by generation as well as optimize the mix of feed used at our farms. We artificially inseminate our cows with semen from high-quality bulls from international sources to increase the chances that each generation of cows will have higher yields than the previous generation. In addition, in order to maximize and increase the milk yields of our milkable cows, we undertake feed research and development with the aim of continuing to improve the nutritional and energy content of the feed and to optimize the mix of feed. As we continue to expand, we plan to execute our multi-pronged feed management strategy through: 1) optimising our feed mix; 2) providing technical support to our feed suppliers; 3) joint research and development initiatives with research institutions on local planting for feed supply. For example, we initiated a corn planting trial programme with a professional biological company in 2010 in order to reach a higher corn yield per acre. Pursuant to this trial programme, we purchase or obtain high-quality corn seeds for free from the professional biological company and offer them to our local farmers. During the planting period, the biological company provides us with guidance from time to time; and 4) proactive search for substitutes which provide the same level of nutritional content at a lower cost.

Enhance the operating efficiency of our farms by further improving comprehensive, modern and scientific farm management practices

While improving the quality and quantity of raw milk, we also seek to improve our overall operating efficiency through the implementation of comprehensive, modern and scientific practices at all of our farms. In doing so, we aim to lower operating costs at each farm and increase profitability. The strategies we have adopted to improve operating efficiency include:

- continuing to invest in advanced equipment and management systems to improve operational efficiency. For example, we have installed a new tailor-made herd management system at our farm in Maanshan and plan to implement this system at all of our farms. Such a tailor-made system will integrate all of the central functions of each dairy farm and potentially link all of the farms together on a single network to allow central monitoring and data analysis to improve management decision making;

- continuing to improve our operations through the development and implementation of new technology and techniques as they become available. For example, we utilize advanced heat detection technology to detect the time most conducive to inseminate our cows, thereby improving the rate of successful inseminations and leading to a higher pregnancy rate and shortening the birth cycle;
- continuing to work closely with local farmers and agriculture institutes to research and supply plants and crops that are suitable for our feed and can grow under different climate conditions in different geographical regions in China. This in turn will enable us to customize our feed to each of the regions in which we operate, and reduce the cost of transporting feed without compromising feed quality or nutritional content.

Develop new business initiatives and products to diversify our revenue stream

We plan to develop our own premium branded dairy products (fresh milk, yoghurt, etc.), by targeting customers that pursue a health conscious lifestyle in affluent areas of China. In light of the melamine incident in 2008, we believe consumers are now willing to pay more for premium dairy product brands which are of higher quality. We believe our own premium branded product will be well-positioned to capture this growing demand. We initiated a trial program in the Beijing market of producing and selling premium fresh milk and yoghurt to high-end customers through a membership program, which has been well-received, and we plan to further expand distribution going forward. However, as the program is still in a trial stage, we currently do not have any detailed plans as to our expansion in distribution and marketing strategies for such products after this trial program in the Beijing market is completed .

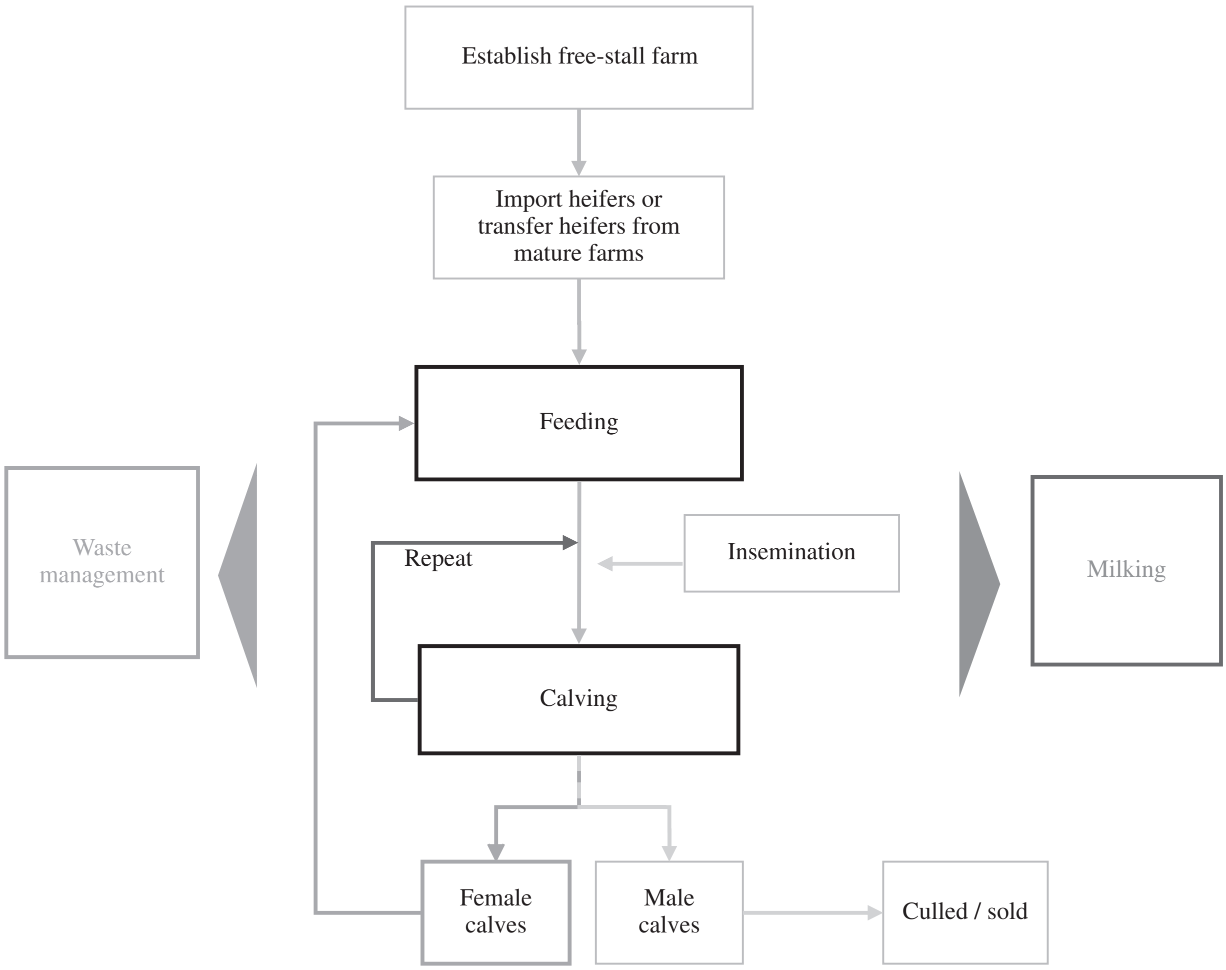
Our farms generate hundreds of tons of cow waste every day, which can be processed into fertilizer for flowers and fruit plantations. We have established fertilizer processing facilities on most of our farms, and we are in the process of researching and developing our own fertilizer product. We have also entered into a 2-year partnership agreement with the Chinese Academy of Agricultural Sciences in 2010 to jointly develop and refine our organic fertilizer technology. All patents and technologies developed under this partnership agreement will be jointly owned by us and the Chinese Academy of Agricultural Sciences. We expect the organic fertilizer business to become a new revenue stream and contribute to our profits in the future.

We have also installed at most of our farms methane gas power generation equipment that use biogas to generate electricity, which currently supports part of our own operational needs. We are exploring the potential of selling the excess electricity generated to grid companies. The PRC government promotes the use of renewable energy and grid companies are required by law to purchase power generated by renewable energy projects duly approved by the PRC government. We believe bio-electricity generation will become an additional revenue stream in the future.

OUR BUSINESS MODEL

We are the largest dairy farming company in China in terms of herd size and raw milk output. We are primarily engaged in the production and sale of raw milk, which we sell to our customer for further processing, primarily into high-end dairy products. Our dairy cows live in covered stalls and are fed with mixed feed. We operate large-scale industrialized free-stall dairy farms typically with a capacity of raising up to 10,000 dairy cows per farm. As a result of our economies of scale, superior breeding technologies, scientific feed processing and management, automated milking systems, and strict quality control, we are able to achieve significantly higher yields of high-quality milk than smaller scale farms.

The following diagram is a simplified illustration of our business model.



Once we establish and set up a free-stall farm, we import female dairy Holstein heifers older than 10 months from Australia and New Zealand. When these heifers reach approximately 14 months old, they reach a sufficient maturity for insemination. The heifers are then inseminated with semen from high-quality bulls. After an approximate 9 month pregnancy term, a male or female calf is born, and the cow begins to produce raw milk, which is collected by us and primarily sold to our customers. Any male calves are sold and all female calves are then raised until they reach a suitable age for insemination and the cycle described above is repeated again. When a cow has given birth to a male or female calf, it is inseminated again approximately 60 days following the birth of the male or female calf. A cow is typically raised for a total of 7 to 8 years during which it typically gives birth to 5 to 6 male or female calves.

Our farms have a standardized design and follow established management procedures We primarily expand our business by duplicating our successful operational and management models of existing farms to new farms.

Import of heifers

Typically, we purchase young Holstein heifers between 10 to 15 months old from Australia and New Zealand for each of our newly-built farms. As older farms reach capacity and become self-sustaining, we seek to relocate excess calves and heifers to newly established farms. Although we currently continue to import heifers to support our expansion plan, we expect to increasingly use our own self-bred heifers to supply our farms. We expect to be self-sufficient in this respect by 2013. Our heifer suppliers have confirmed that the heifers we have imported have not been fed with hormonal growth substance. As advised by our PRC legal advisor, we have complied with all applicable PRC regulatory requirements in relation to the importation of heifers.

Feeding

We place great emphasis on our feed management as milk quality is highly dependent on the quality and nutritional content of the feed mixture. We design and prepare different feed mixture formulas at each farm in different quantities for dairy cows at different stages of the life cycle in order to provide a balanced diet containing suitable nutrients. We follow guidelines and rules which were formulated over time and utilize software to optimize feed ingredients to maintain high standards.

Breeding

We use semen from high-quality Holstein bulls to improve the genes of future generations and to further increase milk yield. Once female calves are born, we raise them for approximately 14 months until they reach a suitable age for insemination. After the dairy cows have given birth, they undergo a resting period of approximately 60 days before being artificially inseminated again.

Culling

We have adopted culling as part of our herd management practices to maintain the high milk quality and milk yield of our herd. After the calves are born, they are examined by our breeding and veterinary specialists. Unfit calves or calves which do not meet our requirements are culled and either handled according to our disease control protocols or sold. We generally raise our high-quality young female calves as replacements for our mature milkable cows. Our veterinary and breeding specialists monitor the health conditions of our dairy cows and the quality of raw milk produced by milkable cows from time to time. The mature milkable cows will be culled and sold when they get older. Our culling program complements our controlled breeding efforts to continuously enhance the genetic quality, reproductive fitness, and production yields of our cow herd over time.

Milking

We carry out the extraction of raw milk in an automated and sanitary environment to ensure milk quality and safety. Our raw milk is cooled immediately after it is milked from dairy cows and flows through a series of pipes to our central milk tank, which is temperature controlled and kept at 4 degrees Celsius, before being pumped into thermo-insulated milk trucks for delivery to our customers.

Delivery

All of our farms are strategically located within close proximity to downstream processors, which enables us to capture local market demand and deliver our raw milk in a timely manner. We deliver our cooled raw milk directly to our customer using thermo-insulated milk trucks on a daily basis. Our raw milk usually lasts for approximately 48 hours before expiration.

Waste management

Each of our farms produces approximately 700 tons of cow waste per day on average, all of which are collected and processed through our centralized power generation system at each farm to convert into biogas, which is in turn used to generate electricity. We then recycle the remaining waste through our recycling systems for conversion into fertilizers. The fertilizers we produce are primarily used either on our own feed planting fields or provided to local farmers who supply feed to us, mostly free of charge. This enables us not only to achieve a higher quality of our feed but also to reduce our costs of operation. Each of our farms is equipped with cow waste treatment facilities, which are sufficient to process all the cow waste produced at each farm. The fertilizers are predominately delivered to local farmers by us, although some of our farms also engage third party logistics providers for the delivery of fertilizers.

OUR DAIRY FARMS

Our farms

As of 30 June 2010, we operated 11 farms across China with an aggregate gross land area of approximately 38,928,400 square meters. 9 of our 11 farms were constructed by us or our predecessors. We acquired our Helingeer farm and Hengsheng farm through the acquisitions of the entire equity interests of Helingeer Modern Farm in 2008 and Hengsheng Modern Farm in 2010, respectively. Our farms are located in the provinces of Anhui, Shandong, Hebei, Sichuan, Shaanxi, Inner Mongolia and Heilongjiang. 10 of our 11 farms have a designed capacity of 10,000 dairy cows each. The remaining farm, being Hengsheng Modern Farm, is undergoing expansion. Following the completion of the expansion, the designated capacity of the Hengsheng Modern Farm will also be 10,000 dairy cows. All of our farms are located within approximately 200 kilometers from the closest processing plant of our key customer. The table below sets out details of our existing farms as of 30 June 2010.

Farm	Location (province)	Commencement of construction	Size (square meters)	Designed capacity (number of dairy cows)	Number of milkable cows	Number of heifers and calves	Spare Capacity (number of dairy cows)
Baoji farm I	Shaanxi	2009	666,670	10,000	111	5,664	4,225
Chabei farm	Hebei	2007	6,666,667	10,000	3,095	2,766	4,139
Feidong farm I	Anhui	2009	922,005	10,000	1,825	9,030	0
Hongya farm	Sichuan	2007	683,630	10,000	3,631	3,165	3,204
Maanshan farm	Anhui	2005	602,633	10,000	4,348	3,437	2,215
Saibei farm I	Hebei	2006	1,013,158	10,000	2,982	2,105	4,913
Saibei farm II	Hebei	2007	2,166,678	10,000	1,870	6,613	1,517
Shangzhi farm	Heilongjiang	2006	748,281	10,000	299	2,740	6,961
Wenshang farm	Shandong	2006	565,625	10,000	1,978	4,149	3,873
Helingeer farm	Inner Mongolia	Acquired in 2008	565,840	10,000	4,950	4,920	130
Hengsheng farm	Hebei	Acquired in 2010	265,335	3,000	1,518	995	487

It takes approximately 6 to 12 months to complete the construction of each of our standard dairy farms. Heifers are then supplied to each farm upon completion of construction. It usually takes approximately 9 to 15 months for the heifers to become milkable cows, following which, the newly established farm may commence commercial production.

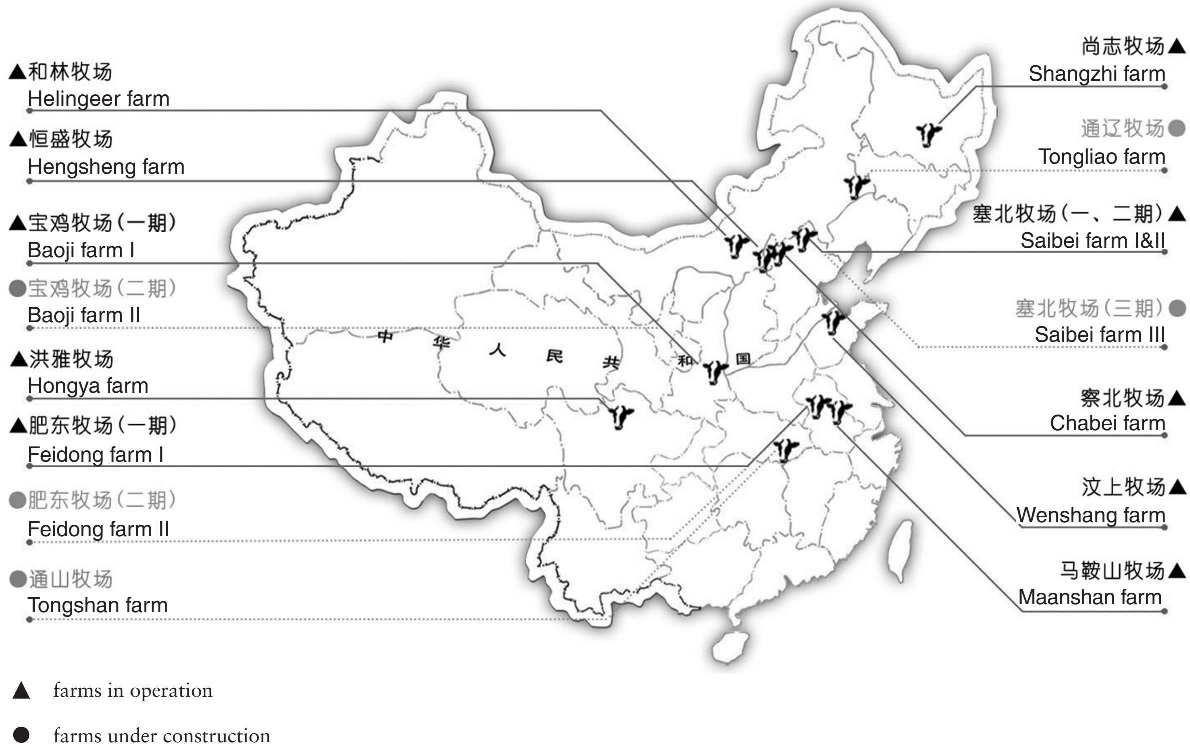
We will continue to grow our business, and have commenced the construction of 5 new farms to increase our overall production capacity. These farms are located in Hubei, Inner Mongolia, Anhui, Shaanxi and Hebei and are expected to be approximately 666,670 square meters each. Each farm is expected to be constructed with a capacity of 10,000 dairy cows. As advised by our PRC legal advisor, the construction of these 5 new farms has complied with all applicable environmental laws and regulations in the PRC. We expect the construction of the new farms to be substantially completed by the end of 2010 and milk production on these farms to commence by the end of 2012. We expect our number of farms to increase to 16 and our number of dairy cows to increase to more than 90,000 by the end of 2010. The funding for the construction of the 5 new farms is primarily through capital contributions from shareholders, cash flow from operations and loans from banks.

The table below sets out details of our farms that are currently under construction.

Farm	Location (province)	Expected number of heifers initially herded	Outstanding investment to be made* (RMB million)
Baoji II.	Shaanxi	6,000	140
Feidong II	Anhui	6,000	110
Saibei III	Hebei	6,000	185
Tongliao.	Inner Mongolia	6,000	230
Tongshan	Hubei	6,000	230

*All outstanding investments are expected to be made by June 2011.

The following map shows the locations of our existing and planned farms.



The table below contains annual raw milk sales volume for the periods indicated and a breakdown of our dairy cows at each financial year end.

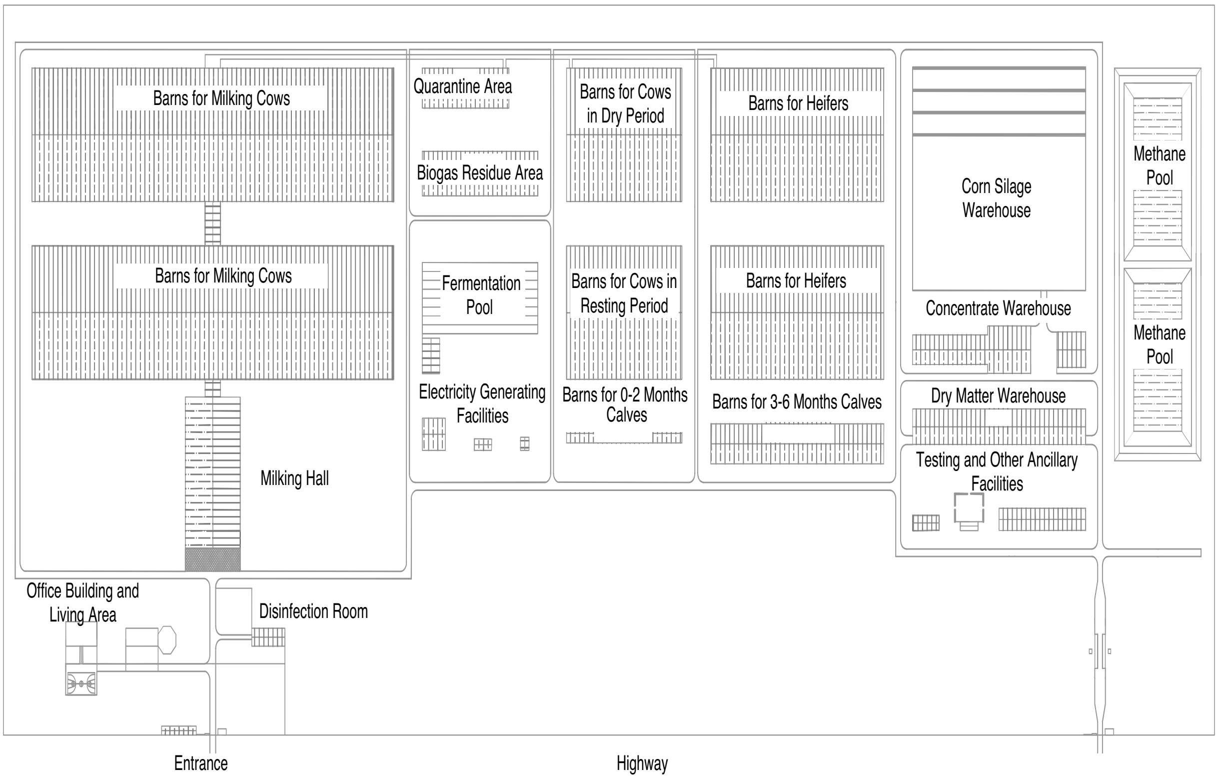
	FY2008	FY2009	FY2010
Annual raw milk sales volume (tons)	55,888	96,306	158,081
Milkable cows	14,964	20,427	26,607
Heifers and calves	9,394	23,532	45,584
Dairy cows	24,358	43,959	72,191

As of 30 June 2010, approximately 28% of our heifers and calves were aged less than one year and 72% were aged over one year. As of 30 June 2010, approximately 63% of our milkable cows were aged less than 4 years, 28% were aged 4 years or 5 years, and 9% were aged over 5 years.

Farm layout and facilities

Our standard dairy farms are designed and constructed using a modern and scientific layout to maximize yield and productivity. Our standardized design includes identical management procedures, which makes the farms easily duplicable and scalable. Our farms are primarily comprised of milking halls, barns for calves, barns for mature cows, isolated areas for cows with disease, waste treatment plants and feed warehouses.

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



Since the climate and temperature varies in different regions, we have developed customized solutions for individual farms located in different regions, and equipped our farms with tailored systems in order to provide optimal living conditions for all of our dairy cows. For example, our barns in the southern regions either contain electrical fans and shower systems or are built with low profile cross ventilation ("**LPCV**") barn designs to maintain a temperature within the most comfortable and appropriate range for our cows. LPCV barns were first designed and used in the USA in 2005. The LPCV barns provide an environment with a more stable temperature throughout the year. These barns reduce the impact of heat stress on reproductive performance and milk production. In order to continue to further improve the living conditions of our dairy cows and milk quality, our barns are also equipped with automatic alley scrapers and body scratching machines. Our milking halls are equipped with music playing systems.

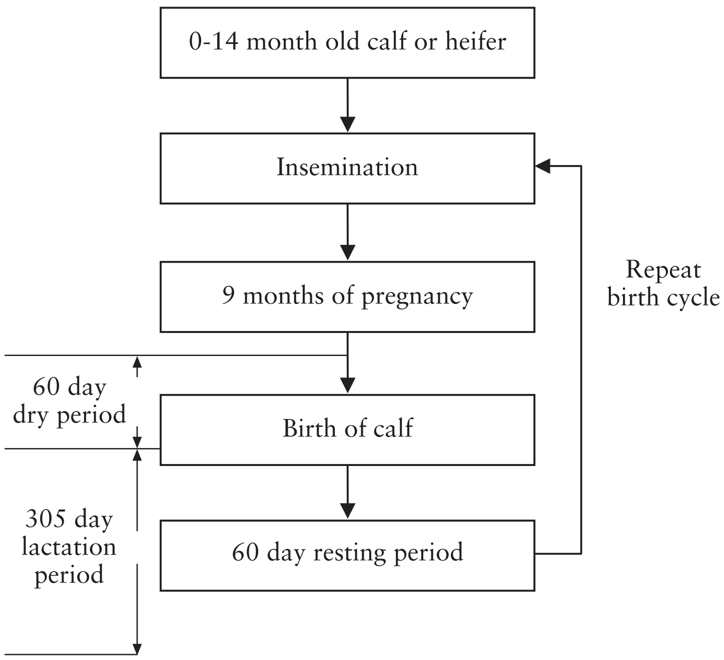
HERD MANAGEMENT

Breeding

Due to China's policy restricting the import of cows and heifers from countries such as the USA and Canada, all of our first generation dairy cows are imported from Australia and New Zealand and are Holstein cows which are known to have the highest milk yields among all cow breeds.

We primarily use artificial insemination technology to breed our dairy cows and we generally purchase frozen semen extracted from high-quality bulls from several international suppliers via a bidding process. We usually request that the selected suppliers provide us with a list of the most productive Holstein bulls of that year. Taking into consideration factors such as location, age and type of dairy cow, we select the most suitable semen that can best optimize the generic mix of our dairy cows. We also selectively use sex-controlled semen for suitable milkable cows and heifers in order to achieve significantly higher female birth rates. Our suppliers are responsible for after-sales services and for arranging overseas and/or domestic experts to provide training to our staff in relation to disease control, breeding skills and herd management.

The diagram below illustrates the overall birth cycle of dairy cows.



Feeding

Our feed includes concentrates and forages. Concentrates primarily consist of corn, soybean meal, beer pulp and cotton meal and account for approximately 60% of a milking cow's daily feed consumption, and are mostly commodities easily accessible nationwide. Forages mainly consists of corn silage, sheep grass and alfalfa and account for about 40% of a milking cow's daily feed consumption. Unlike concentrates, forages are generally sourced locally.

The milk quality and yield produced by a dairy cow are largely determined by the nutritional composition of its feed. Putting together an optimal feed mixture requires advanced know-how and first-hand experience to determine the selection and quantity of each feed ingredient. As such, each of our farms has a professional nutrition team in charge of providing quality feed mixtures. Our nutrition head office located at Maanshan monitors our overall feed management and provides supervision and training at each of our farms.

The feed nutrients required by each dairy cow can vary depending on a number of factors such as age, stage of lactation and milk production level. To ensure that our dairy cows receive a balanced diet containing the amount and type of nutrients suitable for them at their particular stage of growth, we have adopted the "grouping strategies" feeding method at all our farms. Our dairy cows are divided into different groups according to physical condition. For different groups of dairy cows, we prepare our dairy cow feed by blending together feeds with different nutritional values in a composition and quantity using a formula prepared by our experts. We also add certain supplements to our feed, such as vitamin and mineral supplements, in order to further improve dairy cows' daily nutritional intake and digestion. We do not use hormonal growth substance to feed our dairy cows. As advised by our PRC legal advisor, all the supplements we use are listed on "Feedstock Supplements Category (2008)" issued by the PRC Ministry of Agriculture and are in compliance with applicable PRC laws and regulations.

We have also installed centralized automatic feed management software to monitor and operate the feed mixing procedure. The feed management software helps us to further optimize feed ingredients to maintain and continue to improve raw milk quality. It can also measure the nutrition required and adjust the feed mixture by searching for substitutes with an equivalent nutrition level. This effectively reduces the risk of feed price fluctuation and helps us to better monitor our costs.

Herd management technologies

We apply advanced heat detection technology to detect the time that is most conducive for insemination, thereby improving the rate of successful inseminations leading to more pregnancies, shortened calving periods and increased milk yields.

Our comprehensive herd management software generates various types of reports and analyses to help us manage every step of the milk production process, including tracking the breeding cycle. The software also collects and stores information on each cow, tracking its lactating cycle, milk production level, and health condition.

We implemented a new software system at our farm in Maanshan in December 2009. Compared to the current system, the new software allows more automated data collection and reduces the need for manual input, thus improving data quality and control. The new system can also integrate all of the central functions of each of our farms as well as link all of the farms together on a single network to allow central monitoring and data analysis. The software supplier is responsible for after sales services and provides trainings to our employees.

We also have an off-site backup system which can save information from different farms to a centralized computer system. In addition, our local computers are installed with an emergency backup server which can automatically recover the latest information of a system should there be any unexpected system crash.

Cow welfare

While climate and temperature are different in various regions, we customize each of our farms to adapt to the local environment. For example, farms in the more southern provinces where temperatures are higher, are equipped with automated climate control systems to ensure optimal temperature and humidity levels inside the stalls. In addition, we specially pad the floors of the stalls with soft material to protect the cows and we rearrange such padding every 3 days to ensure maximum comfort. We have installed automated barn cleaners called alley scrapers at all of our facilities to provide our cows with a comfortable and pleasant living environment. Our automated alley scrapers continuously clean the cow waste every few hours. We equip some of our farms with body scratching machines and have also installed music-playing sound systems at all of our milking halls to provide a relaxing environment to our milking cows to achieve higher milk yield.

Disease control

We have implemented a strict and effective disease control policy which is described below. Our farm managers are held accountable for any violations of the policy by themselves or their subordinates, and are subject to reduction in pay and other disciplinary action.

Strict protocol for entering the farm and production facility

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

Regular and frequent disinfection of cows, equipment, and facilities

We disinfect our staff living quarters, milking halls, machines and equipment, and the veterinary hospital on a regular basis. For example, we disinfect the milking halls once a day and the milking parlors once every 8-hour shift. Employees must wear masks, hats, gloves, and goggles when handling dairy cows or milk.

Quarantine and treatment of diseased and dead cows

We quarantine our diseased dairy cows in separate barns and our veterinarians inspect them promptly. We collect biopsy samples and carry out testing in our laboratories to determine the cause and severity of the disease. Where medical treatment is not cost-effective or not feasible, the diseased dairy cows will be culled, their bodies cremated, and the immediate areas are disinfected. We generally milk the cured dairy cows in a separate milking hall until the milk produced passes all of our tests and examinations. Generally, dead cows and aborted fetuses are processed and disposed of by our veterinarians within a few hours of death. Where there is substantial risk of infection, we carry out farm-wide disinfection and immunization to prevent the spread of the disease. We are required to make relevant filings to government authorities for outbreak of certain classified diseases. Please see the section entitled "PRC Regulatory Review" in this prospectus for details. During the Track Record Period, there was no outbreak of any disease in our farms.

Implementation of an immunization program at each farm

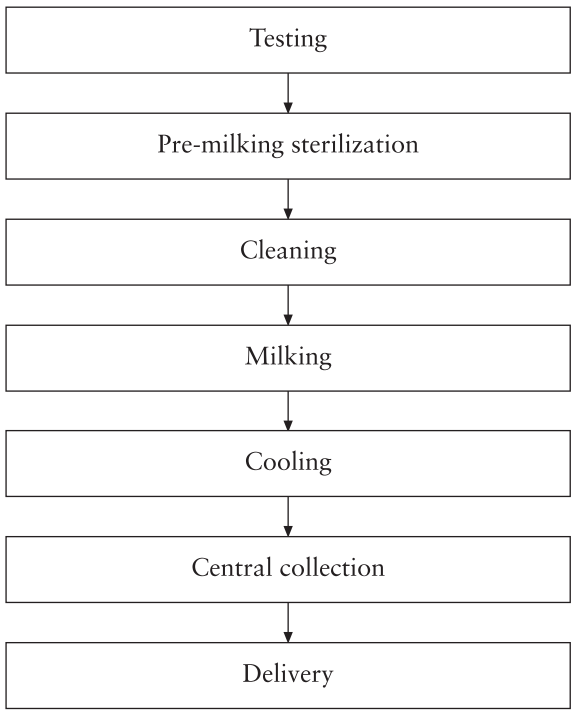
We require each farm to implement an immunization program and to keep detailed records of the immunizations. The manager of each farm is responsible for submitting a monthly immunization plan to the Group inspector. The Group inspector conducts regular inspections of the farms' immunization records and ensures a sufficient supply of vaccines. Pursuant to relevant PRC regulations, the local government supplies necessary vaccines to us for free and all such vaccines are stored and used according to their respective requirements.

Mandatory disease control training for new staff

We require all of our new staff to complete mandatory disease control training before they can start work. Each farm must conduct disease control training for employees at least once a month.

MILK PRODUCTION MANAGEMENT

Milking of dairy cows is carried out in three shifts each day through an automated and sanitary process. As the dairy cows are milked, all of the raw milk is transported automatically through pipes directly to the refrigerated central tank for cooling and storage at a temperature of 4 degrees Celsius. Cooled raw milk is then piped from the central tank to thermo-insulated milk trucks and delivered directly to our customers. The following diagram illustrates the milk production process:



The milk production process is as follows:

- *Testing* — to ensure the quality and safety of raw milk, we discard the first three squeezes of raw milk from the dairy cows. Our dairy workers also check the health condition of the dairy cows' udders at this stage, which includes checking the appearance of udders or if there are any lumps in the first three squeezes of raw milk. Upon observation of any signs of mastitis, the dairy cow will be immediately quarantined and checked by our veterinarian.
- *Pre-milking sterilization* — before milking, the udders and teats of dairy cows are sprayed with sanitizing fluid. We also clean and sterilize the teat cups before milking.
- *Cleaning* — the udders and teats of dairy cows are wiped dry within 30 seconds after sterilization.
- *Milking* — to commence the milking process, the dairy workers will attach the teat cups, which are connected directly to a central milk tank, to our dairy cows' udders promptly after finishing the above procedures to minimize the risk of infection.
- *Cooling* — the raw milk produced from dairy cows is immediately cooled to around 4 degrees Celsius.
- *Central collection* — we pipe all cooled milk directly to our central milk tank after cooling and the milk is stored at around 4 degrees Celsius.
- *Delivery* — we directly pipe the raw milk from our central milk tank to the thermo-insulated milk trucks and delivery is made to our customer on the same day milking takes place.

Milking Systems

Our farms generally use 2 types of modern milking systems, namely the rotary milking system and the parallel milking system. Each of the farms constructed by us is equipped with milking systems with capacity to milk approximately 6,000 milkable cows per day. Utilization rates of the milking systems at our 11 farms ranged from 2% to 83% as of 30 June 2010, largely depending on how many milkable cows each farm had. The utilization rate of milking systems is designed to reach 90% at mature farms when the herd mix of milkable cows and calves and heifers stabilizes.

As at 30 June 2010, we had 37 milking machines across all of our farms and all of our milking machines were purchased from overseas suppliers. Our milking systems are highly automated and require minimal involvement of individual workers throughout the milking process as they directly pipe the raw milk to our central milk tank from our dairy cows. The milking process is completely insulated from any external contact and therefore minimizes the risks of tampering or contamination.

Rotary Milking System

We started using the rotary milking system in 2008. Compared to other milking systems, rotary milking systems are a faster and more efficient way of milking large herds. The constant flow of milking cows loading and unloading onto the platform provides a smooth and timely movement of milking cows. The milking cows are loaded one at a time onto the milking platform as it slowly rotates. A worker stands near the entrance to the parlor and attaches milking cups to the milking cow's udders after sanitization as it passes by. By the time the platform has almost completed a full rotation, another worker will sanitise the milking cows before they exits the platform. Each rotary milking system can generate milk from 80 milking cows at the same time.

Parallel Milking System

We installed our first parallel milking system in 2007. Unlike the traditional milking methods adopted by small to medium sized farms, which require milking cows to be milked one at a time, the parallel milking system allows us to pump milk from 32 milking cows at the same time.

QUALITY CONTROL

We place great emphasis on quality control and have installed and implemented strict monitoring and quality control systems to manage our operations. At different stages of the whole production process, we perform several quality inspection and testing procedures, including sensory testing, physico-chemical index valuation, total bacterial count testing, veterinary drug residue testing, somatic cell testing and pathogenetic bacteria testing, to ensure that our raw milk comply with all applicable PRC laws and regulations. We do not add any additives or chemical substances, including melamine and hormone substances, to our raw milk to increase its fat or protein content before sale. As advised by our PRC legal advisor, neither we nor our customers are required to conduct hormone substances testing under the applicable PRC laws and regulations. In addition, we are not required by our customer to carry out testing for hormones before their dairy products are sold to the market. As a raw milk supplier, we are not required by relevant PRC laws and regulations to carry out melamine contamination tests of our raw milk. However, following the melamine incident in 2008, our customers, as dairy product manufacturers, are required to carry out melamine contamination tests before their dairy products are sold on the market.

As of 30 June 2010, our quality control department comprised 64 members, some of whom have professional qualifications with respect to food inspection, dairy products inspection and disease inspection. The head of our central quality control department and most of the supervisors of the quality control teams at each of our farms have extensive quality control related experience and relevant working experience at large dairy products manufacturers. Our quality control department closely monitors our production process. In addition, since the commencement of our business in 2005, through the Latest Practicable Date, we have not received any complaints about quality or safety issues with our product nor we have been subject to any product dispute and/or recall or return of our product which could have a material adverse effect on our financial condition or results of operations.

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

Control Over the Quality of Dairy Cows

We import high-quality heifers from Australia and New Zealand and inseminate our dairy cows with semen from high-quality bulls to improve the genetic mix of our herd. We purchase frozen semen from international suppliers, and we require a quarantine report of each bull that supplied the semen before the semen is accepted. Each of our farms has also installed a set of herd management software to closely monitor the quality and health of our dairy cows. Upon observation of any signs of sickness, such dairy cow will be immediately quarantined in a separate barn and examined by our professional veterinarian. We also have a set of comprehensive disease control standards and procedures designed to ensure and maintain the consistently high-quality of our dairy cows. We carry out routine health inspections at least 3 times per day, based on, among other things, movement and rumination of dairy cows. Upon observation of any sign of sickness, our inspectors inform our veterinarians immediately who then conduct further health checks. As required by relevant PRC laws and regulations, all of our dairy cows carry a health certificate issued by competent government authorities annually.

Control Over the Quality of Feed

We have implemented a centralized system for procurement and inspection of feed to help ensure a stable and high-quality supply. Our feed consists primarily of corn, soybeans, cottonseeds, alfalfa, and corn silage. With respect to feed components which we grow ourselves or contract out to local farmers, we regularly send quality control inspectors to the farms to monitor the planting and harvesting process. Crops that do not meet our strict standards are rejected. Other feed delivered by our suppliers is quarantined while our quality control department performs the requisite inspection. Such feed is accepted and stored in our warehouse only after approval by our quality control department. Feed that fails the inspection is rejected and immediately returned to the suppliers. We store different types of feed separately in our warehouses to prevent cross-contamination, and feed that is not used within a certain specified time must be inspected again and discarded if necessary to prevent spoilage.

Quality Control During the Milking Process

We continuously monitor our milking process and carry out inspections at systematic intervals throughout the process to ensure consistency in the quality of our raw milk and compliance with applicable milk safety standards. To ensure the quality and safety of raw milk, we sanitize the teats of dairy cows before milking commences, and we discard the first three squeezes of raw milk from the dairy cows. After the milking process is complete, we then spray the teats of dairy cows once again with sterilizing fluid.

We have adopted strict hygiene standards at all of our milking facilities. Our modern milking systems imported from abroad directly pipe the raw milk from dairy cows to our central milk tank, which also minimize the involvement of individual employees and eliminate the risk of external contamination during the milking process.

We also perform regular inspections of facilities in order to ensure our milking systems perform at optimal levels. During the Track Record Period, we have not experienced any material or prolonged stoppages of our production due to facilities failure.

Quality Control During Storage and Transportation

Following completion of the milking process, we carry out further testing and inspection before the raw milk leaves our farms and is delivered to our customers. Prior to delivery, we inspect and conduct testing of each milk truck and generate a quality report for our internal records. The milk is piped into a central storage tank first before being piped into thermo-insulated delivery milk trucks. Our customers will carry out another round of sample testing upon arrival of the milk trucks, including, amongst other things, melamine testing. We will then compare our testing results with those of our customers to ensure the quality of our raw milk.

The transportation infrastructure is designed to maintain optimal storage conditions for the quality and safety of our raw milk during transit. The storage tanks and milk containers in the delivery trucks are cleaned and sanitized regularly following our quality control systems. Throughout the whole process, our milk is kept under 8 degrees Celsius to ensure that it maintains its freshness. Each thermo-insulated milk truck is also lead sealed before leaving our farms and will only be opened by our customers upon arrival. If our customers observe any sign of damage to the lead seal, the milk truck will be immediately returned to us and such milk will be discarded. We do not keep any stocks of raw milk at our farms, and all of our daily production is typically delivered to our customer on the same day.

OUR CUSTOMERS AND SUPPLIERS

Customers

Our key customer is the Mengniu Group, the leading dairy product manufacturer in China with a market share of approximately 17.7% in 2009. We entered into a 10 year off-take raw milk supply agreement with Mengniu (Inner Mongolia), a subsidiary of Mengniu, in October 2008 following arm's length negotiations. Sales to the Mengniu Group accounted for approximately 98.9%, 99.6% and 97.6% of our total sales of milk produced in FY2008, FY2009 and FY2010, respectively. For further details on our relationship with Mengniu, please refer to the section headed "Relationship with Mengniu" in this prospectus.

Suppliers

Our primary raw material need is the feed for our dairy cows. We also purchase heifers from 3 international suppliers. Our feed consists of a mixture of both concentrates (such as corn, soybean and cottonseed) and forages (such as corn silage, sheep grass and alfalfa). While the concentrates are commodities that can be readily purchased from national markets, forages are much more difficult to obtain as they must be planted and harvested according to certain specifications in order to preserve their nutritional content.

We purchase our concentrates centrally from large national suppliers, typically through short-term purchase agreements varying in length between 1 and 3 months. Because of our scale and the quantity we typically purchase, we are able to obtain favorable terms on many of our concentrate components. For the supply of forages, we generally enter into longer-term purchase agreements of between 8 to 12 months with local farmers, under which the farmers grow and harvest the crops according to our specifications. To further improve our raw milk quality, we also purchase high quality alfalfa from international markets.

We have entered into a strategic partnership agreement with Jilin COFCO Bio-Chem & Bio-Energy Marketing Co., Ltd ("**Jilin COFCO**"), an independent third party, in July 2010. To the best knowledge of our Directors, Jilin COFCO is a subsidiary of COFCO which is the largest shareholder of Mengniu, our key customer. Pursuant to the agreement, Jilin COFCO will provide us concentrate feedstocks, such as dried distillers' grains with solubles ("**DDGS**"), corn fiber and wheat germ at an agreed quality. Pursuant to the agreement between us and Jilin COFCO, we send our orders to Jilin COFCO with respect to the quantity that we need for various feeds, which will then be confirmed by Jilin COFCO. We generally make payment within 10 days from the date of invoice and we have not made late payment since the commencement of our strategic partnership with Jilin COFCO. The term of the agreement is from July 2010 to July 2011. We believe our strategic partnership with Jilin COFCO will not only further strengthen our ability to secure long term quality feed supply but also can provide us with tailor-made feed that fit our specific requirements from time to time.

In response to potential feed price risks, we have taken the following measures:

- we set an annual purchase budget for each type of feed that we require at the beginning of each financial year;
- if the price of any type of feed increases more than 10%, we will consult with our nutrition head office in order to find a lower cost alternative;
- we purchase larger amounts of feeds we require during harvest season, when feed prices are comparatively lower; and
- the strategic partnership with Jilin COFCO as described above also helps us to address potential feed price fluctuation.

We maintain multiple suppliers for our feed in an effort to avoid relying too heavily on any single supplier. All of our feed suppliers are independent third parties. In FY2008, FY2009 and FY2010, our largest supplier accounted for approximately 13.7%, 4.9% and 3.3% of our total purchases and our five largest suppliers together accounted for approximately 31.6%, 10.7% and 12.9%, respectively, of our total purchases. We have business relationships of longer than 3 years with 4 of our 5 largest suppliers.

None of our Directors or their associates, and none of our existing shareholders who (to the knowledge of our Directors) own more than five per cent of the issued share capital of our Company, have any interest in any of our five largest suppliers. As at the Latest Practicable Date, we are not engaged in any outstanding material disputes with our existing suppliers.

INSURANCE

Generally, insurance companies in the PRC only provide insurance policies for dairy cows and heifers that are over 12-15 months old. We have in place insurance policies for all of our dairy cows that are eligible against damage caused by diseases, accidents and natural disasters. For all of our imported heifers, our suppliers provide insurance during transit until they reach the relevant PRC ports. We then purchase insurance policies for them once they fulfill the above condition. Generally, our insurance policies cover diseases such as foot-and-mouth disease, tuberculosis and brucellosis. The maximum compensation under our insurance policies covers our cost to import replacement heifers. We generally renew our insurance policies on an annual basis. As at the Latest Practicable Date, we have not made any significant claims under these insurance policies. In addition, we have not experienced any material difficulties in renewing our insurance policies since we commenced operations.

Since it is not required by PRC law, and doing so would not be consistent with the usual industry practice in the PRC, we do not carry any product liability insurance. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — Our insurance coverage and government compensation may not be sufficient to cover all of our potential losses".

We also maintain insurance coverage for our main production facilities and equipment. As at the Latest Practicable Date, no incident has occurred as a result of which we would have to make any significant claims under these insurance policies.

We also maintain mandatory social security insurance policies for our employees in China pursuant to PRC laws and we make contributions to mandatory social security funds for our employees. Please refer to the section headed "Directors, Senior Management and Employees" in this prospectus for further details.

LOGISTICS

We primarily use a third party logistic provider to deliver our raw milk, who bears the risks associated with the delivery of our raw milk. As at 30 June 2010, we owned and operated 2 milk trucks, which are primarily for the use of our farm located in Maanshan. Prior to 1 July 2010, we outsourced our raw milk transportation to 3 logistic providers. Since then, we have engaged 1 logistic provider, Inner Mongolia Tengchi Modern Logistic Limited (內蒙古騰馳現代物流有限公司) ("**Tengchi**"), a connected person of the Company, to deliver our raw milk. We bear the entire cost of delivery to our customers. Tengchi is a professional raw milk logistics company engaged in the raw milk delivery business in the PRC and has an established customer base, including certain sizeable dairy product companies in the PRC. It started to deliver our raw milk in 2007. We select logistics providers via a competitive bidding process. We first send bidding invitations to qualified logistic providers. Upon receipt of bidding documents from each of the qualified logistic providers, our bidding committee will evaluate such bidding documents based on a qualification check, commercial review, technology review and price review. We then enter into a contract with our selected logistics provider. We have stringent criteria for the selection of a logistics provider, such as price, scale, industry experience and track record. We require them to have a distribution network that is compatible with ours and we implement a set of strict quality control standards for them to follow. Pursuant to the logistics agreement entered into between us and Tengchi, the raw milk must be kept under 8 degrees Celsius throughout the whole transportation process and each thermo-insulated milk truck must be lead sealed before leaving our farms. The agreement also sets out that any direct contact with our raw milk during the transportation process is strictly prohibited and should there be any adulteration or fraud, the agreement will be immediately terminated. The term of the agreement is for 1 year and can be renewed upon expiry. We believe that engaging one professional logistics provider allows us to manage the delivery of our raw milk more efficiently and further strengthens our quality and safety control. Its established network can meet our transportation needs and the customized quality standards help us to ensure the quality of our raw milk.

During the Track Record Period, we did not experience any material disruption or delay in the delivery of our raw milk. We believe this outsourcing arrangement allows us to focus our resources on our core business and reduce our capital investment and risk of liability for transportation accidents, delivery delays or losses. We also believe that alternative qualified logistics providers are readily available in the market, and we may substitute Tengchi with alternative logistic provider if it fails to meet our requirements. In additions, if Tengchi is not able to meet the needs of any of our farms, there are other local regional logistic providers readily available to deliver our raw milk.

SAFETY AND ENVIRONMENTAL MATTERS

Workplace Safety

We are subject to the PRC laws and regulations regarding labor, safety and work-related incidents. We provide safety protection to our employees working in our production facilities, which includes providing them with adequate safety equipment and ensuring that our production facilities have adequate precautionary measures. We inspect all equipment and facilities and arrange necessary maintenance on a routine basis. We also provide safety-related education to our employees on a regular basis to increase their awareness of work safety. As at the Latest Practicable Date, we have complied with the PRC workplace safety regulatory requirements in all material respects and have not had any incidents which have materially and adversely affected our operations.

Environmental Protection

We are subject to environmental protection laws and regulations promulgated by the PRC government. We are required by the relevant governmental authorities to carry out an environmental impact assessment before constructing new farms. Upon completion of the construction of our farms, we are required to go through and pass an environmental completion acceptance inspection for each of our farms from local environmental bureaus prior to starting formal production (the "**Inspection**"). Depending on the requirements of the local environmental bureau, prior to applying for the Inspection, we may also be required to first obtain a trial permit and to start trial production, following which, we must apply for Inspection by the local environmental bureau within 3 months of obtaining the trial permit. Currently, 6 of our farms have passed the Inspection, and the remaining 5 farms are in the process of applying for Inspection. As advised by our PRC legal advisor, the applications for the Inspection by the 5 remaining farms together with the operation of all our 11 farms are in compliance with all applicable PRC environmental laws and regulations. The primary wastes generated by us are waste water and cow waste, which are treated in compliance with applicable environmental standards in our production facilities. We have implemented a set of waste treatment procedures in our production facilities. As advised by our PRC legal advisor, we have complied with all applicable environmental laws and regulations in the PRC. The Directors are of the view that the annual cost of compliance with applicable PRC environmental laws, regulations and policies was not material during the Track Record Period.

As at the Latest Practicable Date, we have not received any notifications or warnings, nor have we been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially and adversely affected our production.

PROPERTIES

Land

Held Properties

As of 30 September 2010, we held 7 parcels of land, with a total area of approximately 11,179,358 square metres, which are mainly used for industrial, farm, pastural or other farm ancillary use in the PRC. We have obtained all the required land use rights certificates for these parcels of land.

Leased Properties

As of 30 September 2010, we leased 13 parcels of land, with a total area of approximately 28,505,712 square metres, which are mainly used for dairy farm, agricultural development or pastural in the PRC. These leases are generally for a term of 16 to 30 years. The lessors have provided relevant evidence showing the owners' agreement to the leases or the lessors have registered the leases with the local authorities for all of our leased land. As advised by our PRC legal advisor, there was no dispute nor challenge against us on the lease and use of the collectively-owned land during the Track Record Period, and all the leases are in compliance with the applicable PRC laws and regulations.

Buildings

Owned Buildings

As of 30 September 2010, we owned 156 buildings with a gross floor area of approximately 210,575 square metres and various structures. We have obtained all construction permits for all of our buildings and structures and we have obtained building ownership certificates for 26 of our buildings. As of 30 September 2010, those 130 buildings without building ownership certificate had a total net book value of approximately RMB81.1 million and represented 7.5% of the total net book value of our buildings. Please see the section headed "Appendix IV — Property Valuation" this prospectus for further details. As confirmed by our PRC legal advisor, since we have obtained all construction permits for all of these buildings, we legally own all of these buildings including those without buildings ownership certificates.

Leased Buildings

As of 30 September 2010, we lease space in 5 buildings, with a gross floor area of approximately 677 square metres throughout China. In relation to these buildings where we have leases, all of our landlords are entitled to lease the buildings. Our PRC legal advisor has confirmed that we are using these leased properties in accordance with the permitted usages under the relevant lease agreements.

Buildings and Structures Currently under Construction

As of 30 September 2010, we had various structures under construction. The projected total cost of construction was approximately RMB527.8 million, of which approximately RMB251.4 million had already been utilized. We financed the construction primarily through capital contribution from shareholders, cash flow from operations and loans from banks. We have obtained the relevant construction approvals and permits for all of these buildings and structures.

Please refer to the valuation report prepared by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, in the section headed "Appendix IV — Property Valuation" to this prospectus for further details on valuation.

LEGAL PROCEEDINGS

There are no litigation or arbitration proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's financial condition or results of operations.

LICENSES, REGULATORY APPROVALS AND COMPLIANCE RECORD

Our Directors, as advised by our PRC legal advisor, confirm that as at the Latest Practicable Date, our Group has complied with all relevant PRC laws and regulations in all material respects and has obtained all requisite licenses, approvals and permits from relevant regulatory authorities for our operations in China and new farms under construction.

This section includes information relating to Mengniu which, unless otherwise stated, is extracted from publicly available sources including the website of Mengniu and the public filings of Mengniu. Our Directors have taken all reasonable care to ensure that the relevant facts in this section are accurately reproduced from relevant sources. The facts and statistics in this section have not been independently verified by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective affiliates, directors and advisers or any other parties involved in the Global Offering. None of them makes any representations as to the accuracy or completeness of such information which may not be consistent with other information available and may not be accurate and should not be unduly relied upon.

Background of Mengniu, the Group's key customer

Mengniu Group manufacture and distribute dairy products in China. It is one of the leading dairy product manufacturers in China, with "Mengniu" as its core brand. Mengniu Group's diverse products include liquid milk products, such as UHT milk, milk beverages and yogurt, ice cream and other dairy products such as milk powder. Mengniu has been listed on the Main Board of the Stock Exchange (stock code: 2319) since June 2004 and is regulated under the relevant laws and regulations in Hong Kong including but not limited to the Listing Rules.

According to Mengniu's interim report for the 6 months ended 30 June 2010, the aggregate annual production capacity of Mengniu Group reached 6.14 million tons in June 2010. According to the information issued by China Industrial Information Issuing Centre under the National Bureau of Statistics of China, Mengniu Group's dairy products ranked first in terms of both sales volume and revenue, among similar products in the market in China in 2009. In addition, according to the information issued by China National Commercial Information Centre under the China General Chamber of Commerce, Mengniu Group's liquid milk ranked first in terms of consolidated market share of similar products in China in 2009. In 2010, Mengniu Group also ranked 16th in the Report of the Global Dairy Top 20 issued by Rabobank Netherlands and moved 3 places up since it became the first Chinese dairy company among the world's top 20 dairy companies in 2009.

In July 2009, Mengniu successfully secured capital injection from COFCO Corporation, the largest oil and food enterprise in China. This enables Mengniu to gain industry experience and benefit from resources sharing and support in developing its food safety control system.

At the time of establishment of Leading Farming and Modern Farm, no directors or shareholders of Mengniu were, to the best knowledge of our Directors, directors or senior management of Leading Farming and Modern Farm. Apart from Mengniu (Maanshan) and Mengniu (Inner Mongolia), being the subsidiaries of Mengniu, none of the founding shareholders of Leading Farming and Modern Farm were directors or shareholders of Mengniu at the time of incorporation of Leading Farming and Modern Farm. As at the Latest Practicable Date, Mr. Deng is the beneficial owner of 0.16% interest in Mengniu and Mr. Wolhardt Julian Juul, one of our non-executive Directors, is also a non-executive director of Mengniu. Mr. Niu Gensheng, the settlor of a charitable trust which indirectly owns Brightmoon is a non-executive director of Mengniu. For details of the relationship between the Directors, senior management and shareholders of the Company and Mengniu Group, please refer to the sub-section headed "Our Directors, senior management and shareholders' relationship with Mengniu" below.

Relationship with Mengniu

Sales to Mengniu since 2006

We started to sell our raw milk to Mengniu in 2006, when our first farm commenced production. During the Track Record Period, we sold substantially all of our raw milk to Mengniu. Sales to Mengniu Group accounted for approximately 98.9%, 99.6% and 97.6% of our total sales of milk produced in FY2008, FY2009 and FY2010, respectively.

10 Year Off-take Supply Agreement

In October 2008, we entered into a 10 year off-take raw milk supply agreement (the **Off-Take Agreement**) with Mengniu (Inner Mongolia) commencing from 24 October 2008 following arm's length negotiations.

Committed Purchase

Under the Off-Take Agreement, both parties shall start to discuss estimates of annual supply 3 months prior to the beginning of each calendar year. Should the parties fail to reach an agreed amount, the agreement then calls for Mengniu (Inner Mongolia) to purchase, subject to certain limitations, all of our raw milk production in the upcoming calendar year.

Right to sell to other parties

The Off-Take Agreement also provides us with flexibility to sell up to 30% of our raw milk produced daily at each dairy farm (the "**Reserved Production**") to third parties at our discretion, except to two of Mengniu's competitors. We have sold small amount of raw milk to other dairy product manufacturers during the Track Record Period. Save as otherwise disclosed in this paragraph, the Off-Take Agreement contains no other restrictions on our Group's sales of raw milk to third parties or development of our own dairy products.

Pricing

The pricing of the raw milk sold to Mengniu (Inner Mongolia) is determined through a formula which is calculated with reference to a base price with upward adjustment for meeting certain quality standards, such as the level of fat and protein content and other upward adjustments if our farms are within an agreed proximity to Mengniu Group's dairy processing plants. The base price is based on the price which Mengniu Group at the relevant time offers to buy raw milk from other mid- to large-scale dairy farms (which can offer raw milk of comparable quality) or, if there are no such mid- to large-scale dairy farms in such region, other comparable dairy farms in nearby regions with adjustments (reflecting the prices in different regions).

The Off-Take Agreement also guarantees that the base price and upward adjustment paid by Mengniu Group for our raw milk will not be lower than the base price it pays to other mid- to large-scale dairy farms in the same region (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases) which provides further assurance that our arrangement with Mengniu (Inner Mongolia) will not negatively affect the price of our product. Our sales department will monitor the market price of raw milk and will negotiate with Mengniu if raw milk price offered to us is less favourable than the market price. The Off-Take Agreement provides that the pricing terms are to be negotiated every 12 months. However, in the event that no agreement is reached, the then existing contractual terms continue to apply.

In view of our scale and high quality raw milk, Mengniu (Inner Mongolia) has also granted us an option to sell to Mengniu (Inner Mongolia) the same amount of raw milk at the same terms and prices it offers to any third party suppliers. To the extent that Mengniu (Inner Mongolia) offers preferential or subsidy policies to other third party raw milk suppliers (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases) in regions near to our farms, such preferential treatment and subsidies must also be extended to us.

Under the Off-Take Agreement, Mengniu Group shall pay us for raw milk delivered on a monthly basis, apart from the newly operated farms which shall be paid fortnightly during the first two years of its operation.

Quality check

Before delivery of our raw milk from each dairy farm to Mengniu Group, we are required to test the quality standards of our raw milk, such as the level of fat and protein. Mengniu Group will do the same when our product arrives at its processing manufacturing facility and apply the upward adjustment in price accordingly. Furthermore, Mengniu will also conduct regular site inspection on each of our dairy farms to ensure quality of raw milk. The Off-Take Agreement also contains usual provisions indemnifying the Mengniu Group for direct loss arising from raw milk supplied by us falling short of the required quality standards, except for loss not otherwise attributable to our fault. In September 2008, certain dairy products manufactured by Mengniu were found to contain melamine, but none of such dairy products was supplied by us. Up till the Latest Practicable Date, we have not received any claim from Mengniu Group pursuant to such indemnity provisions.

Termination and Renewal

We are entitled to terminate the Off-Take Agreement if Mengniu Group ceases to be among the 10 largest dairy processors in China by revenue in any given financial year. In addition, either party has a right to terminate the Off-Take Agreement if the other party commits a material breach of the Off-Take Agreement and fails to cure such breach within certain period of time. Absent any force majeure or events of default, the Off-Take Agreement will automatically extend for another 10 years upon expiry.

Reasons for partnering with Mengniu

We believe our strategic partnership with Mengniu Group is mutually beneficial to both us and to Mengniu Group. The partnership is beneficial to us in securing long-term demand from a high-quality customer. In addition, it is also strategically important to Mengniu in addressing consumers' concerns about milk safety by ensuring a source of high-quality raw milk, particularly for use in their high-end products.

Mengniu Group mainly sources raw milk from third parties. We are one of only the few companies that operate large-scale dairy farms in China and given that all of our dairy farms are located close to Mengniu Group's manufacturing facilities, we believe we are well-positioned to be a strategically important supplier of Mengniu. During the Track Record Period, our current supply to Mengniu constituted less than 5% of Mengniu's raw milk requirement which leaves significant room for further business expansion with Mengniu.

Our Directors believe that, given our over 4-years' business relationship with Mengniu, our production know-how and the quality of our products meeting the requirements of Mengniu and its high end customers, the continued long-term business relationship is mutually beneficial to both our Group and Mengniu Group.

Measures to Mitigate Customer Concentration Risks

While we expect to continue to derive a substantial portion of our revenue from sales to Mengniu Group, we plan to expand our customer base and to develop our own premium branded dairy products in order to reduce customer and product concentration risk.

Raw milk is a basic commodity. Unlike customized or tailor-made products, it can be used by any food and dairy product manufacturers or, after further processing, sold to other food product manufacturers. Furthermore, in light of the high demand for, and serious shortage of, high quality raw milk in the PRC, the scale of our Group's dairy farm operations and the location of large-sized milk products manufacturers (other than Mengniu) in regions where our Group's dairy farms are located, we believe that it would not be difficult for us to find alternative customers should the Off-Take Agreement be terminated or Mengniu defaults under the Off-Take Agreement.

At the same time, with a view to minimize risks arising from concentration on a single customer, we plan to build new dairy farms in other regions in the PRC and reach out to other domestic as well as overseas and multinational milk and dairy product manufacturers in those regions with a view to broaden and diversify our customer base. The Group also has started to diversify into other businesses such as branded milk products and fertilizer processing.

Our Directors, senior management and shareholders' relationship with Mengniu

The following table sets out the Directors, senior management and shareholders of the Company who have any relationship with Mengniu Group, including shareholding and directorship relationship, as at the Latest Practicable Date:

Name	Shareholding and management role in our Company as at the Latest Practicable Date	Relationship with Mengniu Group
Mr. Deng.	Executive Director	Beneficial owner of approximately 0.16% interest in Mengniu
Mr. Julian Juul Wolhardt .	Non-executive Director	Non-executive director of Mengniu
Ren Meicheng (任美成) . . .	Interested in approximately 1.46% of the issued shares of the Company	Beneficial owner of approximately 0.09% interest in Mengniu

Name	Shareholding and management role in our Company as at the Latest Practicable Date	Relationship with Mengniu Group
Qiu Lianjun (邱連軍).....	Interested in approximately 0.68% of the issued shares of the Company	Beneficial owner of approximately 0.52% interest in Mengniu
Wang Aisuo (王埃鎖).....	Interested in less than 0.1% of the issued shares of the Company	Beneficial owner of approximately 0.22% interest in Mengniu Assistant to the Chief Executive Officer of Mengniu
Wang Fuzhu (王福柱)	Interested in approximately 1.08% of the issued shares of the Company	Beneficial owner of approximately 0.04% interest in Mengniu
Liu Weixing (劉衛星).....	Interested in less than 0.02% of the issued shares of the Company	Vice President in Technical Department of Mengniu (Inner Mongolia)
Jiang Hong (江紅).......	Interested in less than 0.02% of the issued shares of the Company	Beneficial owner of approximately 0.03% interest in Mengniu
Wu Jingshui (吳景水).....	Interested in less than 0.18% of the issued shares of the Company	Executive director of Mengniu
Ding Sheng (丁聖)	Interested in less than 0.16% of the issued shares of the Company	Executive director of Mengniu

According to the disclosure of interest made by the shareholders of Mengniu, Xin Niu International Limited, Yinniu Milk Industry Limited, Jinniu Milk Industry Limited, Niu Gensheng (牛根生), Mr. Deng, Sun Yubing (孫玉斌), Wang Fuzhu (王福柱), Lu Jun (盧俊), Sun Xianhong (孫先紅), Bai Jun (白君), Bai Ying (白瑛), Yang Wenjun (楊文俊), Hou Jiangbin (侯江斌), Qiu Lianjun (邱連軍), Pang Kaitai (龐開泰), Chu Xiuli (初秀麗), Li Shurong (李淑榮), Liu Xiaoling (劉曉玲), Wang Guisheng (王貴生), Wang Aisuo (王埃鎖), Wang Jishan (王繼山), Wang Jianbang (王建邦), Jiang Hong (江紅), Deng Wenping (鄧文平), and Ren Meicheng (任美成) have entered into a concert party agreement and the concert group is interested in approximately 14.06% of the issued share capital of Mengniu. Amongst the concert party group members, Wang Fuzhu (王福柱), Qiu Lianjun (邱連軍), Chu Xiuli (初秀麗), Wang Aisuo (王埃鎖), Jiang Hong (江紅) and Ren Meicheng (任美成) are aggregately interested in approximately 3.4% of the issued shares of the Company as at the Latest Practicable Date. The largest shareholder of Mengniu is COFCO Corporation which is interested in approximately 20.03% of the issued share capital of Mengniu. We have entered into a strategic partnership agreement with a subsidiary of COFCO Corporation pursuant to which the subsidiary of COFCO Corporation will provide us concentrate feedstocks, corn fiber and wheat germ. For details of the strategic partnership agreement, please refer to the section headed "Our Business — Our Customers and Suppliers — Suppliers" in this prospectus.

Each of Mengniu and a subsidiary of COFCO Corporation has agreed to subscribed for such number of Shares which may be purchased with an aggregate amount of HK$150 million and US$30 million, respectively, at the Offer Price. Assuming an Offer Price of HK$3.29 being the mid-point of the Offer Price range set forth in this prospectus, each of Mengniu and the subsidiary of COFCO Corporation will subscribe for approximately 45,590,000 Shares and 70,680,000 Shares, representing approximately 0.95% and 1.47% of the Shares issued and outstanding upon completion of the Global Offering.

On the other hand, each of Mengniu (Inner Mongolia) and Mengniu (Maanshan) is a subsidiary of Mengniu and holds approximately 1.55% and 0.77% equity interest respectively in Modern Farm.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalization Issue and Global Offering, Advanced Dairy, Crystal Dairy and Brightmoon will collectively continue to control more than 30% of our issued share capital. As such, Advanced Dairy, Crystal Dairy and Brightmoon will remain as Controlling Shareholders after the Global Offering.

Each of our Controlling Shareholders and Directors confirms that it, she or he does not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The Directors consider that the Group is capable of carrying on its business independent of the Controlling Shareholders and their associates on the following reasons:

Management Independence

The Company's management and operational decisions are made by the board of Directors and the senior management. The board of Directors comprises 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors. Each of our Directors is aware of his/her fiduciary duties as a director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a director and his/her personal interests.

If there is any potential conflict of interests arising out of any transactions to be entered into between our Group and our Directors, the interested Directors shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum.

Since our Controlling Shareholders do not engage in businesses which are in competition or in potential competition with that of our Group (other than through their shareholding interest in our Group), our Directors do not consider that there is any issue which will arise in relation to our management independence. Notwithstanding our non-executive Directors, Mr. Julian Juul Wolhardt, Mr. Hui Chi Kin Max and Mr. Lei Yongsheng are directors of Advanced Dairy, Crystal Dairy and Brightmoon, respectively, the Board is capable of managing and has managed, our Group independently from the Controlling Shareholders as none of Mr. Julian Juul Wolhardt, Mr. Hui Chi Kin Max and Mr. Lei Yongsheng is involved in the daily management of the Group.

Having considered the above factors, our Directors are satisfied that our management team is able to perform their roles in our Company independently and are of the view that they are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Operational Independence

Although the Controlling Shareholders will retain a controlling interest in the Company after the Listing, the Company has full rights to make all decisions on, and to carry out, its own business operations independently. The Company (through its subsidiaries) holds all relevant licences necessary to carry on the business, and has sufficient capital, equipment and employees to operate the businesses independently from the Controlling Shareholders.

Moreover, we have access to third parties independent from and not connected to our Controlling Shareholders for sources of supplies and customers. We have also adopted a set of internal control procedures to facilitate the effective and independent operation of our business.

We do not have any continuing connected transactions with our Controlling Shareholders, nor do we expect to enter any transaction with our Controlling Shareholders going forward.

Administrative independence

The Group has its own and separate capabilities and personnel to perform all essential administrative functions including financial and accounting management, inventory management and research and development. The company secretary and senior management staff are independent of the Controlling Shareholders.

Financial independence

The Group has its own financial management system and the ability to operate independently of the Controlling Shareholders from a financial perspective. As at 30 June 2010, the amount of total bank and other borrowings of our Group was RMB1,225,117,000. The Directors believe that the Group is capable of obtaining financing from external sources without reliance on the Controlling Shareholders.

SELLING SHAREHOLDERS

Pursuant to the International Underwriting Agreement, Advanced Dairy, Crystal Dairy, Jinmu, Yinmu, Xinmu and Youmu will sell 228,016,518 Shares, 75,983,482 Shares, 11,301,067 Shares, 38,293,683 Shares, 36,797,375 Shares and 9,607,875 Shares respectively, representing approximately 4.75%, 1.58%, 0.24%, 0.80%, 0.77% and 0.20% of the total issued share capital of our Company immediately following completion of the Global Offering without taking into account any Share which may be sold by Advanced Dairy and Crystal Dairy pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon exercise of the Management Options.

The number of Shares held by Advanced Dairy, Crystal Dairy, Jinmu, Yinmu, Xinmu and Youmu immediately prior to and following the sale of the Sale Shares and the exercise of the Over-allotment Option are set out in the table below.

Selling Shareholders	Number of Shares held by the Selling Shareholders before the sale of the Sale Shares	Number of Sale Shares	After the Global Offering and the sale of the Sale Shares but before the exercise of the Over-allotment Option		After the Global Offering and the exercise of the Over-allotment Option	
	(shares)	(shares)	(shares)	(%)	(shares)	(%)
Advanced Dairy	1,380,265,200	228,016,518	1,152,248,682	24.01%	1,017,248,682	21.19%
Crystal Dairy	460,088,400	75,983,482	384,104,918	8.00%	339,104,918	7.06%
Jinmu	229,458,800	11,301,067	218,157,733	4.54%	218,157,733	4.54%
Yinmu	777,852,800	38,293,683	739,559,117	15.41%	739,559,117	15.41%
Xinmu	747,818,400	36,797,375	711,021,025	14.81%	711,021,025	14.81%
Youmu	195,270,000	9,607,875	185,662,125	3.87%	185,662,125	3.87%

For more details of the lock-up arrangements restricting the sale or disposal of Shares by certain Shareholders, please see the section headed "Underwriting" in this prospectus.

NON-COMPETITION UNDERTAKING

Jinmu, our executive Directors and some managers in our Group, namely Mr. Sun Yugang (孫玉剛), Mr. Ren Meicheng (任美成), Mr. Li Xinming (李新明), Mr. Zhang Fulong (張福龍), Mr. Li Gang (李剛) and Ms. Luo Wei (羅蔚), (the "**Covenantors**") entered into a non-competition deed (the "**Deed**") dated 5 November 2010 in favour of our Company, pursuant to which each of the Covenantors undertook to our Company (for itself and as trustee for all members of the Group) that it will not, and it shall procure that its associates, which for the purposes of the Deed, shall not include members of the Group, shall not, whether directly or indirectly or as principal or agent, and whether on its own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any members of the Group) carry on, engage, participate or hold any right or interest in or render any services to or provide any financial support to or otherwise be involved in any business ("**Restricted Activity**") which is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with the business carried out on by our Company or any of our subsidiaries from time to time ("**Business**"), whether as a shareholder, director, officer, partner, agent, lender, employee, consultant or otherwise and whether for profit, reward or otherwise, or take any action which interferes with or disrupts or may interfere with or disrupt the Business including, but not limited to, solicitation of any of the customers, suppliers or employees of any members of the Group, provided that there shall be no restriction on any of the Covenantors from having any interest in not more than 5% of the issued shares in any company engaging any Restricted Activity ("**Subject Company**") which is or whose holding company is listed on any recognized exchange (as defined under the Securities and Futures Ordinance) even though the business carried on by the Subject Company is or is likely to be in competition with the Business provided that (i) there is a holder (together where appropriate, with its associates) with a larger shareholding in the Subject Company than the aggregate shareholding held by the relevant Covenantor and/or its associates at all times; (ii) the total number of the relevant Covenantors' representatives on the board of directors of the Subject Company is not significantly disproportionate in relation to his or its shareholding in the Subject Company; and (iii) the total number of shares held by the relevant Covenantor and/or his or its associates together with other persons who are acting in concert shall not exceed 30% of the issued shares of the subject Company.

The Covenantors further undertake:

(a) not to appoint directly or indirectly any executive director in the Subject Company; and

(b) that if any new business investment or other business opportunity relating to the Business ("**Business Opportunity**") is identified by or made available to it or any of their associates, each shall refer such Business Opportunity to our Company on a timely basis and shall give written notice to our Company of such Business Opportunity within 7 days identifying the target company (if relevant) and the nature of the Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for the Company to consider whether to pursue such Business Opportunity.

Our Company shall seek approval from the Board or Board committee (in each case comprising, among others, independent non-executive Directors) who do not have a material interest in the Business Opportunity ("**Independent Board**") as to whether to pursue or decline the Business

Opportunity. Any Director who has an actual or potential material interest in the Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not count towards the quorum for, any meeting or part of a meeting convened to consider such Business Opportunity. The Independent Board shall consider the financial impact of pursuing the Business Opportunity offered and if appropriate, it may appoint independent financial advisers to assist in the decision-making process in relation to such Business Opportunity. If there is any material change in the nature, terms or conditions of such Business Opportunity pursued by the relevant Covenantor, each shall refer such Business Opportunity as so revised to the Company in the manner as if it were a new Business Opportunity.

If our Company declines to pursue the Business Opportunity or fails to notify the Covenantors of our decision within 30 days of receipt of the written notice of the Business Opportunity, the Covenantors shall be entitled but not obliged to pursue such Business Opportunity.

The undertaking mentioned above are conditional upon the conditions stated in the paragraph headed "Conditions of the Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus being fulfilled. If any of such conditions is not fulfilled on or before the date falling 30 days after the date of this prospectus, the Deed shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other party under the Deed.

The respective obligations of each of the Covenantors under this Deed shall terminate on the earliest of the date on which (i) it ceases to hold directly or indirectly any Shares; (ii) the Shares cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of the Shares on the Stock Exchange due to any reason) and (iii) the Covenantor ceases to be an employee of the Group.

Our independent non-executive Directors will review, on an annual basis, the compliance by the Covenantors with their non-competition undertakings and in particular, the right of first refusal in relation to any Business Opportunities.

Each Covenantor has undertaken to provide all information necessary for (i) the annual review by the independent non-executive Directors in respect of the compliance with the Deed; and (ii) the enforcement of the Deed. Each Covenantor shall make an annual declaration and disclosure in compliance with the Deed in the annual report of us, which declaration and disclosure shall be consistent with the principles of making voluntary disclosures in the Corporate Governance Report of the Company to be issued in accordance with Appendix 23 to the Listing Rules.

Our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed (if any) in our annual report or by way of announcements to the public.

Please refer to the section headed "Underwriting" in this prospectus for more details on the lock-up arrangements restricting the sale or disposal of Shares by the Financial Investors and the PRC Shareholders Holdcos.

CONTINUING CONNECTED TRANSACTION WHICH IS EXEMPTED FROM ANNOUNCEMENT, REPORTING AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Transportation Arrangement with a Connected Person

Following the completion of the Global Offering, our Group will continue to engage Inner Mongolia Tengchi Modern Logistics Company Limited (內蒙古騰馳現代物流有限公司) ("**Tengchi**") in transporting our dairy products to our customers.

Tengchi is primarily engaged in the transportation of raw milk in several provinces in China, including Hebei, Anhui and Shanxi. Its customers include 2 leading dairy product manufacturers in China, both of which have been listed on the main board of the Stock Exchange. Tengchi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Mr. Li Xinming (李新明) ("**Mr. Li**"), a substantial shareholder and a director of Inner Mongolia Dairy Products, is a connected person of the Company under Rule 14A.11(1) of the Listing Rules, and Tengchi is owned as to 30% by Mr. Li and therefore an associate within the meaning of subsection (a)(v) of the definition of associate in Rule 1.01 of the Listing Rules.

Inner Mongolia Dairy Products was incorporated by Modern Farm and Mr. Li on 20 April 2010 with a registered capital of RMB3 million. As at the Latest Practicable Date, it was owned as to 56% by the Modern Farm and 44% by Mr. Li. We plan to sell our own premium branded dairy products in Huhhot through Inner Mongolia Dairy Products. As at 30 June 2010, each of the percentage ratios of the total assets, profits and revenue of Inner Mongolia Dairy Products under the Listing Rules on an annual basis was less than 0.1%. While such percentage ratios will grow in line with the potential growth of the sales of our own premium branded dairy products, we do not expect any of the relevant percentage ratios to exceed 5% over the next three financial years.

As of the Latest Practicable Date, all our 11 farms have, through bidding process, engaged Tengchi as our single logistics provider. The service prices are determined with reference to the market price at each region and the distance between our farms and our customers. For each of the three years ended 30 June 2008, 2009 and 2010, fees for the transportation services provided by Tengchi to our Group amounted to approximately RMB0.9 million, RMB1.8 million and RMB4.0 million, respectively.

On the basis that (i) the continuing connected transaction are on normal commercial terms; (ii) Tengchi is a connected person of the Company solely by virtue of its being an associate of a substantial shareholder of a subsidiary that satisfies the tests under Listing Rule 14A.31(9)(b)(i) and (ii) the continuing connected transaction between Tengchi and our Group will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Listing Rule 14A.33(4).

Background of Mr. Li

As at the Latest Practicable Date, apart from being a substantial shareholder and a director of Inner Mongolia Dairy Products, Mr. Li held approximately 13.9% of the issued share capital of Xinmu, which, in turn, held approximately 18.69% interest in the Company as at the Latest Practicable Date or approximately 14.81% interest in the Company immediately upon completion of the Global Offering (assuming the Management Options are not exercised).

DIRECTORS

Our Board currently consists of 9 Directors, comprising 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors. The following table shows certain information in respect of members of the Board:

Name	Age	Position
Mr. DENG Jiuqiang	59	Chairman and Executive Director
Ms. GAO Lina	53	Chief Executive Officer and Executive Director
Mr. HAN Chunlin	38	Executive Director
Mr. WOLHARDT Julian Juul	37	Non-executive Director
Mr. HUI Chi Kin Max.	37	Non-executive Director
Mr. LEI Yongsheng	48	Non-executive Director
Prof. LI Shengli	44	Independent Non-executive Director
Prof. GUO Lianheng	47	Independent Non-executive Director
Mr. LEE Kong Wai Conway	56	Independent Non-executive Director

Executive Directors

Mr. DENG Jiuqiang (鄧九強), aged 59, is an executive Director and the Chairman of the Company and a director of Modern Farm. Mr. Deng has more than 10 years of experience in dairy industry and 15 years of experience in dairy-related industries in China. He joined our Group in December 2006 and was appointed as an executive Director of the Company on 14 November 2008. Mr. Deng was a co-founder and the former vice chairman of Mengniu (Inner Mongolia) from August 1999 to May 2008, in charge of overseeing Mengniu's expansion plans. He worked as the engineering supervisor for the construction of more than 20 dairy production bases around China, directed and designed technological renovations in almost all of Mengniu's projects. Mr. Deng was also the founder of Inner Mongolia Jiuqiang Machinery Company Limited and has been its chairman since 1999. Mr. Deng has ceased to hold any positions with Mengniu since May 2008.

Ms. GAO Lina (高麗娜), aged 53, is an executive Director and Chief Executive Officer of the Company. Ms. Gao is one of the founders of our Group and is currently a director of Modern Farm and 14 other subsidiaries of the Company. Ms. Gao has significant experience in cross-border trading, resource integration and administrative management. Prior to joining the Group in August 2005, Ms. Gao was the general manager of Taian Foreign General Trade Corporation (泰安市外貿總公司) ("**TFGTC**") between October 1993 to June 2005. TFGTC was the subject of certain sanctions in June 2003 and such sanctions were subsequently lifted in June 2005. Please refer to the section headed "Risk Factors" in this prospectus for further details. Ms. Gao was the director general of Tai'an Municipal Trade Promotion Bureau (泰安市招商局) between October 2003 and June 2005. Ms. Gao developed her experience in managing dairy farms since joining our Group and she was appointed as an executive Director of the Company on 14 November 2008. She was awarded "Tai'an City Excellent Entrepreneur in Reforming and Enterprising Endeavours" in 2004. Ms. Gao completed an undergraduate course at Tai'an Municipal CPC Party School (中共泰安市委黨校) majoring in economic management in December 1999. Ms. Gao holds approximately 49.10% of the interests in Jinmu.

Mr. HAN Chunlin (韓春林), aged 38, is an executive Director and the Chief Operating Officer of the Company. Mr. Han is also a director of Modern Farm and Helingeer Modern Farm. Mr. Han has more than 15 years of experience in food and beverage industry in China. Prior to joining the Group in September 2008 and his appointment as an executive Director of the Company on 14 November 2008, Mr. Han worked as the marketing vice general manager of Nowara Shinnosuke (Fujian) Food Industry Company from February 2006 to July 2008. From January 1999 to September 2004, he served at the Liquid Milk Department of Mengniu (Inner Mongolia) as marketing manager. Prior to that, Mr. Han was a branch-plant manager at the Milk Powder Department of Inner Mongolia Yili Industrial Group Company Limited from July 1994 to January 1999. Mr. Han received a bachelor's degree in biology from Inner Mongolia University in July 1994.

Non-executive Directors

Mr. WOLHARDT Julian Juul, aged 37, is a non-executive Director and a director of Modern Farm. Mr. Wolhardt is currently a director of KKR Asia Limited focusing on private equity transactions in the Greater China region. He has been actively involved in advising on investments in Yageo Corporation, a company listed on the Taiwan Stock Exchange (stock code: 2327), Tianrui Group Cement Company Limited and International Far Eastern Leasing Company Limited since he joined KKR Asia Limited in 2006. He is also a director of Advanced Dairy. Before joining KKR Asia Limited, Mr. Wolhardt was with Morgan Stanley Private Equity from 1998 to 2006 and was responsible for its private equity business in China. While at Morgan Stanley Private Equity, Mr. Wolhardt advised on investments in a number of highly successful companies in China, several of which, such as China Dongxiang (Group) Company Limited (stock code: 3818), Hengan International Group Company Limited (stock code: 1044), Mengniu, China Shanshui Cement Group Limited (stock code: 691) and Ping An Insurance (Group) Company of China, Limited (stock code: 2318), have been listed on the Main Board of the Stock Exchange. He is also a non-executive director of Mengniu. Mr. Wolhardt is a Certified Public Accountant and Certified Management Accountant. He received a bachelor's degree in accounting from the University of Illinois (Urbana-Champaign) in 1995. He joined our Group in July 2008 and was appointed as a non-executive Director of the Company on 30 July 2008, and has been involved in the corporate development and strategic planning of our Group.

Mr. HUI Chi Kin Max (許志堅), aged 37, is a non-executive Director and a director of Modern Farm. Mr. Hui is currently a principal at CDH Investments Management (Hong Kong) Limited and is a director of Crystal Dairy. Before joining CDH Investments in 2003, Mr. Hui was with the private equity division of Morgan Stanley Asia Limited in Hong Kong since 2000 and worked at the investment banking department of Schroders & Co in New York in 1999. Prior to working in the financial industry, Mr. Hui was an engineer at the oil and gas pipeline division of Bechtel Corporation in San Francisco from 1997 to 1998. Mr. Hui graduated from the University of California, Berkeley in 1996 with a bachelor's degree in chemical engineering and received a master's degree of engineering from Princeton University in 1999. He joined our Group in February 2009 and was appointed as a non-executive Director of the Company on 23 February 2009, and has been involved in the corporate development and strategic planning of our Group.

Mr. LEI Yongsheng (雷永勝), aged 48, is a non-executive Director and a director of Modern Farm. Mr. Lei is currently an executive director and the Secretary-General of Lao Niu Foundation, a private fund engaged in social welfare activities in the PRC. He is also a director of Brightmoon. Prior to joining Lao Niu Foundation in July 2009, Mr. Lei worked for Mengniu (Inner Mongolia) as the vice president and secretary to the board of directors and for China Mengniu (Hong Kong)

Company Limited (中國蒙牛(香港)有限 公司) as the chief executive officer from 2002. Prior to that, Mr. Lei worked for the general office of the Department of Finance of the Inner Mongolia Autonomous Region (內蒙古自治區財政廳綜合處) as a deputy head from 1999 to 2001. Mr. Lei also worked for the Valuation Management Centre of the State-owned Assets Administration Bureau of the Inner Mongolia Autonomous Region (內蒙古自治區國有資產管理局評估管理中心) as a deputy head from 1991 to 1998 and taught in the Department of Accountancy of the Inner Mongolia Finance and Economics College (內蒙古財經學院) from 1985 to 1990. Mr. Lei graduated from Inner Mongolia Finance and Economics College in 1985 with a bachelor's degree in economics. He joined our Group in July 2010 and was appointed as a non-executive Director of the Company on 27 July 2010, and has been involved in the corporate development and strategic planning of our group.

Independent non-executive Directors

Prof. LI Shengli (李勝利), aged 44, is an independent non-executive Director. Prof. Li graduated from Shihezi Agricultural College (石河子農學院) with a bachelor's degree in animal husbandry and veterinary science in July 1987. He then obtained his doctorate degree in animal nutrition science from China Agricultural University in July 1996. Since 2003, Prof. Li has been with China Agricultural University, working at various times as an assistant professor and professor. Prof. Li is currently vice-director (Animal Nutrition) of the State Key Laboratories, Director of the council of the directors' association of the Sino-US Dairy Research Center, chief scientist in national dairy products industry technology system (國家奶牛產業技術體系), an advisor to the China School Milk Programme (國家學生飲用奶計劃) and a specialist in the Cattle and Poultry Research Centre of Beijing Sanyuan Breeding Technology Co,. Ltd. (北京三元種業科技股份有限公司畜牧研究院). Prof. Li is a member of the Eighth Committee of the Ministry of Agriculture and Technology (第8屆科技農業部委員會) and an advisor to the Beijing Municipal Government in the development of agricultural sciences and technologies and the Working Committee of National Dairy Herd Improvement Programme (DHI) (全國奶牛生產性能測定工作委員會) of the Dairy Association of China (中國奶業協會)). In 2007, Prof. Li obtained a patent on Rubeili (乳倍利), a type of high-energy and high-protein supplementary feed for dairy cows. Prof. Li was awarded the Second Prize and a Prize of the Beijing Science and Technology Award (北京市科學技術獎) in 2000 and 2007 respectively and was recognized by the Beijing Municipal Government as "Top 10 Scientists with Contribution to the Economic Development in Rural Villages of Beijing" (對北京農村經濟發展作出貢獻的"十佳"科學家) in 2009. Prof. Li was appointed as an independent director of Modern Farm in October 2006 and resigned in June 2009. He has been appointed as an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司), a company listed on China Venture Exchange (stock code: 300106) since July 2009. He was appointed as an independent non-executive Director on 27 October 2010.

Prof. GUO Lianheng (郭連恒), aged 47, is an independent non-executive Director. Prof. Guo graduated from Peking University with a bachelor's degree in law in July 1985 and he has been a part-time lawyer since then. He completed a postgraduate course at the Minzu University of China in July 2004 majoring in economic law. Prof. Guo has been teaching at Law School of Inner Mongolia University since 2000 and has become a law professor since 2004. Prof. Guo is currently a consultant at the Higher Education Research Office of the Inner Mongolia Finance and Economic College, part-time lawyer at the Inner Mongolia Dianze Law Office (內蒙古典澤律師事務所) and vice chairman of the Inner Mongolia Law Society. Prof. Guo held various roles with a number of legal education and research organizations, such as director of the Comparative Law Research Association and Law Education Research Association of China Law Society (中國法學會), deputy leader of Teaching and Research Group of the economic law course in the National Industry and Commerce Management Training Programme, and the director-general of the Jurisprudence Education Research Association (法學教育研究會). Prof. Guo has been an arbitrator of Huhehaote Arbitration Commission (呼和浩特仲裁委員會) since September 1995. Prof. Guo was an independent director of Inner Mongolia Yuan Xing Energy Company Limited (內蒙古遠興能源股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000683), from March 2003 to March 2009. He also acted as a legal consultant for Mengniu (Inner Mongolia) from January 1999 to December 2002. Prof. Guo was awarded as an Outstanding Young- and Middle-aged Jurisprudent of Inner Mongolia (內蒙古優秀中青年法學家) by the Law Society of Inner Mongolia Autonomous Region in October 1999. Prof. Guo was appointed as an independent non-executive Director on 27 October 2010.

Mr. LEE Kong Wai Conway (李港衛), aged 56, is an independent non-executive Director. Mr. Lee graduated from Kingston University (formerly known as Kingston Polytechnic) in London with a bachelor's degree in business studies in July 1980 and further obtained his post graduate diploma in business at Curtin University of Technology in Australia in February 1988. Mr. Lee has over 30 years of experience in public accounting and auditing, corporate finance, merger and acquisition and initial public offerings. From September 1980 to September 2009, Mr. Lee served as a partner of Ernst & Young and held key leadership positions in the development of his firm in China. Mr. Lee is currently an independent non-executive director of China Taiping Insurance Holdings Company Limited and Chaowei Power Holdings Limited, both of which are listed on the Main Board of the Stock Exchange (stock codes: 966 and 951), and Sino Vanadium Inc., a company listed on the Toronto Stock Exchange (stock code: SVX). Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Certified Practising Accountants. Since 2007, Mr. Lee has been a member of Chinese People's Political Consultative Conference of Hunan Province. Mr. Lee was appointed as an independent non-executive Director on 27 October 2010.

SENIOR MANAGEMENT

Mr. Sun Yugang (孫玉剛), aged 30, is the Chief Financial Officer of our Company, a director of Inner Mongolia Modern Farm and a supervisor of 19 other subsidiaries of the Company. Prior to joining our Company in March 2007, Mr. Sun was a manager of the Finance and Investment Department of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd between May 2002 and March 2007. Mr. Sun passed the self-study exams for an undergraduate accounting course at Inner Mongolia Finance and Economics College and graduated in December 2003. Mr. Sun holds approximately 25.44% of the interests in Jinmu.

Mr. Chen Hongbo (陳紅波), aged 33, is a deputy general manager of operation of our Company. Mr. Chen joined our Group in September 2008 and has been responsible for our equipment operation ever since. Prior to joining our Group, Mr. Chen was with Mengniu from May 2002 to September 2008 during which he was in charge of several factories of Mengniu (Inner Mongolia) and worked as the manager of the Mengniu (Wuhan) Frealth Dairy Co., Ltd. (蒙牛(武漢)友芝友乳業有

限公司). Mr. Chen also worked for Inner Mongolia Yili Industrial Group Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code 600887), as an equipment supervisor from July 1996 to May 2002. Mr. Chen obtained a master's degree in light industry technology and engineering from Hubei University of Technology (湖北工業大學) in September 2010.

Mr. Zhang Haiying (張海鷹), aged 39, is a deputy general manager of operation of our Company. Mr. Zhang joined our Group in November 2008 and has been responsible for our feedstuff procurement ever since. Prior to joining our Group, Mr. Zhang was the manager of Shenyang Mengniu Dairy Sales Co., Ltd. (瀋陽蒙牛乳業銷售有限公司) from 2007 to 2008. Prior to that, Mr. Zhang was the sales director of Heilongjiang Wandashan Dairy Company Limited (黑龍江完達山乳業股份有限公司) from 2004 to 2007. Mr. Zhang also worked for Mengniu (Inner Mongolia) as a project manager in its yogurt department from 2001 to 2003. Mr. Zhang completed an undergraduate correspondence course at Inner Mongolia University of Technology majoring in business administration and graduated in July 2003.

Mr. Ren Meicheng (任美成), aged 41, is the general manager of sales of our Company. Mr. Chen joined our Group in May 2010 and is currently a full-time employee of the Group. He is responsible for our sales of dairy products in the PRC. He has more than 15 years of experience in corporate management in the PRC and is currently the chairman of MAS Technology Co., Ltd. (天擇科技有限公司). Prior to joining our Group, Mr. Ren was the chairman of Shenzhen Jinhuan Tianlang Information Technology Service Co., Ltd. (深圳市金環天朗資訊技術服務有限公司) from September 2005. Prior to that, Mr. Ren had taken various managerial roles in several telecommunication companies in Beijing, such as Beijing Jinhuan Tianlang Communication Technology Company (北京金環天朗通信技術公司), Beijing Huakangxun Communication Technology Company (北京華康訊通信技術公司), Beijing Huaxunjinye Electronics Co., Ltd. (北京華訊金業電子有限公司) and Beijing Huaxun Group (北京華訊集團), since March 1994. Mr. Ren graduated from the University of Science & Technology Beijing in July 1990 with a bachelor's degree in computer applications and later obtained a master's degree in finance from Peking University in June 2003. Mr. Ren holds approximately 25.44% of the interests in Jinmu.

COMPANY SECRETARY

Ms. WONG Lai Wah (黃麗華), aged 35, is our company secretary and financial controller. Ms. Wong joined our Group in August 2010 and is responsible for the financial control and the overall secretarial matters of our Company. Ms. Wong has over 10 years of experience in accounting and auditing at international accounting firms. Prior to joining our Group, Ms. Wong was the finance director, company secretary and authorized representative of Qin Jia Yuan Media Services Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2366), from July 2009 to February 2010. Ms. Wong also worked for KPMG between October 2004 and June 2009 as a senior audit manager and between September 1997 to October 1999 as a senior accountant, respectively. She also worked for PricewaterhouseCoopers as a senior associate between February 2000 to September 2003. Ms. Wong obtained a bachelor's degree majoring in accountancy from The Hong Kong Polytechnic University in November 1997. She is currently a fellow of the Hong Kong Institute of Certified Public Accountants.

BOARD COMMITTEE

Audit Committee

The Company established an audit committee on 31 October 2010 with written terms of reference in compliance with the Code of Corporate Governance Practices as set out in appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members, namely Mr. Lee Kong Wai Conway, Mr. Hui Chi Kin Max and Prof. Guo Lianheng. Mr. Lee Kong Wai Conway has been appointed as the chairman of the audit committee.

Remuneration Committee

The Company established a remuneration committee on 31 October 2010 with the primary duties of establishing and reviewing the policy and structure of the remuneration for the Directors and senior management. The remuneration committee has three members, namely Mr. Wolhardt Julian Juul, Prof. Guo Lianheng and Prof. Li Shengli. Mr. Wolhardt Julian Juul has been appointed as the chairman of the remuneration committee.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This normally means that at least two of the executive directors of the Company must be ordinarily resident in Hong Kong. The business and operation of the Group, are primarily located, managed and conducted in the PRC. Most of our Directors reside in the PRC, with all of our executive Directors ordinarily resident in the PRC. The Company does not and, in the foreseeable future, will not have any management presence in Hong Kong.

Accordingly, the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, the Company will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and the Company:

(a) The Company has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as the Company's principal channel of communication with the Stock Exchange and ensure that the Group comply with the Listing Rules at all times. The two authorized representatives are Ms. Gao and Ms. Wong Lai Wah. Ms. Wong Lai Wah is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone and facsimile. Each of the two authorized representatives is authorized to communicate on behalf of the Company with the Stock Exchange.

(b) Each of the authorized representatives has means to contact all members of the board of Directors (including the independent non-executive Directors) and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. To enhance the communication between the Stock Exchange, the authorized representatives and the Directors, the Company will implement a policy that (a) each executive Director, non-executive Director and independent non-executive Director will have to provide their respective mobile and office phone numbers, residential phone numbers and fax numbers and email addresses, if applicable, to the authorized representatives; (b) in the event that an executive Director, non-executive Director or independent non-executive Director expects to travel and be out of office, he/she will have to provide the phone number of the place of his/her accommodation to the authorized representatives; and (c) all the executive Directors, non-executive Directors, independent non-executive Directors and authorized representatives will provide their mobile phone numbers, residential phone numbers, office phone numbers and fax numbers and email addresses, if applicable to the Stock Exchange.

(c) In addition, all executive Directors, who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong for business purpose and would be able to come to Hong Kong and meet the Stock Exchange upon reasonable notice.

In compliance with Rule 3A.19 of the Listing Rules, the Company has appointed Guotai Junan Capital Limited as the compliance advisor of the Company to act as the alternate channel of communication with the 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 Listing Rules in respect of its financial results for the first full financial year commencing after the date of its initial listing.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

We reimburse our Directors for expenses which are necessarily and reasonably incurred for providing services to us 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.

For each of the three years ended 30 June 2010, the aggregate amount of salaries and other allowances and benefits in kind paid by us (or our predecessors) to our Directors (or directors of our predecessors) was RMB397,000, RMB6,809,000 and RMB1,981,000, respectively.

The aggregate amount of remuneration (including salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid or payable by our Company (or our predecessors) to our five highest paid individuals for each of the three years ended 30 June 2008, 2009 and 2010 were approximately RMB668,000, RMB10,287,000 (including the employees' benefit in relation to the MF Options granted to the MF Grantees) and RMB2,524,000, respectively.

No remuneration was paid by our Company to the Directors or the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office in respect of the three years ended 30 June 2010. Further, none of our Directors had waived any remuneration during the same period.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonuses, payable to our Directors for the year ending 30 June 2011 to be approximately RMB3,000,000.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the year ended 30 June 2010 by our Company to the Directors.

Further details of the terms of the above service agreements are set out in "Statutory and General Information — Particulars of Service Contracts" in Appendix VI to this prospectus.

EMPLOYEES

The Company had 2,623 employees as at 30 June 2010. The following table sets out the number of our employees categorized by function as at that date:

Department	Number of Employees
Production	1,392
Management	282
Herd Management	435
Feeding	187
Breeding	123
Finance	76
Quality Control	64
Sales	64
Total	2,623

Our PRC legal advisor confirms that we have complied and have made the relevant contributions in accordance with the relevant labor and social welfare laws and regulations in the PRC.

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor (the "**Compliance Advisor**") upon listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance advisor agreement with the Compliance Advisor, the material terms of which are as follows:

(a) we have appointed the Compliance Advisor as our compliance advisor for the purpose of Rule 3A.10 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(b) he Compliance Advisor shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and other applicable laws, regulations and codes; and

(c) we may terminate the appointment of the Compliance Advisor if the Compliance Advisor's work is of an unacceptable standard as permitted by Rule 3A.26 of the Listing Rules. The Compliance Advisor may resign or terminate its appointment by service of fourteen days' notice to us.

Immediately following the completion of the Global Offering (without taking into account the Over-allotment Option and any Share which may be issued pursuant to the exercise of the Management Options), the following persons will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Nature of interest	Number and class of securities[1]	Approximate percentage of interest in our Company immediately after the Global Offering
Yinmu	Beneficial interest	739,559,117(L)	15.41%
Xinmu	Beneficial interest	711,021,025(L)	14.81%
Advanced Dairy	Beneficial interest	1,152,248,682(L)	24.01%
		135,000,000(S)[4]	2.81%
KKR Asian Fund L.P.[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Associates Asia L.P.[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR SP Limited[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Asia Limited[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Fund Holdings L.P. [2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Fund Holdings GP Limited[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Group Holdings L.P. [2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Group Limited[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR & Co. L.P. [2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Management LLC[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
Mr. Henry R. Kravis and Mr. George R. Roberts[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
Crystal Dairy	Beneficial interest	384,104,918(L)	8.00%
		45,000,000(S)[4]	0.94%

Name of shareholders	Nature of interest	Number and class of securities[(1)]	Approximate percentage of interest in our Company immediately after the Global Offering
CDH Guard Limited[(3)]	Interest in controlled corporation	384,104,918(L)	8.00%
CDH China Fund III, L.P.[(3)]	Interest in controlled corporation	384,104,918(L)	8.00%
CDH III Holdings Company Limited[(3)].	Interest in controlled corporation	384,104,918(L)	8.00%
China Diamond Holdings III, L.P.[(3)] .	Interest in controlled corporation	384,104,918(L)	8.00%
China Diamond Holdings Company Limited [(3)]	Interest in controlled corporation	384,104,918(L)	8.00%

Notes:

(1) The letter "L" denotes the person's long position in the Shares, and "S" denotes the person's short position in the Shares.

(2) Each of KKR Asian Fund L.P. (as the controlling shareholder of Advanced Dairy); KKR Associates Asia L.P. (as the general partner of KKR Asian Fund L.P.); KKR SP Limited (as the voting partner of KKR Associates Asia L.P.); KKR Asia Limited (as the general partner of KKR Associates Asia L.P.); KKR Fund Holdings L.P. (as the sole member of KKR Asia Limited); KKR Fund Holdings GP Limited (as a general partner of KKR Fund Holdings L.P.); KKR Group Holdings L.P. (as a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited); KKR Group Limited (as the general partner of KKR Group Holdings L.P.); KKR & Co. L.P. (as the sole shareholder of KKR Group Limited); KKR Management LLC (as the general partner of KKR & Co. L.P.); and Mr. Henry R. Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) be deemed to be interested in the Shares. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares.

(3) CDH Guard Limited (as the sole shareholder of Crystal Dairy); CDH China Fund III L.P. (as the sole shareholder of CDH Guard Limited); CDH III Holdings Company Limited (as the general partner of CDH China Fund III L.P.); China Diamond Holdings III, L.P. (as the holding company of CDH III Holdings Company Limited); and China Diamond Holdings Company Limited (as the general partner of China Diamond Holdings III, L.P.) is deemed to be interested in the Shares.

(4) These Shares will be the subject of the stock borrowing agreement to be entered into between Advanced Dairy, Crystal Dairy and the Stabilizing Manager and the Shares that will be sold upon exercise of the Over-allotment Option.

Please refer to the section headed "Underwriting" in this prospectus for more details on the lock-up arrangements restricting the sale or disposal of Shares by certain Shareholders.

The Cornerstone Placing

We have entered into cornerstone investment agreements with a number of investors (the "**Cornerstone Investors**"), who have agreed to subscribe at the Offer Price for such number of Shares that may be purchased with an aggregate amount of approximately US$129.4 million. Assuming an Offer Price of HK$3.29, the mid-point of the Offer Price range set forth in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 304,752,000 Shares, representing approximately 6.34% of the Shares issued and outstanding upon completion of the Global Offering. Each of the Cornerstone Investors is an Independent Third Party not connected with us. The Cornerstone Investors will not subscribe for any Offer Shares other than pursuant to the relevant cornerstone placing agreements. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any board representation in our Company, nor will any of the Cornerstone Investors become a Substantial Shareholder of our Company. The shareholdings of the Cornerstone Investors will be counted towards the public float of our Shares.

The cornerstone placing forms part of the International Offering. The Shares to be purchased by the Cornerstone Investors will not be affected by any reallocation of the 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 entitled "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus. Details of the allocations to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on Thursday, 25 November 2010.

Our Cornerstone Investors

Our Cornerstone Investors are set out below:

Mengniu

Mengniu has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of HK$150 million (approximately US$19.4 million) at the Offer Price. Assuming an Offer Price of HK$3.29 being the mid-point of the Offer Price range set forth in this prospectus, Mengniu will subscribe for approximately 45,592,000 Shares, representing approximately 0.95% of the Shares issued and outstanding upon completion of the Global Offering.

Mengniu Group manufactures and distributes quality dairy products in China. It is one of the leading dairy product manufacturers in China, with MENGNIU as its core brand. The Mengniu Group's diversified products range include liquid milk products, such as UHT milk, milk beverages and yogurt, ice cream and other dairy products such as milk powder. In June 2010, the Mengniu Group's annual production capacity reached 6.14 million tons.

During the Track Record Period, substantially all of our sales of milk produced have been to Mengniu, which is our main customer, with sales to Mengniu accounting for 98.9%, 99.6% and 97.6% of our sales of milk produced in FY2008, FY2009 and FY2010, respectively. For details of our relationship with Mengniu, please refer to the section headed "Relationship with Mengniu" in this prospectus.

Ceroilfood Finance Limited ("Ceroilfood")

Ceroilfood has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming an Offer Price of HK$3.29 being the mid-point of the Offer Price range set forth in this prospectus, Ceroilfood will subscribe for approximately 70,680,000 Shares, representing approximately 1.47% of the Shares issued and outstanding upon completion of the Global Offering.

Ceroilfood is a general trading and investment company registered in Hong Kong. It is a wholly-owned subsidiary of COFCO Corporation, which is a leading grain, oils and foodstuffs import and export group and one of the largest food manufacturers in the PRC. COFCO Corporation also engages in real estate, hotel businesses and financial services and is listed as one of the world's top 500 enterprises by Fortune magazine.

We have entered into a strategic partnership agreement with a subsidiary of COFCO Corporation pursuant to which the subsidiary of COFCO Corporation will supply us with concentrates, corn fiber and wheat germ. For details of the strategic partnership agreement, please refer to the section headed "Our Business — Our Customers and Suppliers — Suppliers" in this prospectus.

Keywise Capital Management (HK) Limited ("Keywise")

Keywise has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming an Offer Price of HK$3.29 being the mid-point of the Offer Price range set forth in this prospectus, Keywise will subscribe for approximately 70,680,000 Shares, representing approximately 1.47% of the Shares issued and outstanding upon completion of the Global Offering.

Keywise is an asset management company licensed under the Hong Kong Securities and Futures Commission with headquarters office in Hong Kong and research office in Beijing. Keywise's sources of capital are primarily from international financial institutions, global endowments and foundations. Keywise is a fundamental long-term value investor with an investment focus primarily on companies in Greater China markets.

Dong Yin Development (Holdings) Limited ("Dong Yin")

Dong Yin has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of US$10 million at the Offer Price. Assuming an Offer Price of HK$3.29 being the mid-point of the Offer Price range set forth in this prospectus, Dong Yin will subscribe for approximately 23,560,000 Shares, representing approximately 0.49% of the Shares issued and outstanding upon completion of the Global Offering.

Dong Yin is a company incorporated under the laws of Hong Kong with limited liability. It is principally an investment holding and property investment company. Dong Yin is a wholly-owned subsidiary of China Orient Asset Management Corporation ("COAMC"). COAMC is a state-owned enterprise wholly-owned by the Ministry of Finance of the PRC. Approved by the State Council and the PBOC, COAMC is one of the four financial asset management companies to purchase, manage and dispose of non-performing loans from financial institutions. It also engages in investment banking business. It invests in international equity securities via Dong Yin.

The Government of Singapore Investment Corporation Pte Ltd ("GIC")

GIC has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of US$40 million at the Offer Price. Assuming an Offer Price of HK$3.29 being the mid-point of the Offer Price range set forth in this prospectus, GIC will subscribe for approximately 94,240,000 Shares, representing approximately 1.96% of the Shares issued and outstanding upon completion of the Global Offering.

GIC is a global investment management company established in 1981 to manage Singapore's foreign reserves. GIC invests internationally in equities, fixed income, foreign exchange, commodities, money markets, alternative investments, real estate and private equity. With its current portfolio size of more than US$100 billion, GIC is amongst the world's largest management companies.

Conditions Precedent

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

(1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) by no later than the time and date as specified in such agreements;

(2) the Listing Committee of the Hong Kong Stock Exchange granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked;

(3) the representations, warranties and confirmations of the Cornerstone Investor and the Company being true and accurate in all material respects and not misleading and there having been no material breach of the relevant cornerstone investment agreement.

(4) no law having been enacted or promulgated by any governmental, regulatory or administrative authority, agency or commission or any court, tribunal or judicial body of Hong Kong, Bermuda, the Cayman Islands, the British Virgin Island, the United Kingdom, the United States or any other relevant jurisdiction, which prohibit the consummation of the subscription and no order or injunction of a court of competent jurisdiction in effect precluding or prohibiting consummation of the subscription.

Restrictions on the Cornerstone Investors' Investment

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the Joint Global Coordinators, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of (as defined in the relevant cornerstone investment agreements) any of the Shares subscribed for by it pursuant to the relevant cornerstone investment agreement, other than transfers to any wholly-owned subsidiary of such Cornerstone Investor provided that such wholly-owned subsidiary undertakes in writing to, and such Cornerstone Investor undertakes to procure that such wholly-owned subsidiary will, abide by the restrictions on disposals imposed on such Cornerstone Investor.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of the Company as at the date of this prospectus and immediately after completion of the Global Offering:

As at the date of this prospectus

	HK$
Authorized share capital:	
10,000,000,000 Shares	1,000,000,000
Issued share capital:	
10,000,000 Shares	1,000,000

Immediately after completion of the Global Offering

	HK$
Shares to be issued under the Capitalization Issue:	
3,990,000,000 Shares	399,000,000
Shares to be issued under the Global Offering:	
800,000,000	80,000,000
Total issued Shares on completion of the Global Offering:	
4,800,000,000	480,000,000

Assumptions

The tables above assumes the Global Offering becomes unconditional and is completed in accordance with the relevant terms and conditions. It takes no account of (a) any Shares which may be issued under the general mandate given to our Directors for the issue and allotment of Shares; or (b) any Shares which may be repurchased by us pursuant to the general mandate given to our Directors for the repurchase of Shares; or (c) any Shares which may be issued upon exercise of the Management Options.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering", our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or any scrip dividend scheme or similar arrangements, or any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our Shareholders) with an aggregate nominal value of not more than the sum of:

(a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering; and

(b) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This general mandate to issue Shares will remain in effect until the earliest of:

(a) the conclusion of our Company's next annual general meeting;

(b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable law or our Articles of Association to be held; or

(c) it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering", our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase Shares (Shares which may be listed on the Hong Kong Stock Exchange or on any other stock exchange and Shares which are recognized by the Securities and Futures Commission and the Hong Kong Stock Exchange for this purpose) with a total nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following completion of the Global Offering.

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the Securities and Futures Commission and the Hong Kong Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Repurchase of Our Securities" in Appendix VI.

The general mandate to repurchase Shares will remain in effect until the earliest of:

(a) the conclusion of our Company's next annual general meeting;

(b) the expiration of the period within which our Company's next annual general meeting is required by any applicable law or our Articles of Association to be held; or

(c) it is varied or revoked by an ordinary resolution of our Company's shareholders in general meeting.

The following discussion and analysis should be read in conjunction with the consolidated audited financial statements and the accompanying notes, as of and for the financial year ended 30 June 2008 of Leading Farming included in Appendix IA, the consolidated audited financial statements and the accompanying notes, of Modern Farm as of and for the financial periods ended 30 June 2009 and 2010 included in Appendix IB and the consolidated audited financial statements and the accompanying notes, of our Group as of and for the financial periods ended 30 June 2009 and 30 June 2010 in Appendix IC. The consolidated financial statements included in the Accountants' Reports in Appendices IA, IB and IC have been prepared in accordance with IFRS.

This discussion contains forward-looking statements that reflect the current views of our management and involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to, those described under "Risk Factors" and factors described elsewhere in this prospectus.

As used in this prospectus, the term "FY2008" refers to the financial year ended 30 June 2008, the term "FY2009" refers to the financial period from 7 July 2008 through 30 June 2009 and the term "FY2010" refers to the financial year ended 30 June 2010.

OVERVIEW

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association. As of 30 June 2010, we had approximately 72,000 dairy cows in 11 large-scale dairy farms across China. We are among the first companies in China to adopt a large-scale industrialized free-stall dairy farming business model. All of our standardized dairy farms are designed and constructed with a capacity of raising up to 10,000 dairy cows per farm. We commenced business in 2005 and our first farm became operational in Maanshan, Anhui province in 2006. Since then, we have expanded to 5 of the 6 Regions in China. Our farms are situated across the PRC in strategic geographic locations, which are close to downstream dairy product processing plants and feed supply sources required by our farms. Our operations were further bolstered by investments by KKR, CDH and Brightmoon since 2008, who have assisted us in establishing international corporate governance practices and have provided us with financial capital for continued growth as well as value adding operational improvements.

Our farms are designed and constructed with modern and scientific layouts to ensure high milk yields and cost efficiency. We believe our raw milk is amongst the highest quality and safest milk in China. We also believe that we operate the best large-scale dairy farms in China, with highly experienced management, comprehensive facilities and the latest breeding, feeding and herd management technology. For further details of our farm facilities and herd management, please refer to the sections headed "Business — Our Dairy Farms" and "Business —Herd Management" of this prospectus.

We have enjoyed significant growth during our Track Record Period, driven largely by our ability to expand rapidly by replicating our business model in new domestic markets. In addition, our growth has also been driven by rising demand for high quality and safe raw milk following the melamine incident in China's milk industry in 2008. In 2010, we were ranked the number one fastest growing enterprise in China by the China Entrepreneur magazine (中國企業家), an independent magazine which started publication in 1985 and is sponsored by the Economic Daily Press Group (經濟日報報業集團). We believe significant opportunities are presented by China's dairy industry due to the sustained rapid growth of milk consumption, a continued scarcity of high quality raw milk, and a growing demand for large-scale dairy farms in China. We believe we are well-positioned to capitalize on these opportunities. We expect to further strengthen our market leading position in the dairy farming industry in China. By the end of 2010, we plan to complete the construction of 5 new farms with a capacity of raising up to 10,000 dairy cows per farm, with a corresponding increase in our total herd count to more than 90,000 dairy cows.

During the Track Record Period, our raw milk sales volume grew at a CAGR of 68.2%, from 55,888 tons in FY2008 to 96,306 tons in FY2009 and to 158,081 tons in FY2010. During the same period, our sales of milk produced grew at a CAGR of 79.1%, from RMB183.9 million in FY2008 to RMB334.0 million in FY2009 and to RMB589.8 million in FY2010.

BASIS OF PRESENTATION

This prospectus includes three accountants' reports which are set forth in Appendix IA, Appendix IB and Appendix IC:

- The accountants' report of Leading Farming includes the consolidated financial statements for the financial year beginning 1 July 2007 and ended 30 June 2008 and for the 6 day period beginning 1 July 2008 and ended 6 July 2008. Leading Farming was the predecessor of our Group and was acquired by Modern Farm on 7 July 2008. See Appendix IA.
- The accountants' report of Modern Farm, our PRC subsidiary which operates substantially all of our business, includes the consolidated financial statements of Modern Farm from 7 July 2008 (its date of incorporation) to 30 June 2010. See Appendix IB.
- The accountants' report of the Group, which includes the consolidated financial statements of our Group for the period beginning 30 July 2008 (its date of incorporation) to 30 June 2010. See Appendix IC.

We have included in this prospectus these three accountants' reports and the summary financial data for Leading Farming, Modern Farm and our Group because the Group's financial information alone for the period beginning 30 July 2008 to 30 June 2010 does not fully reflect the results and financial condition of our operating business as a result of the transactions described below. See "Our History and Structure" for further details. We believe that including these three accountants' reports facilitates a better understanding of our operating business for the entire Track Record Period.

- Leading Farming, a company established in the PRC on 2 September 2005, is a holding company which held the major operating subsidiaries of our Group prior to its acquisition by Modern Farm on 7 July 2008 and was the predecessor of our Group.
- Modern Farm was incorporated on 7 July 2008. It acquired the entire equity interest of Leading Farming for a consideration of RMB202.18 million immediately upon its establishment. As part of a plan to streamline its corporate structure, Modern Farm subsequently disposed of the entire equity interest in Leading Farming to a third party on 16 December 2008, but retained the underlying business of Leading Farming. As Modern Farm did not have the right to control Leading Farming for FY2008, Modern Farm is not permitted to consolidate Leading Farming's

results into Modern Farm's consolidated financial information for this period under IFRS. The acquisition of Leading Farming was treated as a business combination under IFRS3. As such, at the date of the acquisition, the assets and liabilities of Leading Farming were recorded by Modern Farm at fair value using the purchase method.

- Our Company was incorporated on 30 July 2008. As part of the reorganization, we increased our percentage equity ownership in Modern Farm through a series of equity financings. We injected an aggregate of RMB1,379.1 million towards the registered capital of Modern Farm and increased our equity holding in Modern Farm from 9.96% to 33.73% on 9 December 2008, then to 48.84% on 5 March 2009 and further to 50.05% on 26 June 2009. See "Our History and Structure — Equity Financings." In accordance with IFRS, our Group initially recognized our interest in Modern Farm as an interest in an associate and finally as a subsidiary. Prior to Modern Farm becoming our subsidiary, the assets and liabilities of Modern Farm were recorded at fair value by our Group using the purchase method. We began to consolidate the financial information of Modern Farm when Modern Farm became our subsidiary on 26 June 2009. We currently hold a 97.68% equity interest in Modern Farm through Lux Co and Aquitair. See "Our History and Structure — Pre-Listing Reorganization."

Since 26 June 2009, Modern Farm's consolidated financial information has been consolidated into our Group. Accordingly, in the consolidated financial statements of our Group for FY2009, we accounted for our interest in Modern Farm primarily as an interest in an associate, while in FY2010, the full year results of Modern Farm were consolidated into our Group. Our Group was not established until 30 July 2008. As a result, the results and financial information of our Group for FY2009 and FY2010 are not comparable.

The period-to-period discussion under "Review of Historical Operating Results" in this section is based on the financial statements of Leading Farming for FY2008 and the financial statements of Modern Farm for FY2009 and FY2010 primarily because Leading Farming and Modern Farm, respectively, operated our underlying business throughout FY2008, FY2009 and FY2010. These financial statements provide a more consistent and meaningful comparison of the financial results of our underlying business during these periods. Because there is a gap of 6 days between the end of FY2008 and the beginning of FY2009 (being the date that Modern Farm was incorporated), we have included the financial results of Leading Farming from 1 July 2008 to 6 July 2008 for reference purposes.

Unless otherwise indicated, all references to "our sales of milk produced", "our farm operating expenses" and other financial data and operating statistics, refer to sales of milk produced, farm operating expenses and other financial data and operating statistics of Leading Farming for FY2008 and of Modern Farm for FY2009 and FY2010.

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN THE ACCOUNTANTS' REPORTS

Summary of principal differences between the accountants' reports of Leading Farming and Modern Farm

Although our discussion of Modern Farm's results for 2009 is based on the results of Modern Farm for 359 days of operations, the consolidated results of Leading Farming and those of Modern Farm do not differ in any significant respects. The principal difference is set forth below:

- The government grants which Modern Farm and Leading Farming received in connection with the construction and acquisition of property, plant and equipment are included in the consolidated statements of financial position as deferred income and credited to consolidated statements of comprehensive income on a systematic basis over the useful lives of the related assets. Leading Farming recognized deferred income of RMB153.2 million as a result of its receipt of government grants in FY2008. Upon the acquisition by Modern Farm, the deferred income of Leading Farming was derecognized because it is not an identifiable liability. As a result, Modern Farm's deferred income did not include Leading Farming's deferred income on a post-acquisition basis.

Summary of principal differences between the accountants' report of Modern Farm and our Group

- In FY2010, the profit and total comprehensive income attributable to owners of the Company reflects our Group's 50.05% equity interest in Modern Farm. As a result, our Group had profit and total comprehensive income attributable to owners of the Company of RMB53.1 million and profit and total comprehensive income attributable to non-controlling interests of RMB54.2 million in FY2010. Modern Farm had profit and total comprehensive income attributable to owners of the Company of RMB108.6 million in FY2010.
- For the eleven month period ended 30 June 2009, our Group accounted for our interest in Modern Farm primarily as an interest in an associate. As a result, the results of our Group for the eleven month period ended 30 June 2009 materially differ from those of Modern Farm in FY2009 because Modern Farm's results were not consolidated. The differences include the following:
    - our Group had a loss attributable to owners of the Company of RMB8.1 million for the eleven month period ended 30 June 2009 while in FY2009 Modern Farm recorded a profit and total comprehensive income attributable to owners of the Company of RMB42.7 million in FY2009;
    - in the eleven month period ended 30 June 2009, our Group did not record any sales of milk produced, gain arising from changes in fair value, less costs to sell, of dairy cows, other income, farm operating expenses, employee benefits expense, depreciation, other gains and losses and finance costs;
    - in the eleven month period ended 30 June 2009 our Group recorded a loss on the deemed disposal of an associate of RMB55.5 million;
    - the operating expenses of our Group in the eleven month period ended 30 June 2009 differ materially from those of Modern Farm in FY2009 due to the different nature of the respective business during those periods.

- The acquisition of Modern Farm generated goodwill which amounted to RMB301.4 million for the Group as of 30 June 2009 and 30 June 2010, respectively. We recorded such goodwill as a non-current asset as of 30 June 2009 and 30 June 2010. Modern Farm did not record such goodwill in either year.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS

Size and expansion of our herd

During the Track Record Period, our results have been significantly affected by the expansion of our herd. As the number of milkable cows in our herd has increased, our annual milk production has increased, which has in turn increased our sales of milk produced. The table below contains our total number of milkable cows at each financial year end, annual raw milk sales volume as well as the sales of milk produced for the periods indicated.

	FY2008	FY2009	FY2010	FY2009 v. FY2008	FY2010 v. FY2009
				% change	% change
Milkable cows at year end	14,964	20,427	26,607	36.5	30.3
Annual raw milk sales volume (tons)	55,888	96,306	158,081	72.3	64.1
Sales of milk produced (RMB in thousands)	183,882	334,015	589,775	81.6	76.6

Our herd size has grown primarily due to the birth of female calves both in increasing numbers and proportion due to our use of modern breeding technologies, and the acquisition of heifers for use at new farms (although we expect to become more self-sufficient in the future by moving heifers and calves from operating farms to new farms), partially offset by the regular culling of milkable cows with low milk yields. During the Track Record Period, the number of our farms increased from 3 as of 30 June 2008, to 6 as of 30 June 2009 and further to 11 as of 30 June 2010. By 31 December 2010, we expect to have 16 farms, and more than 90,000 dairy cows. We expect that our milk production and sales volume will increase with the increase in herd size.

The table below sets forth our total number of milkable cows and heifers and calves as of the dates indicated.

	As of 30 June		
	2008	2009	2010
Milkable cows	14,964	20,427	26,607
Heifers and calves	9,394	23,532	45,584
Total	24,358	43,959	72,191

During the Track Record Period, the majority of growth in our herd size has been a result of the addition of heifers. We expect our results to be positively affected as these heifers become milkable cows. As of 30 June 2010, approximately 28% of heifers and calves were aged less than one year and 72% were aged over one year.

The import price of heifers from Australia and New Zealand ranged from RMB12,600 to RMB17,100 during the Track Record Period.

Milk yield

Our results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the amount of feed needed to produce a certain amount of milk decreases. Milk yield is affected by a number of factors which include a cow's stage of lactation, breed, genetics, feed and other factors.

We have taken a number of steps to increase our milk yield per milkable cow, which include:

- Improving the genetic mix of our herd and productivity of our future generations by importing semen from high-quality bulls from international sources and artificially inseminating our cows.
- The regular culling or selling of cows with low yields to improve cost efficiency.
- Optimizing the type and combination of feeds that we feed our cows.
- Taking strict disease control measures to ensure that our cows remain healthy.

In addition, milk yield is directly affected by a cow's lactation period. A cow's milk yield is typically low during its 1st lactation period relative to when it reaches its peak level during the 3rd and 4th lactation periods. As of 30 June 2010, approximately 63% of our milkable cows were aged less than 4 years, 28% were aged 4 years or 5 years, and 9% were aged over 5 years. Our milkable cows that are aged 4 years are typically in their 3rd lactation cycle and cows aged 5 years are typically in the 4th lactation cycle. We expect that our average milk yield will be positively affected in the next few years as a larger portion of our cows reach their 3rd and 4th lactation periods. For more information about the steps we have taken to improve the quality of our herd and milk yield, see "Our Business — Herd Management".

The growth of our sales of milk produced was partly due to our increased milk yield per cow. Due to the steps as discussed above, our average milk yield per milkable cow increased from 6.1 tons/annum, to 6.9 tons/annum, and to 7.3 tons/annum in FY2008, FY2009 and FY2010, respectively, which contributed to the increase in our production volume and sales volume. We expect that our milk yield per cow will improve in the future as the genetic mix of our herd improves with future generations.

Raw milk prices

Our sales and profit growth during the Track Record Period was partly attributable to raw milk price increases. The average price per kilogram at which we sold our raw milk increased from RMB3.29 in FY2008 to RMB3.47 in FY2009 and to RMB3.73 in FY2010. Our raw milk is typically sold at a premium to the market average selling prices primarily due to the higher quality of our milk. The prices at which we sell our raw milk are influenced by a combination of factors, which include the quality of milk, market prices, and feed costs. We negotiate the selling price of our raw milk with Mengniu, our primary customer, at least annually. Under the terms of the Off-Take Agreement, Mengniu pays us a base price with upward adjustments for meeting certain quality standards or if our farms are within a certain proximity to Mengniu's dairy processing plants. The quality standards are determined by, among other things, the level of fat and protein content of our raw milk. The Off-Take Agreement also guarantees that the base price and upward adjustment paid by Mengniu Group for our raw milk will not be lower than the base price it pays to other mid- to large-scale dairy farms in the same region (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases).

In addition, we have historically adjusted the prices of our milk to reflect increases in feed costs by negotiating price increases with customers. Through the Track Record Period, as our feed prices have increased, we have been able to pass a portion of these increased costs on to our customers.

Going forward, our results will continue to be affected by the prices of our raw milk. If we are successful in maintaining and increasing our high quality standards and in continuing to pass some of our feed cost increases onto customers by increasing our prices, our sales will be positively affected. However, if we are unable to do so or if general market prices for raw milk fall, our prices may experience some downward pressure which could negatively affect our results.

Feed costs

Our results are affected by feed costs, which are in turn affected primarily by costs of concentrates (corn powder, soybean meal, beer pulp and cotton meal) and forages (corn silage, sheep grass and alfalfa). The feed costs for our milkable cows are included in farm operating expenses, while the feed costs for heifers, calves and dry cows are capitalized. Feed costs for milkable cows represented 89.0%, 93.1%, and 90.5% of our farm operating expenses in FY2008, FY2009 and FY2010, respectively. Our feed costs are influenced by factors such as fluctuations in seasonal production, commodity market prices and mixture formulas. We have been able to meet our concentrates requirements by entering into short-term agreements (1 to 3 months) with large national suppliers. We have recently entered into a strategic partnership agreement with Jilin COFCO which we expect will strengthen our ability to secure quality feed at a competitive cost due to our large procurement volume. In terms of our forages supply, we enter into contracts with local farmers under which they grow and harvest the crop to our specifications. The table below sets forth the daily feed cost per milkable cow.

	FY2008	FY2009	FY2010	FY2009 v. FY2008	FY2010 v. FY2009
		RMB		% change	% change
Daily feed cost per milkable cow.	32.4	41.4	46.9	27.8	13.3

Our feed cost per milkable cow increased significantly from FY2008 to FY2010 primarily due to (i) the increase in the purchase prices of feed; (ii) changes in the formula of our feed to increase nutritional value and (iii) increased feed volume requirements as our dairy cows mature and milk yield increases. Increases in daily feed costs per milkable cow have been generally mitigated by increases in average selling prices and increased milk yield per cow. For example, from FY2009 to FY2010, increases in milk yield helped to reduce our per unit cost of milk produced despite a 13.3% increase in daily feed cost per milkable cow. We expect that feed costs will continue to constitute the majority of our farm operating expenses. Changes in feed costs and our ability to pass all or part of any increases onto our customers and our ability to increase milk yield per cow will likely continue to have an impact on our results.

Government Policy

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

As a result, our business has received various types of government support throughout the Track Record Period. For further information about these government policies, see "PRC Regulatory Overview — The Laws and Regulations Relating to the Industry — Policies relating to Modern Husbandry and Dairy Industry."

Tax

Throughout the Track Record Period, our results have been positively affected by tax policies which benefit raw milk producers in the PRC. As a result of these policies, our raw milk sales have not been subject to PRC enterprise income tax or value-added tax. As a result of preferential tax policies, our results were not significantly affected by taxes during the Track Record Period. If the PRC government changes these policies and starts to collect enterprise income tax and value-added tax on sales of raw milk, our profitability could be affected.

Government grants

In addition to favorable tax policies, we have received government grants as a result of policies which benefit the dairy industry. Government grants amounted to RMB10.9 million, RMB17.2 million and RMB59.1 million in FY2008, FY2009 and FY2010, respectively. These government grants were mainly used for the purchase of dairy cows to support milk production and our operations. Our PRC counsel, Commerce & Finance Law Offices, has advised that the government grants are unconditional and have been granted in compliance with the applicable PRC laws.

Acquisitions

We have, from time to time, acquired other companies which we believe could be consolidated synergistically with our own. During the Track Record Period, these acquisitions have affected our results. On 31 December 2008 we acquired Inner Mongolia Mengniu AustAsia Model Dairy Farm Co., Ltd. (內蒙古蒙牛澳亞示範牧場有限責任公司), which was subsequently renamed Helingeer Modern Farm Co., Ltd., and is a dairy farm operator. Our acquisition primarily affected our results as follows: (i) between the date of acquisition to 30 June 2009, Helingeer Modern Farm contributed RMB99.3 million to our sales of milk produced and RMB12.8 million to our profit; and (ii) by increasing our biological assets by a significant amount, which was RMB144.9 million as of the date of the acquisition. See note 25(b) to the Accountants' Report of Modern Farm in Appendix IB and the pre-acquisition financial information of Helingeer Modern Farm in Appendix ID. Our results have also been affected, but not materially, by our acquisition of Hengsheng Modern Farm toward the end of FY2010.

Going forward, we expect that our primary growth drivers will be adding additional farms, increasing our milk yield per cow and increasing operational efficiency. Therefore, we do not anticipate that acquisitions will significantly affect our results. However, if we find suitable acquisition targets in the future, we may choose to acquire new companies and our results could be further affected by acquisitions.

Changes in the fair value of biological assets

Our results have been, and we expect will continue to be, affected by changes in the fair value of our biological assets. In FY2008, FY2009 and FY2010 our results were positively affected by gains arising from changes in the fair value of dairy cows of RMB19.1 million, RMB70.6 million and RMB60.6 million, respectively. These fair value gains represent fair value changes of our dairy cows, which consist of our dairy cows, less the costs of selling dairy cows, due to changes in the physical attributes and market-determined prices of those assets. The fair values of our dairy cows at the end of each financial year are determined by independent professional valuers.

The fair value of our heifers and calves is determined by reference to market-determined prices, while for milkable cows fair value represents the present value of expected net cash flows from them discounted at a current market-determined rate. For more information about the valuation methods applied in valuing our herd, see "— Description of selected line items of our consolidated statements of comprehensive income — Gain Arising From Changes in fair values less costs to sell of dairy cows".

In applying these valuation methods, the independent valuer has relied on a number of assumptions, related to, among other things, future trends in the dairy farming industry, raw milk prices and expected milk yield per cow. The fair value of our dairy cows could be affected by, among other things, the accuracy of those assumptions, as well as the quality of our herd, raw milk prices and changes in the dairy farming industry. Upward adjustments do not generate any cash inflow for our operations. We expect that our results will continue to be affected by changes in the fair value of our herd.

CRITICAL ACCOUNTING POLICIES

Fair value of dairy cows

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 at the end of each reporting period adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of the dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any change in the estimates used in determining the fair value of our biological assets may affect the fair value of our biological assets significantly. The independent valuer of our biological assets and our management review the assumptions and estimates periodically to identify any significant change in the fair value of our biological assets.

Dairy cows are measured at their fair value less costs to sell, with any resultant gain or loss recognized in the consolidated statements of comprehensive income. Costs to sell include all costs that would be necessary to sell the assets.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Government grants

An unconditional government grant related to a biological asset measured at its fair value less costs to sell will be recognized in profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognize the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to us with no future related costs are recognized in the profit or loss in the period in which they become receivable. Other government grants related to depreciable assets are recognized as deferred income in the consolidated statement of financial position and released to profit or loss over the useful lives of the related assets.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognized.

Land use rights

Land use rights are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next 12 months or less are classified as current assets.

Impairment of tangible assets

At the end of each reporting period, we review the carrying amounts of our tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

RESULTS

The following table sets forth the data from the consolidated statements of comprehensive income of our underlying business for the periods indicated.

	FY2008	FY2009	FY2010
		RMB (thousands)	
Sales of milk produced	183,882	334,015	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	19,107	70,573	60,620
Other income	11,800	25,036	65,371
Farm operating expenses	(130,786)	(263,746)	(437,616)
Employee benefits expense	(16,850)	(47,152)	(66,695)
Depreciation	(10,827)	(22,068)	(44,174)
Other gains and losses	(546)	(1,490)	(613)
Other expenses	(7,269)	(32,145)	(28,275)
Bargain purchase gain	—	3,257	—
Profit before finance costs and tax	48,511	66,280	138,393
Finance costs	(10,573)	(23,606)	(29,765)
Profit before tax	37,938	42,674	108,628
Income tax charge	(56)	—	(73)
Profit and total comprehensive income for the year	37,882	42,674	108,555
Profit and total comprehensive income attributable to:			
Owners	37,878	42,674	108,555
Non-controlling interests	4	—	—

The table below sets forth selected data from the consolidated statements of comprehensive income of our Group for the periods indicated.

	Eleven Month Period Ended 30 June 2009	FY2010
	RMB (thousands)	
Sales of milk produced	—	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	—	60,620
Other income	—	65,371
Farm operating expenses	—	(437,616)
Employee benefits expense	—	(66,695)
Depreciation	—	(44,174)
Other gains and losses	—	(613)
Other expenses[(1)]	(9,947)	(29,474)
Share of result of an associate	57,356	—
Loss on deemed disposal of an associate	(55,520)	—
(Loss) profit before finance costs and tax	(8,111)	137,194
Finance costs	—	(29,765)
(Loss) profit before tax	(8,111)	107,429
Income tax charge	—	(73)
(Loss) profit and total comprehensive (expense) income for the period/year	(8,111)	107,356
(Loss) profit and total comprehensive (expense) income attributable to:		
Owners of the Company	(8,111)	53,132
Non-controlling interests	—	54,224
	(8,111)	107,356

(1) *The other expenses of our Group in FY2010 includes the other expenses of our Group and our underlying business.*

Description of selected line items of our consolidated statements of comprehensive income.

Sales of milk produced. Sales of milk produced represents the aggregate sales to customers less cost to sell, i.e. transportation costs. Transportation costs, which amounted to approximately 0.5%, 0.6% and 1.0% of aggregate sales to customers in FY2008, FY2009 and FY2010, respectively, are deducted in accordance with international accounting standards. We entered into the Off-Take Agreement with Mengniu (Inner Mongolia) in 2008, which allows us to sell all of our raw milk produced daily to Mengniu at a negotiated price while providing us with the flexibility to sell up to 30% of our raw milk produced daily at each dairy farm to certain other processors or directly to end-customers at our discretion. Sales to Mengniu accounted for approximately 98.9%, 99.6% and 97.6% of our sales of milk produced during FY2008, FY2009 and FY2010, respectively.

Gain arising from changes in fair values less costs to sell of dairy cows. This represents fair value gain on our biological assets, namely our dairy cows, and gains from the sale of our bulls and unfit dairy cows less the costs of selling, due to the changes in physical attributes and market-determined prices of those assets. The fair value is determined based on either the present value of expected net cash flows from the biological assets discounted at a current market-determined rate; or the market-determined prices as of the relevant balance sheet dates adjusted with reference to the species, age, growing condition, costs incurred and expected milk yield to reflect differences in characteristics and/or stages of growth of the assets. When market-determined prices are unavailable, the present value of expected net cash flows is used to determine the fair value. For milkable cows, since the market-determined prices were unavailable, the present value of expected net cash flows from them discounted at a current market-determined rate was applied. For heifers and calves, the market-determined prices were applied with adjustment to reflect the differences referring to the species, age, growing condition, costs incurred and expected yield of the milk. See note 18 of Accountants' Report in Appendix IB for the principal valuation assumptions with respect to the net present value approach. During the Track Record Period, our biological assets were revalued at each balance sheet date.

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

- The quantities of the existing cows at the end of each reporting period are reduced at a certain culling rate due to both natural and unnatural factors, as applicable.
- The culling rates adopted are 8%, 12%, 20%, 20% and 100% for milkable cows in the first to fifth lactation cycles. These rates are based on our historical breeding data and our future operating plans.
- The quantities of dairy cows increase as calves are born.
- The expected average prices of milk during the projected period of 5 years, which is the estimated production period of a dairy cow, are estimated after taking into account certain percentage growth for each projected year after considering future demand and inflation in the PRC;
- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture;
- Costs are average costs based on historical cost information.
- The discount rates used were 11.04%, 9.70% and 9.24% in FY2008, FY2009 and FY2010, respectively.

The independent valuer used the widely accepted Capital Asset Pricing Model ("CAPM") to determine the discount rate. The parameters adopted in CAPM include risk free rate, market risk premium and beta of comparable listed companies with the same or similar businesses and location. The procedures employed and assumptions considered in determining the discount rate are consistent with market practice and in line with other dairy cows valuation exercises. For a sensitivity analysis of the fair value changes of our dairy cows to changes in milk prices, the discount rate applied, yield per milkable cow and feed costs, see "— Quantitative and qualitative disclosures about market risk — Fair value changes of dairy cows.

We have engaged Jones Lang LaSalle Sallmanns Limited, an independent valuer, to determine the fair value of our dairy cows as at 30 June 2007, 30 June 2008, 30 June 2009 and 30 June 2010. For further information about the independent valuer of our biological assets, see "— Information about the independent valuer of our dairy cows.

Our biological assets are classified as non-current assets on our consolidated statements of financial position. We sell our dairy cows to optimize our resources taking into account our herd size and the productivity of our herd. Disposal of our biological assets is not one of our principal activities. Accordingly, the sale of our bulls and unfit dairy cows are not included as revenue. The sales are reflected as a change in the total fair value of our dairy cows at the respective balance sheet dates. We also capitalize feed and other costs associated with raising heifers and calves and dry cows. See notes 17, 18 and 20 to the Accountants' Reports in Appendix IA, IB and IC, respectively, for the breakdown in changes in the aggregate value of our biological assets during the Track Record Period.

Bargain purchase gain. Bargain purchase gain occurs when the fair value of the consideration paid exceeds the fair value of the net assets acquired. We incurred a one-time bargain purchase gain when we acquired the entire equity interest of Helingeer Modern Farm in FY2009.

Other income. Other income mainly consists of government grants. During the Track Record Period, government grants were primarily related to purchases of dairy cows to support milk production and our operations, and represented 92.1%, 68.8%, and 90.4% of our other income in FY2008, FY2009 and FY2010, respectively. To a lesser extent, other income consists of bank interest income and others. For further information about our government grants, see "— Significant Factors Affecting Our Results — Government Policy — Government Grants".

Farm operating expenses. Farm operating expenses comprise feed costs, utilities and others (which include maintenance and repair fees and other miscellaneous fees). Our feed costs primarily relate to costs that we pay for concentrates and forages for our milkable cows. See "Business — Feeding" for details on our feed.

The table below sets forth a breakdown of our farm operating expenses and each item as a percentage of total farm operating expenses for the periods indicated.

	FY2008		FY2009		FY2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Feeds[(1)]	116,367	89.0	245,478	93.1	396,225	90.5
Utilities	4,448	3.4	10,709	4.1	15,484	3.5
Materials	1,696	1.3	2,061	0.8	10,538	2.4
Repairs	5,153	3.9	2,413	0.9	8,151	1.9
Insurance	1,141	0.9	2,050	0.8	4,321	1.0
Others	1,981	1.5	1,035	0.3	2,897	0.7
Total	130,786	100.0	263,746	100.0	437,616	100.0

(1) Includes the costs of bull semen and medicine for our dairy cows.

Employee benefits expense. Employee benefits expense primarily consists of salaries, bonuses and allowances, equity settled share-based payments relating to our stock options and contribution to our employees' retirement benefit schemes.

Depreciation. Depreciation primarily relates to the depreciation of our property, plant and equipment which is calculated on a straight-line method over the estimated useful life of the asset.

Other gains and losses. Other gains and losses primarily consist of gains or losses on foreign exchange and on the disposal of property, plant and equipment and also consists of bad debts written-off.

Other expenses. Our other expenses mainly consist of professional service fees, travel expenses, service fees, office expenses, freight costs, water, electricity and heating costs, auditors' remuneration and others (including entertainment expenses, other taxes, leases, insurance fees, and other miscellaneous expenses).

Income tax charges. According to the prevailing tax rules and regulations in the PRC which include Article 27 of the Enterprise Income Tax Law and Article 86 of the Regulation on the Implementation of the Enterprise Income Tax Law, we are exempted from the PRC enterprise income tax for our raw milk sales. Income tax charges in FY2008 were mainly related to agency fees related to a discontinued business of cow importation and income tax charges in FY2010 were primarily related to rental income premises which we rented out.

Lux Co and Aquitair, incorporated respectively in Luxembourg and lreland, were included in the group structure for tax efficiency and cash repatriation purposes. It is expected that the Lux Co and Aquitair will receive mainly dividend income from subsidiaries. Generally, dividends from subsidiaries should either be exempt from tax or subject to nominal amounts of tax in Ireland and Luxembourg. Our Directors confirm that we have made all required tax filings in the relevant jurisdictions and have settled all tax liabilities. We are currently not subject to any dispute with the tax authorities.

REVIEW OF HISTORICAL OPERATING RESULTS

The following discussion is based on the consolidated results of Leading Farming in FY2008 and Modern Farm in FY2009 and FY2010.

FY2010 compared to FY2009

Sales of milk produced. Our sales of milk produced, primarily generated from sales of raw milk to Mengniu, increased by 76.6% from RMB334.0 million in FY2009 to RMB589.8 million in FY2010, primarily reflecting higher sales volume and increased average sales prices. Our sales volume increased from 96,306 tons in FY2009 to 158,081 tons in FY2010 primarily due to the increased number of milkable cows in FY2010, and to a lesser extent, higher milk yield per cow. Our average selling price per kilogram of milk increased from RMB3.47 per kilogram in FY2009 to RMB3.73 per kilogram in FY2010, primarily due to increasing market prices for raw milk during FY2010 and to a lesser extent to improved milk quality.

Gain arising from changes in fair values less costs to sell of cows. Our gain arising from changes in the fair value less costs to sell of cows decreased by 14.1% from RMB70.6 million in FY2009 to RMB60.6 million in FY2010. This decrease was primarily due to changes in assumptions relating to future increases in raw milk prices as raw milk prices were previously expected to increase at a higher rate.

Other income. Our other income increased by 161.1% from RMB25.0 million in FY2009 to RMB65.4 million in FY2010, primarily as a result of an increase of RMB29.6 million in government grants related to biological assets which were specifically for the purpose of subsidizing dairy cow related purchases, and to an RMB11.5 million increase in government grants received for the purpose of providing financial support to our operations.

Farm operating expenses. Our farm operating expenses increased by 65.9% from RMB263.7 million in FY2009 to RMB437.6 million in FY2010, primarily due to the increase in feed costs. The increase in feed costs was primarily due to: (i) the increase in the number of milkable cows, (ii) the increase in the purchase prices of feed, (iii) changes in the formula of our feed to increase nutritional value and (iv) increased feed requirements as our dairy cows mature. To a lesser extent, the increase was due to increased other farm operating expenses primarily as a result of our additional farms. Our number of farms increased from 6 as of 30 June 2009 to 11 as of 30 June 2010. During the same period, the number of milkable cows in our herd increased from 20,427 to 26,607. To a lesser extent, the increase was due to an increase in utility expenses, in line with the increase in the number of farms. As a percentage of sales of raw milk produced, farm operating expenses decreased from 79.0% in FY2009 to 74.2% in FY2010, primarily due to the increases in milk yield per cow and average selling prices, partially offset by increased average purchase prices of our feed.

Employee benefits expense. Our employee benefits expense increased by 41.4% from RMB47.2 million in FY2009 to RMB66.7 million in FY2010, primarily due to increases in employee salaries, bonuses and allowances, which was mainly related to increased headcount as a result of the 5 farms added in FY2010. Our total number of employees increased from 1,924 in FY2009 to 2,623 in FY2010. As a percentage of sales of raw milk produced, employee benefits expense decreased from 14.1% in FY2009 to 11.3% in FY2010.

Depreciation. Our depreciation expense increased by 100.2% from RMB22.1 million in FY2009 to RMB44.2 million in FY2010, primarily due to the increase in depreciable assets from FY2009 to FY2010, as a result of our having opened additional farms and the full year effect of consolidating Helingeer Modern Farm's assets.

Other gains and losses. Our net loss reflected in other gains and losses decreased by 58.9% from RMB1.5 million in FY2009 to RMB0.6 million in FY2010, primarily due to a gain on disposal of property, plant and equipment in FY2010, compared to a loss on disposal of property, plant and equipment in FY2009.

Other expenses. Our other expenses decreased by 12.0% from RMB32.1 million in FY2009 to RMB28.3 million in FY2010, due to, among other things, an RMB8.8 million decrease in professional service fees paid to legal counsels in relation to services provided for the Equity Financings and restructuring in FY2009, which amounted to RMB10.6 million in FY2009, offset in part by an RMB2.1 million increase in service fees relating to higher security and cleaning costs related to our additional farms. As a percentage of sales of milk produced, our other operating expenses decreased from 9.6% in FY2009 to 4.8% in FY2010, primarily due to the expansion of economic scale.

Bargain purchase gain. In FY2009, we recorded a bargain purchase gain of RMB3.3 million as a result of our purchase of Helingeer Modern Farm. We did not record any bargain purchase gain in FY2010.

Profit before finance costs and tax. Our profit before finance costs and tax increased by 108.8%, from RMB66.3 million in FY2009 to RMB138.4 million in FY2010. This increase was primarily due to the increased sales of milk produced, increased government grants and decreased farm operating expenses as a percentage of sales of milk produced.

Finance costs. Our finance costs increased by 26.1%, from RMB23.6 million in FY2009 to RMB29.8 million in FY2010. From FY2009 to FY2010, our interest expenses increased from RMB32.2 million to RMB55.0 million, primarily due to increased borrowings partially offset by decreased effective interest rates. The amount of interest capitalized increased from RMB8.6 million in FY2009 to RMB25.2 million in FY2010, which partially offset the increased interest expenses.

Income tax charge. Our income tax charge was RMB73,000 in FY2010. We did not record any income tax charge in FY2009, primarily due to tax exemptions on our PRC subsidiaries related to raw milk sales.

Profit and total comprehensive income for the year. For the foregoing reasons, our profit and total comprehensive income for the year, or net profit, increased by 154.4% from RMB42.7 million in FY2009 to RMB108.6 million in FY2010.

FY2009 compared to FY2008

Sales of milk produced. Sales of milk produced, primarily generated from sales of raw milk to Mengniu, increased by 81.6% from RMB183.9 million in FY2008 to RMB334.0 million in FY2009, primarily reflecting increased sales volume resulting from the increase in the number of milkable cows in FY2009, increased average sales prices for our raw milk and the acquisition of Helingeer Modern Farm. Sales volume increased from approximately 55,888 tons of raw milk produced in FY2008 to 96,306 tons in FY2009, which primarily reflected our expanded operations as a result of the addition of new farms and the acquisition of Helingeer Modern Farm. The acquisition of Helingeer Modern Farm increased our milk production volume due to the addition of approximately 6,132 milkable cows. The average sales price for raw milk increased from RMB3.29 per kilogram in FY2008 to RMB3.47 per kilogram in FY2009, despite the melamine incident which put some downward pressure on market prices. The increase in the average sales price was primarily attributable to higher milk quality and increased feed costs which we were able to partially offset by passing some of the increases onto consumers.

Gain arising from changes in fair values less costs to sell of dairy cows. Gain arising from changes in the fair values, less costs to sell, of dairy cows increased by 269.4% from RMB19.1 million in FY2008 to RMB70.6 million in FY2009. This increase was primarily due to increased herd value, primarily as a result of increased milk prices, heifers becoming milkable cows and the acquisition of Helingeer Modern Farm.

Other income. Other income increased by 112.2% from RMB11.8 million in FY2008 to RMB25.0 million in FY2009, primarily as a result of an RMB7.1 million increase in government grants which we received to support our operations and an RMB2.7 million increase in government grants related to purchases of heifers and cows, both of which we received due to PRC government policies which assist the PRC dairy industry. To a lesser extent, the increase was due to increases in bank interest income and increased sales of fertilizers.

Farm operating expenses. Farm operating expenses increased by 101.7% from RMB130.8 million in FY2008 to RMB263.7 million in FY2009, which was primarily attributable to: (i) the increase in the number of milkable cows, (ii) the increase in the purchase prices of feed, (iii) changes in the formula of our feed to increase nutritional value and (iv) increased feed requirements as our dairy cows mature. To a lesser extent, the increase was due to an increase in utility expenses, which was in line with our increased number of farms. Our number of farms increased from 3 as of 30 June 2008 to 6 as of 30 June 2009. Our other farm operating expenses decreased, primarily due to a decrease in repair expenses. As a percentage of sales of raw milk produced, farm operating expenses increased from 71.1% in FY2008 to 79.0% in FY2009, primarily due to increased feed costs, partially offset by higher average selling prices and higher milk yield per cow. Although our average sales prices increased overall in FY2009, our average sales prices were affected by the milk safety incident, which put downward pressure on market prices, and limited our ability to fully pass on increased feed costs.

Employee benefits expense. Employee benefits expense increased by 179.8% from RMB16.9 million in FY2008 to RMB47.2 million in FY2009, primarily due to an increased number of employees in FY2009 in line with our expansion and to a lesser extent, equity settled share-based payments relating to our stock options of RMB9.1 million. Our total number of employees increased from 1,215 in FY2008 to 1,924 in FY2009. As a percentage of sales of milk produced, employee benefits expense increased from 9.2% in FY2008 to 14.1% in FY2009, primarily due to employee benefits expenses being incurred at new farms during the ramp-up period, before those farms commenced full operations.

Depreciation. Depreciation expense increased by 103.8% from RMB10.8 million in FY2008 to RMB22.1 million in FY2009, primarily due to the increase in depreciable assets due to new farms and our acquisition of Helingeer Modern Farm in FY2009.

Other expenses. Other expenses increased by 342.2% from RMB7.3 million in FY2008 to RMB32.1 million in FY2009, due to, among other things, RMB10.6 million in professional service fees in FY2009, which were primarily fees paid to legal counsels in relation to the Equity Financings and group reorganization, an RMB1.5 million increase in other taxes, which were miscellaneous taxes such as stamp duties for the acquisition of Leading Farming and Helingeer Modern Farm, an RMB1.4 million increase in travel expenses, which related to the increased number of farms and an RMB1.2 million increase in office expenses. As a percentage of sales of milk produced, other expenses increased from 4.0% in FY2008 to 9.6% in FY2009, primarily as a result of the increased professional service fees.

Bargain purchase gain. In FY2009, we recorded a bargain purchase gain of RMB3.3 million as a result of our purchase of Helingeer Modern Farm. We did not record any bargain purchase gain in FY2008.

Profit before finance costs and tax. Profit before finance costs and tax increased by 36.6%, from RMB48.5 million in FY2008 to RMB66.3 million in FY2009. This increase was mainly due to our increased raw milk sales in FY2009.

Finance costs. Finance costs increased by 123.3%, from RMB10.6 million in FY2008 to RMB23.6 million in FY2009, primarily due to increased interest expenses and a decrease in the amount of interest capitalized.

Income tax charge. Our income tax charge was RMB56,000 in FY2008 due to taxation on income derived from agency fees. As discussed above, we did not record any income tax charge or credit in FY2009.

Profit and total comprehensive income for the year. For the foregoing reasons, profit and total comprehensive income for the year, or net profit, increased by 12.6% from RMB37.9 million in FY2008 to RMB42.7 million in FY2009.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other capital requirements principally from cash from operations, long-term and short-term debt and through equity financings.

Cash Flows

The following table summarizes our cash flows for the periods indicated.

	FY2008	FY2009	FY2010
		(RMB thousands)	
Net cash from (used in) operating activities	52,968	(146,585)	120,200
Net cash used in investing activities	(285,574)	(907,130)	(1,180,821)
Net cash from financing activities	141,689	1,784,805	579,059
Net increase (decrease) in cash and cash equivalents for the year/period	(90,917)	731,090	(481,562)
Cash and cash equivalents at the beginning of the year/period	97,409	—	731,090
Cash and cash equivalents at the end of the year/period, represented by cash and bank balances	6,492	731,090	249,528

Cash flows from operating activities

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

Our net cash flows from operating activities was RMB120.2 million in FY2010, while our operating cash flows before movements in working capital were RMB117.6 million. The cash inflow of RMB2.6 million mainly reflected the following working capital changes: (i) an increase of RMB47.0 million in trade and other payables, which mainly related to increased feed purchases and (ii) a decrease of RMB9.7 million in trade and other receivables, primarily due to a decrease in other receivables, partially offset by an increase of RMB54.1 million in inventories, mainly due to increases in feed supplies for our herd.

Our net cash used in operating activities was RMB146.6 million in FY2009, while our operating cash flows before movements in working capital were RMB20.6 million. The cash outflow of RMB167.2 million mainly reflected the following working capital changes: (i) a decrease of RMB99.5 million in trade and other payables, primarily as a result of capital injections from our shareholders which was partially used to settle a higher amount of payables; (ii) an increase of RMB46.6 million in trade and other receivables, primarily due to (a) increased sales volume and (b) the change of payment terms granted to Mengniu from 15 days to one month for some of our farms (both (a) and (b) in turn led to an increase in receivables); and (iii) an increase of RMB21.1 million in inventories, which was primarily due to increased feed supplies related to larger herd size as a result of the expansion of production capacity.

Our net cash flows from operating activities was RMB53.0 million in FY2008, while our operating cash flows before movements in working capital were RMB37.2 million. The cash inflow of RMB15.8 million mainly reflected the following working capital changes: (i) an increase of RMB7.8 million in trade and other payables, which related to feed purchases and (ii) a decrease of RMB5.4 million in trade and other receivables, primarily due to the receipt of payment for other receivables.

Cash flows from investing activities

Cash used in investing activities mainly consists of purchases of property, plant and equipment, increases in biological assets, net cash outflows from the acquisition of subsidiaries, increases in pledged bank deposits and purchases of land use rights. Cash inflow from investing activities mainly represents proceeds from the disposal of cows and government grants received.

In FY2010, our net cash used in investing activities amounted to RMB1,180.8 million. The net cash outflow was mainly due to (i) RMB743.5 million in cash used for the addition to biological assets, which represented purchases of heifers for our expansion and the amount of capitalized raising costs for heifers, calves and dry cows; (ii) RMB534.7 million for the purchase of property, plant and equipment, which related to purchases at dairy farms as 5 new farms were added in FY2010; (iii) net cash outflow of RMB45.6 million for the acquisition of subsidiaries, which in FY2010 primarily related to payments for the purchase of Helingeer Modern Farm. Our cash inflow from investing activities mainly consisted of RMB87.6 million proceeds from the disposal of cows, and government grants received of RMB56.7 million.

In FY2009, our net cash used in investing activities amounted to RMB907.1 million. The net cash outflow was mainly due to (i) RMB339.5 million in cash used for the addition to biological assets, which represented purchases of heifers for our expansion and the amount of capitalised raising costs for heifers, calves and dry cows; (ii) RMB343.0 million for the purchase of property, plant and equipment, which related to purchases at new dairy farms as 3 dairy farms were added in FY2009; (iii) net cash outflow of RMB209.1 million for the acquisition of subsidiaries, which in FY2010 related to our purchase of Helingeer Modern Farm. Our cash inflow from investing activities mainly consisted of RMB41.9 million proceeds from the disposal of cows.

In FY2008, our net cash used in investing activities amounted to RMB285.6 million. The net cash outflow was mainly due to (i) RMB210.6 million for the purchase of property, plant and equipment, which related to purchases for new farms and (ii) RMB142.6 million in cash used for the addition to biological assets, which represented purchases of heifers for our expansion and the amount of raising cost capitalised for heifers, calves and dry cows. Our cash inflow from investing activities mainly consisted of RMB74.2 million government grants received.

Cash flows from financing activities

Cash inflow from financing activities mainly consisted of new bank borrowings and contributions from owners. Cash used in financing activities consists of repayment of bank borrowings, and bank loan interest paid.

In FY2010 our net cash inflow from financing activities amounted to RMB579.1 million. Such inflow was mainly due to RMB1,010.7 million in new bank borrowings. This was partially offset primarily by RMB377.7 million for the repayment of bank borrowings.

In FY2009 our net cash inflow from financing activities amounted to RMB1,784.8 million. Such inflow was mainly due to (i) RMB1,854.7 million in contributions from owners which related to RMB1,379.1 million of equity investments by KKR, CDH and Brightmoon and RMB475.6 million of investments by individual shareholders and Laoniu Farming; and (ii) new bank borrowings of RMB264.2 million. This was partially offset by RMB300.1 million for the repayment of bank borrowings.

In FY2008 our net cash inflow from financing activities amounted to RMB141.7 million. Such inflow was mainly due to RMB179.9 million in new bank borrowings. This was partially offset by RMB20.5 million in interest paid and by RMB20.0 million for the repayment of bank borrowings.

Liquidity

Net current liabilities and working capital sufficiency

The table below sets out the current assets, current liabilities and net current assets or liabilities as of the dates indicated.

	As of 30 June			As of 30 September
	2008	2009	2010	2010
				(unaudited)
	(RMB thousands)			
CURRENT ASSETS				
Inventories	8,527	83,138	139,407	238,277
Trade and other receivables	18,661	78,618	76,772	110,455
Land use rights	709	930	1,184	1,413
Pledged bank balances	—	48,696	36,350	88,682
Bank balances and cash	6,492	731,090	249,528	143,614
Total current assets	34,389	942,472	503,241	582,441
CURRENT LIABILITIES				
Trade and other payables	106,182	188,306	351,050	391,008
Amounts due to related parties	2,094	6,622	1,247	—
Interest payable	811	1,424	1,249	850
Borrowings- due within one year	166,000	251,595	384,647	374,582
Deferred income	9,942	52	3,868	3,872
Total current liabilities	285,029	447,999	742,061	770,312
Net current (liabilities) assets	(250,640)	494,473	(238,820)	(187,871)

As of 30 June 2008, 30 June 2010 and 30 September 2010 we had net current liabilities of RMB250.6 million, RMB238.8 million and RMB187.9 million, respectively. The net current liabilities position was primarily due to the current portion of our bank borrowings, which were mainly revolving loans and are primarily used for feed purchases. Historically we have not experienced difficulty in renewing these revolving loans. There have been no delays or defaults in repayment of our bank loans during the Track Record Period. The net current liabilities position was also due to trade and other payables, which were also associated with our expansion and related to purchases of feed and equipment. Feed costs and other operating costs associated with raising heifers, calves and dry cows were capitalized and reflected in the fair value of dairy cows, which are classified as non-current assets on our statements of financial position. As we expand and open new farms we will require significant working capital due to the lag time between the commencement of operations at a new farm and the time in which new farms begin to generate sales. We may have a net current liabilities position in the future as we continue to expand our production capacity by adding additional farms. However, we expect our net current liabilities position to improve as a larger percentage of our herd begins producing milk.

As of 30 June 2009 our net current assets were RMB494.5 million. The primary reason for our net current assets position as of 30 June 2009 was significantly increased bank balances and cash, which were the result of the equity financings where KKR, CDH and Brightmoon strategically invested in our business.

As of 30 September 2010, we had banking facilities available to us of RMB2,528 million, of which RMB1,109 million were unutilized. We plan to continue to finance our expansion through bank borrowings, the proceeds from the Global Offering, and cash generated from operating activities.

Taking into account the net proceeds available to us from the Global Offering, banking facilities available to us and our projected cash generated from our operations, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

INVENTORIES

The following table sets forth a summary of our inventories and average inventory turnover days as of and for the financial years ended 30 June 2008, 2009 and 2010:

	As of 30 June		
	2008	2009	2010
	(RMB thousands)		
Feeds	7,688	79,050	130,963
Others	839	4,088	8,444
	8,527	83,138	139,407
Turnover Days[1]	15	38	52

(1) *Average inventory equals inventory at the beginning of the period plus inventory at the end of the period divided by two. Average inventory turnover days equals average inventory divided by farm operating expenses and the amount of feed costs and other related raising costs capitalized and multiplied by 365. As of 30 June 2007, our inventories were RMB11,203,000.*

Inventories increased from RMB8.5 million as of 30 June 2008 to RMB83.1 million as of 30 June 2009, primarily due to increases in feed as the size of our herd expanded and advanced procurement for new farms. Our inventories further increased to RMB139.4 million as of 30 June 2010, primarily due to increases in feed as a result of the further increase in the size of our herd.

Due to the perishable nature of our raw milk, we do not hold inventories of raw milk. We typically make milk deliveries to customers on a daily basis.

Average inventory turnover days increased from 15 days in FY2008 to 38 days in FY2009 and further to 52 days in FY2010 mainly because of the increase in feed supplies during the Track Record Period.

As of 30 September 2010, approximately 59.7% of our inventories as of 30 June 2010 had been used or consumed.

TRADE RECEIVABLES

The table below sets forth an ageing analysis based on invoice date of the trade receivables and average trade receivables turnover days as of and for the financial years ended 30 June 2008, 2009 and 2010.

	As of 30 June		
	2008	2009	2010
	(RMB thousands)		
Within 60 days based on invoice date	7,406	35,247	44,301
Over 60 days based on invoice date	35	483	353
Total	7,441	35,730	44,654
Turnover Days[(1)]	11	24	25

(1) *Average trade receivables equal trade receivables at the beginning of the period plus trade receivables at the end of the year/period divided by two. Average trade receivables turnover days equal average trade receivables divided by sales of milk produced and multiplied by 365. As of 30 June 2007, our trade receivables were RMB3,817,000.*

Our trade receivables were RMB7.4 million, RMB35.7 million and RMB44.7 million as of 30 June 2008, 2009 and 2010, respectively. The increases in trade receivables during the Track Record Period were primarily due to increased sales. We typically extended credit terms of 60 days but payment has been typically received in less than 30 days.

Average trade receivables turnover days increased from 11 days in FY2008 to 24 days in FY2009 and to 25 days in FY2010 primarily due to the increased trade receivables as a result of increased sales volume.

As of 30 September 2010, all of our trade receivables outstanding as of 30 June 2010 had been settled.

Other receivables increased from RMB11.2 million as of 30 June 2008 to RMB42.9 million as of 30 June 2009, primarily due to an RMB20.0 million advancement provided on behalf of an Independent Third Party which was settled in November 2009, and to a lesser extent due to increases in prepayment to feed suppliers. Our PRC counsel, Commerce & Finance Law Offices has advised us that legal defects exist with the advancement as it is a loan in nature. According to our PRC counsel, these defects should not have any actual or potential adverse affects on the Group. Our other receivables decreased to RMB32.1 million as of 30 June 2010 primarily due to settlement of the advance to the Independent Third Party, the effect of which was partially offset by an RMB6.0 million deposit of customs duties for the importation of cows and equipment during the customs approval process.

TRADE PAYABLES

The table below sets forth an aging analysis of the trade payables by invoice date and average trade payables turnover days as of and for the financial years ended 30 June 2008, 2009 and 2010.

	As of 30 June		
	2008	2009	2010
	(RMB thousands)		
Age of Trade Payables			
Within 60 days based on invoice date	37,677	82,607	111,507
Over 60 days based on invoice date	4,525	1,334	3,532
	42,202	83,941	115,039
Turnover days[1]	54	55	49

[1] *Average trade payables equal trade payables at the beginning of the period plus trade payables at the end of the period divided by two. Average trade payables turnover days equal average trade payables divided by farm operating expenses and the amount of feed costs and other related raising costs capitalized and multiplied by 365. As of 30 June 2007, our trade payables were RMB25,807,000.*

Our trade payables mainly relate to the purchase of feed from our suppliers. Typical credit terms with suppliers ranged from 30 to 60 days after receipt of goods and invoices. Trade payables increased from RMB42.2 million as of 30 June 2008 to RMB83.9 million as of 30 June 2009 and further to RMB115.0 million as of 30 June 2010. The increases were mainly due to increased purchases of feed as the size of our herd grew.

Average trade payable turnover days increased from 54 days in FY2008 to 55 days in FY2009 and decreased to 49 days in FY2010. The increase from FY2008 to FY2009 was primarily due to the increase in the amount of trade payables. The decrease from FY2009 to FY2010 was primarily due to increased farm operating expenses and the amount of feed and other related raising costs capitalized and to better management of our procurement needs.

As of 30 September 2010, approximately 92.6% of our trade payables outstanding as of 30 June 2010 had been settled.

The table below sets forth a breakdown of our other payables as of the dates indicated.

	As of 30 June		
	2008	2009	2010
Payable for acquisition of property, plant and equipment	54,392	37,533	150,238
Consideration payable for acquisition of a subsidiary	—	47,524	5,150
Accrued staff costs	3,906	9,897	14,644
Advance payment from customers	163	1,627	57,977
Others	5,519	7,784	8,002
	63,980	104,365	236,011

Other payables increased from RMB64.0 million as of 30 June 2008 to RMB104.4 million as of 30 June 2009 and further to RMB236.0 million as of 30 June 2010. The increase from 30 June 2008 to 30 June 2009 was mainly due to the consideration payable for acquisition of Helingeer Modern Farm. This increase was partially offset by a decrease in payables for the purchase of property, plant and equipment, primarily due to the completion of construction at certain farms. The increase from 30 June 2009 to 30 June 2010 was primarily due to a significant increase in payables for the purchase of property, plant and equipment, primarily related to the addition of 5 new farms.

Capital Commitments

Our capital commitments are related to expenditures in respect of the acquisition of property, plant and equipment and biological assets contracted but not provided for in our financial statements.

	As of 30 June		
	2008	2009	2010
	(RMB thousands)		
Capital expenditure contracted but not provided for in respect of the acquisition of:			
- property, plant and equipment	147,374	299,905	261,573
- biological assets	—	299,850	303,152
	147,374	599,755	564,725

INDEBTEDNESS

We have financed our operations primarily through cash flow from operations, loans from banks and cash contributions from owners. The table below sets forth our short-term and long-term borrowings as of the dates indicated.

	As of 30 June			As of 30 September
	2008	2009	2010	2010
				(unaudited)
	(RMB thousands)			
Bank borrowings	386,000	543,950	1,216,992	1,419,497
Other borrowings	7,088	8,240	8,125	8,125
	393,088	552,190	1,225,117	1,427,622
Carrying amount repayable:				
Within one year	166,000	251,595	384,647	374,582
Between one to two years	84,700	120,125	162,264	159,203
Between two to five years	142,388	180,470	407,206	646,437
Over five years	—	—	271,000	247,400
	393,088	552,190	1,225,117	1,427,622
Less: Amount due within one year included in current liabilities	(166,000)	(251,595)	(384,647)	(374,582)
Amount due after one year	227,088	300,595	840,470	1,053,040
Secured	296,088	403,567	941,251	1,004,527
Unsecured	36,000	71,153	209,696	364,925
Guaranteed	61,000	77,470	74,170	58,170
	393,088	552,190	1,225,117	1,427,622

Total borrowings increased from RMB393.1 million as of 30 June 2008 to RMB552.2 million as of 30 June 2009. The increase in short-term borrowings was primarily due to increased feed purchases to supply our additional farms. The increase in long-term borrowings was related to the expansion of our business as the capital was mainly used to finance our acquisition of new farms and property plant and equipment, including the purchase of Helingeer Modern Farm. Our borrowings further increased to RMB1,225.1 million as of 30 June 2010, primarily due to construction and purchases related to additional farms.

The table below sets forth the ranges of the interest rates on our borrowings as of the dates indicated.

	As of 30 June					
	2008		2009		2010	
	RMB (thousands)	Effective interest rate	RMB (thousands)	Effective interest rate	RMB (thousands)	Effective interest rate
Fixed-rate borrowings.	107,088	2.40%-7.74%	142,590	2.40%-7.47%	285,159	2.40%-7.47%
Variable-rate borrowings.	286,000	6.12%-7.65%	409,600	6.12%-7.65%	939,958	4.86%-7.29%

Our secured bank borrowings were secured by:

- Land use rights with carrying amounts of RMB4.3 million, RMB4.2 million and RMB14.2 million as of 30 June 2008, 2009 and 2010, respectively.
- Buildings and equipment with aggregate carrying amounts of RMB56.4 million, RMB145.8 million and RMB144.9 million as of 30 June 2008, 2009 and 2010, respectively.
- Biological assets with carrying amounts of RMB339.4 million, RMB367.5 million and RMB1,315.6 million as of 30 June 2008, 2009 and 2010, respectively.

Of the guaranteed borrowings as of 30 June 2008, the RMB20.0 million was guaranteed by an equity owner of Leading Farming. This guarantee was released on 27 November 2008. In addition, as of 30 June 2009 and 2010, we had pledged bank balances of RMB48.7 million and RMB36.4 million, respectively, which were pledged to secure banking facilities.

With respect to certain of our loans, we have made certain covenants to our lenders. The table below sets forth a breakdown of our loans which are subject to covenants, including the name of the lender, the borrowing subsidiary, loan amount and covenants. As of 30 September 2010, being the latest practicable date for indebtedness purposes, we are in compliance with all of these covenants.

Lender	Borrowing entity	Loan amount	Covenants
CCB Maanshan Branch	Modern Farming (Group) Co., Ltd.	RMB48.0 million	Asset/liability ratio of Modern Farming (Group) Co., Ltd. ≥50%; current ratio of Modern Farming (Group) Co., Ltd. ≥1.2; quick ratio of Modern Farming (Group) Co., Ltd. ≥0.9; contingent liabilities of Modern Farming (Group) Co., Ltd. ≤10% net asset value of Modern Farming (Group) Co., Ltd. (1) Prior to full repayment of the loan, our annual dividend may not exceed 30% of our profit after tax; (2) If we generate significant additional cash flow from operating activities such cash must be used for repayment of this loan;
CCB Maanshan Branch	Modern Farming (Group) Co., Ltd.	RMB75.5 million	Asset/liability ratio of Modern Farming (Group) Co., Ltd. ≥60%; current ratio of Modern Farming (Group) Co., Ltd. ≥1.2; quick ratio of Modern Farming (Group) Co., Ltd. ≥1.2;
CCB Maanshan Branch	Modern Farming (Group) Co., Ltd.	RMB67.5 million	Asset/liability ratio of Modern Farming (Group) Co., Ltd. ≥60%; current ratio of Modern Farming (Group) Co., Ltd. ≥1.2; quick ratio of Modern Farming (Group) Co., Ltd. ≥1.2;
CCB Maanshan Branch	Modern Farming (Group) Co., Ltd.	RMB107.0 million	Asset/liability ratio of Modern Farming (Group) Co., Ltd. ≥60%; current ratio of Modern Farming (Group) Co., Ltd. ≥1.2; quick ratio of Modern Farming (Group) Co., Ltd. ≥1.2

In addition, certain of our loan agreements provide that in the event that we are unable to service certain of our loans as they become due, that lender would have the right to accelerate payment of certain other existing loans provided by it including the principal, interest and related fees. As of the Latest Practicable Date, we have not defaulted on any bank borrowings or breached the covenants contained in our loan agreements.

As of 30 September 2010 we had banking facilities of RMB2,528 million, of which approximately RMB1,109 million was unutilized. As of 30 September 2010, being the latest practicable date for indebtedness purposes, our Group had total bank borrowings of approximately RMB1,419 million, of which, bank borrowings of approximately RMB997 million were secured and approximately RMB364 million were unsecured and the remaining bank borrowings of RMB58 million were guaranteed. The Group did not have any mortgages, charges, contingent liabilities or guarantees as of the Latest Practicable Date.

Since 30 June 2010 there has not been a material adverse change in our Group's indebtedness and contingent liabilities.

DAIRY COWS

The table below sets forth a breakdown of the value of our dairy cows as of the dates indicated.

	As of 30 June		
	2008	2009	2010
	(RMB thousands)		
Milkable cows	306,346	496,842	852,297
Heifers and Calves	139,807	439,974	890,594
Total	446,153	936,816	1,742,891

The value of our dairy cows increased from RMB446.2 million as of 30 June 2008, to RMB936.8 million as of 30 June 2009 and RMB1,742.9 million as of 30 June 2010. The increase from 30 June 2008 to 30 June 2009 was mainly related to (i) our purchase of Helingeer Modern Farm, which added RMB144.9 million in dairy cow assets as of the date of acquisition, (ii) increases due to purchases of heifers and calves, which amounted to RMB137.5 million, which we mainly used to supply new farms, (iii) increases due to raising of RMB173.5 million, which consists of heifers and calves which are added to our asset base through our own cows giving birth, and also includes the feeding cost and other costs related to raising those heifers, calves and dry cows (iv) gains arising from changes in fair value, less costs to sell, of dairy cows of RMB70.6 million. The increase from 30 June 2009 to 30 June 2010 was mainly related to (i) increases due to purchases of heifers and calves, which amounted to RMB451.4 million, which we mainly used to supply new farms, (ii) increases due to raising of RMB347.4 million, which consists of heifers and calves which are added to our asset base through our own cows giving birth, and also includes the feeding cost and other costs related to raising those heifers and calves and (iii) gains arising from changes in fair value, less costs to sell, of dairy cows of RMB60.6 million.

CAPITAL EXPENDITURES AND INVESTMENT

Our capital expenditures are comprised of purchases of biological assets, land use rights, property, plant and equipment and increases in construction in progress. In FY2008, FY2009 and FY2010, our capital expenditures were RMB325.7 million, RMB551.2 million and RMB1,142.4 million, respectively. Our capital expenditures increased during the Track Record Period primarily due to our having expanded from having 3 farms as of 30 June 2008 to 11 farms as of 30 June 2010 and the related increase in herd size. We expect to have capital expenditures of approximately RMB954.7

million related to our expansion plans in the financial year ended 30 June 2011, primarily for the purchase of fixed assets and heifers. We expect to incur capital expenditures of approximately RMB5.0 million for the purchase of advanced equipment and management systems in the financial year ended 30 June 2011.

We have historically funded our capital expenditures from internally generated cash, long-term bank borrowings and capital contributions from shareholders. We plan to finance our capital expenditures out of the net proceeds available to us from the Global Offering, cash generated from our operations and bank-borrowings. The budgeted amounts may vary from the actual amounts of capital expenditures for a variety of reasons, including, among other things, changes in market conditions, our future results, financial condition and cash flows, and the conditions in the PRC dairy industry. There is no guarantee that any of the planned capital expenditures outlined above will proceed as planned. We expect that we will incur additional capital expenditures as we continue to expand.

OFF BALANCE SHEET ARRANGEMENTS

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are, in the normal course of our business, exposed to various types of market risks as follows.

Fair Value Changes of Dairy Cows

During the Track Record Period, our results have been affected by fair value changes of our dairy cows less costs to sell. For further information about the methods used in valuing our dairy cows, see "— Description of selected line items of our consolidated statements of comprehensive income — Gain arising from changes in fair value, less costs to sell, of dairy cows".

Fair value change sensitivity analysis

Milk price

During the Track Record Period, if the milk price had strengthened or weakened in the market by 1% and all other variables were held constant, Leading Farming and Modern Farm Group's fair value change for the period/year would increase/decrease by RMB9.5 million in FY2008; RMB17.2 million in FY2009 and RMB28.2 million in FY2010.

Discount rate

During the Track Record Period, if the discount rate had increased or decreased by 1% and all other variables were held constant, Leading Farming and Modern Farm Group's fair value change for the period would decrease/increase by RMB5.8 million and RMB6.0 million, respectively in FY2008; RMB11.0 million and RMB11.4 million, respectively in FY2009; and RMB19.2 million and RMB19.9 million, respectively in FY2010.

Yield per milkable cow

During the Track Record Period, if the yield per milkable cow had strengthened or weakened by 1% and all other variables were held constant, Leading Farming and Modern Farm Group's fair value change for the year would increase/decrease by RMB2.9 million in FY2008; RMB5.3 million in FY2009; and RMB9.2 million in FY2010.

Production cost — feed cost

During the Track Record Period, if feed costs had been higher or lower by 1% and all other variables were held constant, Leading Farming and Modern Farm Group's fair value change for the year would decrease/increase by RMB8.3 million in FY2008; RMB14.4 million in FY2009; and RMB22.4 million in FY2010.

Credit Risk

Our Group's maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position at the respective reporting dates.

In order to minimize the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by our management based on prior experience and the current economic environment. We review the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors believe that our credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorized banks in the PRC.

We have concentration of credit risk as over 90% of our total trade receivables are due from the largest customer and its related parties.

Interest Rate Risk

We are exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances and bank borrowings which carry interest at market interest rates.

Our fair value interest rate risk relates primarily to fixed-rate bank borrowings. We currently do not have an interest rate hedging policy. However, our management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to market lending interest rates for non-derivative instruments at the end of each reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses since they are not sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings outstanding at the respective balance sheet dates were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, our net profit would decrease or increase by RMB180,000, RMB1,448,000 and RMB1,300,000 in FY2008, FY2009 and FY2010, respectively.

Liquidity Risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The following table details Leading Farming's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Leading Farming may be required to pay. The table includes both interest and principal.

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2008							
Non-interest bearing	—	108,924	—	—	—	108,924	108,924
Fixed interest rate borrowings	7	103,500	—	—	7,570	111,070	107,088
Variable interest rate borrowings .	7	40,010	44,960	100,100	154,242	339,312	286,000
		252,434	44,960	100,100	161,812	559,306	502,012

The following table details our contractual maturity for our non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which we may be required to pay. The table includes both interest and principal.

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	Over 2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2009							
Non-interest bearing . . .	—	194,725	—	—	—	194,725	194,725
Fixed interest rate borrowings.	7	139,167	—	3,740	4,669	147,576	142,590
Variable interest rate borrowings.	7	131,466	10,236	136,943	200,640	479,285	409,600
		465,358	10,236	140,683	205,309	821,586	746,915
As at 30 June 2010							
Non-interest bearing . . .	—	295,569	—	—	—	295,569	295,569
Fixed interest rate borrowings.	6	59,868	126,175	46,148	70,707	302,898	285,159
Variable interest rate borrowings.	6	150,357	106,334	162,760	691,488	1,110,939	939,958
		505,794	232,509	208,908	762,195	1,709,406	1,520,686

Currency Risk

We collect most of our revenue in RMB and incur most of our expenditures as well as capital expenditures in RMB. Therefore, our Directors believe that we are not exposed to significant foreign currency risk as the majority of our transactions are denominated in RMB (the functional currency of the group entities). Therefore, no sensitivity analysis to foreign currency risk is presented. However, as we need to convert the proceeds from the Global Offering into RMB for capital expenditures or our operations, appreciation of the RMB against the Hong Kong dollar could affect our results and would reduce the RMB amount we would receive from the conversion.

We have certain bank balances that are denominated in other currencies. For further information, see notes 20, 21 and 23 to the Accountants' Reports of our Group in Appendices IA, IB and IC, respectively, to this prospectus. The balance represents the capital injection by the Company to a subsidiary in the PRC.

We currently do not use any derivative contracts to hedge against our exposure to foreign currency risk. We manage our foreign currency risk by closely monitoring the movements in foreign currency exchange rates.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of Shareholders.

INFORMATION ABOUT THE INDEPENDENT VALUER OF OUR DAIRY COWS

We have engaged Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), an independent valuer, to determine the fair value of our dairy cows less estimated point-of-sale costs as at 30 June 2007, 2008, 2009, and 2010, respectively. For the purposes of valuing our biological assets as at each valuation date, the key valuers of the Sallmanns team comprised Mr. Simon M.K. Chan, Mr. T.Y. Gao, Mr. Michael Q. Ding, Mr. Aijurn T.C. Wong, Ms. Kay P. Liu and Mr. Kent Q.X. Wu.

Mr. Simon M.K. Chan, CPA, Regional Director at Sallmanns, is a member of The International Association of Consultants, Valuers and Analysts (IACVA), a member of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) and a certified public accountant in Hong Kong (HKICPA) and Australia (ASCPA). He manages the operations of Sallmanns' Business Valuation Department and has over 13 years of accounting, auditing, corporate advisory and valuation experience in different industries in the PRC, Hong Kong, Singapore and the United States. Mr. Chan has provided due diligence services in the context of initial public offerings of state-owned and privately-owned enterprises in China. In addition, he has extensive valuation experience in the areas of mineral assets, mining rights and corresponding project investments.

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 Utilization Branch of China Agricultural Society and an executive director of the Grass Fodder Branch of the Animal Husbandry and Veterinary Institute. He has extensive experience in the area of cow breeding and is mainly engaged in the study of the utilization of local feed resources for feeding cattle, environment management of dairy cows and livestock ecology. Professor Gao has published 23 books, has won 15 prizes for scientific achievements and has published more than 200 academic papers in different journals, most of which are on topics directly relevant to the research and study of dairy cows and dairy production.

Mr. Michael Q. Ding, associate director at Sallmanns, has over 8 years of working experience in the field of finance and investment, and provides services to multinational companies, including with respect to initial public offerings of various enterprises and has experience in the valuation of biological assets (trees for two Hong Kong listed companies), equity, financial instruments, intangible assets and current assets and liabilities.

Mr. Aijurn T.C. Wong, CFA, senior manager at Sallmanns, has had exposure to a wide range of valuation services in Hong Kong and the PRC. The valuation services he has provided include business valuation, equity valuation, intangible asset identification and valuation (e.g. trademark, customer base, patent, etc.), biological asset valuation (e.g. trees, livestock including breeder pigs and rabbits, bamboo, fish), current asset and liability valuation, goodwill and other asset impairment evaluation and other financial instrument valuation.

Ms. Kay P. Liu, a manager at Sallmanns, has conducted numerous valuations for companies in Hong Kong, the PRC and overseas, covering businesses in industries such as hotel operation, industrial gas, retail, toll roads, food processing, mining, trademark, biological assets (trees, bamboo and livestock including breeder sheep, pigs, rabbits and chickens) and financial instruments.

Mr. Q. X. Wu, financial analyst at Sallmanns, has been engaged in various valuation exercises including with respect to biological assets (trees and pigs), intangible assets and financial instruments.

Sallmanns has provided cattle valuation services for Chaoda Modern Agriculture (Holdings) Limited, a company listed on the Hong Kong Stock Exchange (0682.HK). Sallmanns has also provided other biological asset valuation services for assets such as trees, rabbits and chickens to Hong Kong listed companies including Lee&Man Paper (2314.HK), Chenming Paper (1812.HK) and Kandda Food (0834.HK).

PROFIT FORECAST FOR THE YEAR ENDING 30 JUNE 2011

The profit forecast of our Group for the year ending June 30, 2011 is prepared on the bases and assumptions as set out in Appendix III to this prospectus.

We believe that on the basis and the assumptions as set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, our forecast consolidated profit attributable to the owners of the Company in accordance with IFRS for the year ending 30 June 2011 is unlikely to be less than RMB188.0 million. The profit forecast has been prepared by our Directors based on the unaudited consolidated results of the Group for the three months ended 30 September 2010 and a forecast of the consolidated results of the Group for the remaining nine months ending 30 June 2011.

The forecast consolidated profit attributable to the owners of the Company of RMB188.0 million for the year ending 30 June 2011 includes an estimated gain arising from changes in fair value, less costs to sell, of dairy cows of RMB25.7 million for the year ending 30 June 2011. The gain arising from changes in fair value less cost to sell of cows is calculated (i) on the same basis that has been adopted by the Group in valuing its biological assets and (ii) on the assumption that there will be no material change in the key parameters which have been used by Sallmanns in determining the fair value of the Group's dairy cows as at 30 June 2010. The forecast fair value of the Group's dairy cows as at 31 October 2010 and 30 June 2011 is valued by Sallmanns (including the underlying assumptions). The extent of any gain arising from changes in fair value, less costs to sell, of dairy cows for the year ending 30 June 2011 is dependent on market conditions and other factors that are beyond our control. See "Risk Factors — Risks Relating to the Global Offering — Our net profit attributable to equity holders of our Company for the year ending 30 June 2011 will involve gains or losses that may arise on revaluation of our biological assets, which are subject to certain estimates and assumptions" for further information regarding uncertainties relating to our forecast of our revaluation gain or loss for the year ending 30 June 2011.

Forecast consolidated net profit attributable to the owners of the Company[1]	not less than RMB188.0 million (HK$217.9 million)
Forecast consolidated net profit for the year[1]	not less than RMB210.4 million (HK$243.9 million)
Forecast earnings per Share[1]	
(a) Weighted average[2]	RMB0.0405 (HK$0.0470)
(b) Pro forma fully diluted[3]	RMB0.0400 (HK$0.0463)

Notes:

(1) Solely for your convenience, forecast consolidated net profit and forecast earnings per Share are converted into Hong Kong dollars at the PBOC Rate of HK$1.00 to RMB0.8626 prevailing on 29 October 2010. You should not construe such conversion as a representation that the Renminbi amounts could actually be converted into Hong Kong dollar amounts at the rate indicated or at all.

(2) The calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis is calculated by dividing the forecast consolidated profit attributable to the owners of the Company for year ending 30 June 2011 by a weighted average of 4,645,036,712 Shares assumed to be issued and outstanding during the year ending 30 June 2011. The weighted average of 4,645,036,712 Shares is calculated based on 2,049,600,000 Shares issued and outstanding at 1 July 2010 (taking into account of the effect of replacement of US$ shares on 30 July 2010), the weighted average of 1,795,436,712 Shares issued in aggregate on 30 July 2010 and 800,000,000 Shares to be issued pursuant to the Global Offering on the assumption that the Global Offering and the Capitalization Issue had been completed on 1 July, 2010. The number of Shares does not take into account the number of Shares to be issued upon exercise of the Management Options.

(3) The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis is calculated by dividing the forecast consolidated profit attributable to the owners of the Company for the year ending 30 June 2011 by an adjusted weighted average of 4,706,437,193 Shares which comprise the weighted average of 4,645,036,712 Shares applied for the calculation of the unaudited pro forma forecast earnings per Shares on a weighted average basis as set out in note (2) and the effect of 61,400,481 diluted potential Shares arising from the Management Options which assuming had been granted to replace the MF Options on 1 July 2010 and outstanding for the year ending 30 June 2011, which is calculated based on the estimated average market price of the Shares at HK$2.89, the lower Offer Price.

Sensitivity analysis

The following table illustrates the sensitivity of the estimated fair value of dairy cows of RMB2,730.5 million as of 30 June 2011 to changes in the key assumptions.

Change	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Milk prices (RMB'000)	339,109	211,943	84,777	42,389	(42,389)	(84,777)	(211,943)	(339,109)
Feed costs (RMB'000)	(252,155)	(157,597)	(63,038)	(31,520)	31,520	63,038	157,597	252,155
Prices of heifers and calves (RMB'000)	174,620	109,137	43,654	21,828	(21,828)	(43,654)	(109,137)	(174,620)

Change	1.5%	1.0%	0.5%	-0.5%	-1.0%	-1.5%
Discount rate (RMB'000)	(41,518)	(27,913)	(14,075)	14,319	28,887	43,710

Key assumptions underlying valuation of the Group's dairy cows as at 30 June 2011 are set out below:

Raw milk price (RMB/Kg)	3.91
Feed cost (RMB per Kg of milk sold)	2.28
Discount rate	9.24%

The following table illustrates the sensitivity of the consolidated net profit attributable to the owners of the Company to levels of fair value of the Group's dairy cows for the year ending 30 June 2011:

Changes in the estimated fair value of dairy cows less costs to sell as of 30 June 2011 compared to the estimated fair value of dairy cows of RMB2,730.5 million	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Increase/(decrease) in profit attributable to owners of the Company								
Amount (RMB'000)	136,992	85,620	34,248	17,124	(17,124)	(34,248)	(85,620)	(136,992)
Percentage	73%	46%	18%	9%	-9%	-18%	-46%	-73%

The following table illustrates the sensitivity of the consolidated net profit attributable to the owners of the Company to levels of the Group's feed costs for the year ending 30 June 2011:

Changes in the estimated feed costs for the year ending 30 June 2011 compared to the estimated feed costs of RMB645.0 million and in the feed cost assumption underlying valuation of dairy cows	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Increase/(decrease) in profit attributable to owners of the Company								
Amount (RMB'000)	(200,815)	(125,509)	(50,203)	(25,103)	25,102	50,203	125,509	200,815
Percentage	-107%	-67%	-27%	-13%	13%	27%	67%	107%

The following table illustrates the sensitivity of the consolidated net profit attributable to the owners of the Company to levels of the Group's average milk selling price for the year ending 30 June 2011:

Changes in the estimated average milk selling price for the year ending 30 June 2011 compared to the estimated average milk selling price of RMB3.84/Kg and in the milk price assumption underlying valuation of dairy cows	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Increase/(decrease) in profit attributable to owners of the Company								
Amount (RMB'000)	290,422	181,514	72,605	36,303	(36,304)	(72,606)	(181,514)	(290,422)
Percentage	154%	97%	39%	19%	-19%	-39%	-97%	-154%

The following table illustrates the sensitivity of the consolidated net profit attributable to the owners of the Company for the year ending 30 June 2011 to levels of the discount rate used in its dairy cows fair value valuation:

Changes in the estimated discount rate for the year ending 30 June 2011	1.5%	1.0%	0.5%	-0.5%	-1.0%	-1.5%
Increase/(decrease) in profit attributable to owners of the Company						
Amount (RMB'000)	(25,747)	(17,306)	(8,725)	8,873	17,896	27,074
Percentage	-14%	-9%	-5%	5%	10%	14%

An increase in feed costs generally will lead to an increase in average milk selling prices and vice versa. The sensitivity analysis above assumes the change only relates to one variable, while other variables remain unchanged. It is reasonable to evaluate the sensitivity of net profit to feed costs and milk prices together. However, occasionally, feed costs and milk prices may not change at the same time or to the same extent.

This sensitivity illustration is intended for reference only, and any variation could exceed the amounts indicated. Investors should note in particular that (i) this sensitivity illustration is not intended to be exhaustive and is limited to the impact of changes in key assumptions including the fair value of our dairy cows less costs to sell, milk prices, feed costs, and prices of heifers and calves; (ii) the profit forecast is subject to further and additional uncertainties generally. While we have considered for the purposes of the profit forecast what we believe is the best estimate of, among other assumptions, the gain arising from changes in fair value, less costs to sell, of dairy cows for the year ending 30 June 2011, our actual revaluation gain or loss for the year ending 30 June 2011 may differ materially from our estimate and is dependent on market conditions and other factors that are beyond our control.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma adjusted net tangible assets of the Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 July 2009. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of the Group.

	Audited consolidated net tangible assets attributable to the owners of the Company as at 30 June 2010	Estimated net proceeds from the Share Offer	Add: Net tangible assets of 47.63% equity interest in Modern Farm acquired by the Group upon the completion of the Onshore Acquisition and the Offshore Subscription	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000	RMB (Note 4)	HK$ (Note 5)
Based on an Offer Price of HK$2.89 per Share . . .	1,135,380	1,901,365	1,079,122	4,115,867	0.8575	0.9941
Based on an Offer Price of HK$3.69 per Share . . .	1,135,380	2,436,868	1,079,122	4,651,370	0.9690	1.1234

Notes:

(1) The audited consolidated net tangible assets attributable to the owners of the Company as at 30 June 2010 are based on audited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2010 of approximately RMB1,436,734,000 as set out in Appendix IC to this prospectus after deducting goodwill of approximately RMB301,354,000.

(2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK$2.89 and HK$3.69, after deduction of the underwriting fees and related expenses payable by the Company and takes no account of any Share which may be issued upon exercise of the options granted pursuant to the Management Options. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at the PBOC rate of HK$1.00 to RMB0.8626 prevailing on 29 October 2010.

(3) Pursuant to the Pre-Listing Reorganization as set out in this prospectus, the Group acquired 47.63% equity interest in Modern Farm from PRC Selling Shareholders on 5 November 2010 at a consideration of RMB903,116,860. The increase of net tangible assets attributable to the owners of the Company in respect of acquiring 47.63% equity interest in Modern Farm was approximately RMB1,079,122,000. In addition, the PRC Shareholders Holdcos agreed to subscribe for 4,876,000 new Shares of the Company at a total subscription price of RMB903,116,860.

(4) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 4,800,000,000 shares in issue immediately following the completion of the Onshore Acquisition, the Offshore Subscription and the Global Offering without taking into account any Shares which may be issued upon exercise of the Management Option.

(5) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.8626 prevailing on 29 October 2010.

(6) By comparing the valuation of our property interest as set out in Appendix IV to this prospectus the net valuation surplus is approximately RMB73.5 million as compared to the carrying amounts of the Group's property interest as at 30 September 2010, which has not been included in the above consolidated net tangible assets attributable to the owners of the Company. The valuation surplus of our property interests will not be incorporated in our consolidated financial statements in the future. If the valuation surplus were to be included in our consolidated financial statements, an additional depreciation charge of approximately RMB2.4 million per annum would be incurred.

FUTURE PLANS AND PROSPECTS

See "Our Business — Our Business Strategies" for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$2,515 million, after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK$3.29 per Share, being the midpoint of the Offer Price range stated in this prospectus. We intend to use these net proceeds for the following purposes:

- approximately 40%, or HK$1,006 million, will be used for importing high quality Holstein dairy heifers from Australia or New Zealand;
- approximately 30%, or HK$755 million, will be used for new farm construction. We expect to increase the number of farms to 30 by the end of 2015, although we do not have any definite plans at present in relation to the location and detailed budgeted capital expenditure for all the new farms to be constructed;
- approximately 20%, or HK$503 million, will be used for purchasing suitable farm facilities, including, among other things, milking systems, feed processing machinery, electricity generating machines, herd management software; and
- the remaining amount of not more than 10%, or HK$251 million, will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the 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 midpoint of the estimated Offer Price range.

If the Offer Price is fixed at the highest point of the price range, we estimate that the aggregate net proceeds to be received by us from the Global Offering will be approximately HK$2,825 million. If the Offer Price is fixed at the lowest point of the price range, we estimate that the aggregate net proceeds to be received by us from the Global Offering will be approximately HK$2,204 million.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments with licensed banks in Hong Kong and/or the PRC.

We estimate that the net proceeds to be received by the Selling Shareholders from the Global Offering will range from approximately HK$1,114 million (assuming an Offer Price of HK$2.89 per Share, being the low end of the proposed Offer Price range) to HK$1,424 million (assuming an Offer Price of HK$3.69 per Share, being the high end of the proposed Offer Price range), after deducting the underwriting fees and commission (including any discretionary incentive fee which may be payable by the Selling Shareholders to the Joint Lead Managers) as payable by the Selling Shareholders in relation to the Global Offering and assuming the Over-allotment Option is not exercised. In the event that the Over-allotment Option is exercised in full, the Selling Shareholders will receive additional net proceeds ranging from approximately HK$505 million (assuming an Offer Price of HK$2.89 per Share, being the low end of the Offer Price range) to HK$644 million (assuming an Offer Price of HK$3.69 per Share, being the high end of the Offer Price range). We will not receive any of the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering or as a result of the exercise of the Over-allotment Option.

UNDERWRITERS

Hong Kong Underwriters

Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch
Deutsche Bank AG, Hong Kong Branch

Joint Hong Kong Lead Managers

Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch
Deutsche Bank AG, Hong Kong Branch

International Underwriters

Citigroup Global Markets Limited
UBS AG, Hong Kong Branch
KKR Capital Markets LLC
Deutsche Bank AG, Hong Kong Branch

Joint International Lead Managers

Citigroup Global Markets Limited
UBS AG, Hong Kong Branch
KKR Capital Markets LLC
Deutsche Bank AG, Hong Kong Branch

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 120,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered but 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, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there develops, occurs, exists or comes into force:

1. any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any change or development in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the Cayman Islands, the United States, the United Kingdom, the European Union (or any member thereof), Japan, Singapore, Luxembourg or Ireland (each a "Relevant Jurisdiction"); or
2. any new law or regulation or any change or development involving a prospective change in existing laws or regulations, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
3. any event or series of events in the nature of *force majeure* in or affecting any of the Relevant Jurisdictions including without limiting the generality thereof, any act of government, strikes, lock-out, fire, explosion, earthquake, flooding, civil commotion, act of war, riot, public disorder, act of terrorism (whether or not responsibility has been claimed), act of God, epidemic, outbreak of infectious disease (including without limitation SARS or H5N1 or swine or avian influenza or such related/mutated forms); or
4. any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
5. (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, or the Shenzhen Stock Exchange (B) a general moratorium on commercial banking activities in any of the Relevant Jurisdictions 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
6. any change or development or event involving a prospective change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
7. any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
8. other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by the Company of a supplementary prospectus or offering document pursuant to the Companies Ordinance or the Hong Kong Listing Rules in circumstances where the matter to be disclosed is, in the joint opinion of the Joint Global Coordinators, materially adverse to the marketing for or implementation of the Global Offering; or

9. a petition is presented for the winding up or liquidation of the Company or any of its subsidiaries, or the Company or any of its Subsidiaries make any compromise or arrangement with our or its creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of the Company or any of its subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or of any of its subsidiaries or anything analogous thereto occurs in respect of the Company or any of its subsidiaries; or
10. a valid demand by any creditor for repayment or payment of any of the Company's indebtednesses or those of any of its subsidiaries or in respect of which the Company or any of its subsidiaries is liable prior to its stated maturity; or
11. any material litigation or claim being threatened or instigated against the Company or any of its subsidiaries or any of the Controlling Shareholders in relation to the relevant Controlling Shareholder's investment in the Company; or
12. a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
13. a governmental authority or a political body or organization in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
14. a prohibition on the Company by a governmental authority for whatever reason from offering, allotting, issuing, or selling any of the Shares (including the Shares pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering,

and which, with respect to clause (a)(1) to (a)(14) above, individually or in aggregate, in the sole opinion of the Joint Global Coordinators (for each of itself and on behalf of the other Hong Kong Underwriters),

(A) is or may or will be, or is likely to be, materially adverse to the business, assets and liabilities, properties, results of operations, financial or trading position or prospects of the Group as a whole; or

(B) has or may have or will have or is likely to have a material adverse effect on the success or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering and/or make it impracticable for the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged or incapable for any part of the Hong Kong Agreement to be performed or implemented as envisaged; or

(C) makes or may make or will or is likely to make it inadvisable or inexpedient or impracticable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Prospectus; or

(b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

1. that any statement contained in this prospectus, or the Application Forms, or the formal notice or the preliminary offering circular or the final offering circular or any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) or International Offering was or has or may become untrue, incorrect or misleading in any material respect; or

2. any matter has arisen or has been discovered which would or might, had it arisen immediately before the date of this prospectus or the final offering circular, not having been disclosed in this prospectus or the final offering circular, constitutes a material omission therefrom; or
3. any of the warranties given by the Company, the Covenantors, the Controlling Shareholders or the Selling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached; or
4. any matter, event, act or omission which gives or is likely to give rise to any liability of a material nature pursuant to the indemnities given by the Company, the Covenantors, the Controlling Shareholders, the Selling Shareholders or any of them under the Hong Kong Agreement or the International Underwriting Agreement; or
5. any breach of any of the obligations or undertakings of the Company, the Covenantors, the Controlling Shareholders, the Selling Shareholders or any other indemnifying party under the Hong Kong Underwriting Agreement or the International Underwriting Agreement (save for minor breaches which are capable of remedy and such breaches are remedied within the reasonable period specified by the Joint Global Coordinators); or
6. any material adverse change or prospective material adverse change in the business, assets and liabilities, properties, results of operations, financial or trading position or prospects of the Group as a whole; or
7. the Company withdraws the prospectus and the Applications Forms on the Global Offering;

then the Joint Global Coordinators, for itself and on behalf of the other Hong Kong Underwriters, may, in its sole discretion and upon giving notice to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, no further 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 within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Capitalization Issue, the Global Offering or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, the Financial Investors have undertaken to the Stock Exchange that except pursuant to the Global Offering (including the Over-allotment Option), they will not and shall procure that the relevant registered holder(s) will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules:

(1) in the period commencing on the date by reference to which disclosure of their shareholdings is made in the prospectus and ending on the date which is six months from the date on which

dealings in our Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which they are shown by this prospectus to be the beneficial owners; and

(2) in the period of six months commencing on the date on which the period referred to in paragraph (1) 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 the securities referred to in paragraph (1) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Financial Investors would then cease to be the Company's controlling shareholder group for the purposes of the Listing Rules.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, the Financial Investors have further undertaken to the Stock Exchange and the Company that within the period commencing on the date by reference to which disclosure of their shareholdings is made in the prospectus and ending on the date which is 12 months from the date on which dealings in the securities of our Company commence on the Stock Exchange, they will:

(1) when they pledge or charge any securities of our Company or interests therein beneficially owned by them in favor of any authorized institution pursuant to Note 2 toRule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and

(2) when they receive indications, either verbal or written, from the pledgee or chargee that any of the securities of our Company pledged or charged will be disposed of, immediately inform our Company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Financial Investors and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of the Financial Investors.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertaking by Our Company

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Hong Kong Lead Managers, the Joint Sponsors and the Hong Kong Underwriters that, at any time after the date of this Agreement up to and including the date falling six months after the Listing Date (the "**First Six-Month Period**"), our Company will not without the Joint Global Coordinators' prior written consent and unless in compliance with the Hong Kong Listing Rules:

(a) 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 option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of its share capital, debt capital or any securities of our Company or any interest therein held by it (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) (the "**Held Interests**"); or

(b) enter into any swap, derivative, lending, repurchase, mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Held Interests; or

(c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above; or

(d) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraphs (a), (b) or (c) above,

whether any of the foregoing transactions described in paragraphs (a), (b), (c) and (d) above is to be settled by delivery of such Held Interests or such other securities, in cash or otherwise, provided that the foregoing restrictions shall not apply to the issue of Shares by our Company pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the exercise of the Management Options and our Company further agree that, in the event of an issue or disposal of any Shares or any interest therein during the six-month period immediately following the First Six-Month Period (the "**Second Six-Month Period**"), we will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by the Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of the Financial Investors has undertaken to each of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters that without the prior written consent of the Joint Global Coordinators and unless in compliance with the Hong Kong Listing Rules:

(a) at any time during the First Six-Month Period, it will not:

   (i) offer, accept subscription for, sell, pledge, mortgage, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of its Held Interests held as at the Listing Date; or

   (ii) enter into any swap, derivative, lending, repurchase, mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Held Interests; or

   (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or

   (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraphs (i), (ii) or (iii) above,

   whether any of the foregoing transactions described in paragraphs (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so, provided that the foregoing restrictions shall not apply to any lending of Shares by Advanced Dairy or Crystal Dairy pursuant to the Stock Borrowing Agreement and the sale of Shares by Advanced Dairy or Crystal Dairy pursuant to the International Underwriting Agreement; and

(b) at any time during the Second Six-Month Period, it will not enter into any of the foregoing transactions in paragraphs (a)(i) or (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances or any other transactions, the Financial Investors will collectively cease to constitute a controlling shareholder group of our Company (for the purpose of the Hong Kong Listing Rules);

(c) until the expiry of the Second Six Month Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company; and

(d) at any time during the period of 12 months after the date on which dealings in the Shares commence on the Stock Exchange, (i) if it pledges or charges any Shares or other securities of our Company in respect of which it is the beneficial owner, it will immediately inform our Company, the Joint Sponsors and the Stock Exchange of any such pledges or charges and the number of Shares or other securities of our Company so pledged or charged, and (ii), if it receives any indication, either verbal or written, from any such pledgee or chargee of Shares or other securities of our Company that such Shares or other securities of our Company will be disposed of, it will immediately inform our Company, the Joint Sponsors and the Stock Exchange of any such indication.

Undertakings by the PRC Shareholders Holdcos

Pursuant to the Hong Kong Underwriting Agreement, each of the PRC Shareholders Holdcos has undertaken to each of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters that, without the prior written consent of the Joint Global Coordinators:

(a) at any time during the period commencing on the date of the lock-up undertaking and ending on a date falling twelve months after the date on which trading in the Shares commences on the Hong Kong Stock Exchange (the "**First Twelve-Month Period**") it will not, and will procure that none of its affiliates or companies controlled by it or any nominee or trustee holding in trust for it will:

    (i) offer, accept subscription for, sell, pledge, mortgage, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, 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, conditionally or unconditionally, any of the share capital, debt capital or any securities of our Company or any interest therein held by it (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 securities or interest therein); or

    (ii) enter into any swap, derivative, lending, repurchase, mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or any securities of our Company or any interest therein held by it; or

    (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or

(iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraphs (i), (ii) or (iii) above,

whether any of the foregoing transactions described in paragraphs (i), (ii) or (iii) above is to be settled by delivery of share capital, debt capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so provided that the foregoing restrictions shall not apply to the sale of Shares by the PRC Shareholders Holdcos pursuant to the International Underwriting Agreement.

(b) at any time during the First Twelve-Month Period, register any transfer of the shares in the PRC Shareholder Holdco.

International Offering

International Underwriting Agreement

In connection with the International Offering, our Company expects to enter into the International Underwriting Agreement, pursuant to which the International Underwriters would, subject to certain conditions set out therein, severally agree to procure purchasers for the International Offer Shares, or failing which, purchase the International Offer Shares. The International Underwriting Agreement is expected to provide that it may be terminated on grounds similar to those provided in the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, our Company and the Financial Investors will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement, as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Undertakings pursuant to the Hong Kong Underwriting Agreement" in this prospectus.

Our Company, among others, will agree to indemnify the International Underwriters against certain liabilities, including liabilities under the US Securities Act.

Underwriting Commission and Expenses

The Hong Kong Underwriters will receive a gross commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we and the Selling Shareholders will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by (i) our Company with respect to the new Offer Shares to be issued by the Company and (ii) by the Selling Shareholders with respect to the Offer Shares being offered for sale by the Selling Shareholders (including pursuant to the exercise of the Over-allotment Option). Our Company and the Selling Shareholders may also in their sole discretion pay any or all of the Joint Lead Managers of Hong Kong Public Offering or International Offering an additional incentive fee of up to 0.5% in the aggregate of the sale proceeds of the offer of Offer Shares under the Global Offering (including pursuant to the exercise of the Over-allotment Option).

Underwriters' interests in Our Company

Save as disclosed in this prospectus and other than pursuant to the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

KCM, an Affiliate of Advanced Dairy, one of our Controlling Shareholders, will participate in the underwriting of the International Offer Shares of as an International Underwriter and Joint Lead Manager of the International Offering and will receive a portion of the underwriting commissions and incentive fee (if any) that we pay to the Underwriters. Kohlberg Kravis Roberts & Co., L.P., which advises KKR Asian Fund L.P., the holding entity of Advanced Dairy, has a 98% economic interest in KKR Capital Markets Holdings L.P., which owns 100% of the equity interests of KCM.

Joint Sponsors' Independence

Citi and UBS have declared their independence from us pursuant to rule 3A.08 of the Listing Rules that they are independent pursuant to Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Citi and UBS are the Joint Global Coordinators and Joint Bookrunners. Citi, UBS and Deutsche Bank are the Joint Hong Kong Lead Managers. Citigroup Global Markets Limited, UBS, KCM and Deutsche Bank are the Joint International Lead Managers.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

(i) the Hong Kong Public Offering of 120,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described in the section headed "The Hong Kong Public Offering" below; and

(ii) the International Offering of 1,080,000,000 Shares (subject to adjustment as mentioned below) in the United States with QIBs in reliance on Rule 144A or another available exemption from the registration requirements of the US Securities Act, and outside the United States in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International 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 International Offer Shares to QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements of the US Securities Act, as well as to 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 reliance on Regulation S. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International 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 paragraph headed "Pricing and Allocation" below.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around Saturday, 20 November 2010 and, in any event, not later than 24 November 2010. The Offer Price will be not more than HK$3.69 and is currently expected to be not less than HK$2.89, unless otherwise announced, as further explained below not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. 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. If, for any reason, the Offer Price is not agreed by 24 November 2010 between the Joint Global Coordinators (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders) , the Global Offering will not proceed and will lapse.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters), with the consent of us (for ourselves and on behalf of the Selling Shareholders), consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range 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, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of 18 November 2010, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at **www.hkexnews.hk**, notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and 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.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range 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 number of Offer Shares being offered under the Global Offering is so reduced. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

The Hong Kong Offer Shares and the International Offer Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Joint Global Coordinators.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators 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 Offer Shares after the listing of the Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its Shareholders as a whole.

Allocation of the Hong Kong 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 Offer Shares validly applied for by applicants. Although the allocation of the Hong Kong 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 Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on 25 November 2010 through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — Results of Allocations" in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, inter alia:

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Management Options) (subject only to allotment and despatch of the Share certificates in respect thereof and such other normal conditions acceptable to the Company and the Joint Global Coordinators, on behalf of the Underwriters) not later than 26 November 2010 (or such later date as the Company and the Joint Global Coordinators on behalf of the Hong Kong Underwriters may agree) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;
- the Company having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Hong Kong Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the 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 section headed "How to apply for Hong Kong Offer Shares" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on 25 November, 2010 but will become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on 26 November, 2010, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates bearing valid certificates of title do so entirely at their own risk.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

Our Company is initially offering 120,000,000 Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of the 1,200,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators 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 the Hong Kong Offer Shares.

Offer Price Range

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around 20 November 2010 and, in any event, not later than 24 November 2010. The Offer Price will be not more than HK$3.69 and is currently expected to be not less than HK$2.89. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$3.69 per Share plus brokerage of 1% SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than the maximum Offer Price, we will refund the respective difference (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus.

Allocation

For allocation purposes only, the 120,000,000 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 at odd lot size): Pool A comprising 60,000,000 Hong Kong Offer Shares and Pool B comprising 60,000,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and 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 the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong 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 the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 120,000,000 Shares initially comprised in the Hong Kong Public Offering (that is 60,000,000 Hong Kong Offer Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

Reallocation and Clawback

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of 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 Hong Kong Offer Shares available under the Hong Kong Public Offering, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 360,000,000, 480,000,000 and 600,000,000 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), and such reallocation being referred to in this prospectus as "Mandatory Reallocation". In such cases, the number of Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deems appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deems appropriate. In addition to any Mandatory Reallocation which may be required, the Joint Global Coordinators may, at its discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered.

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 International Offer Shares Offered

The number of International Offer Shares to be initially offered for subscription or sale under the International Offering will be 1,080,000,000 Shares, representing 90% of the Offer Shares under the Global Offering. The Offer Shares initially offered under the International Offering comprise 680,000,000 Shares offered for subscription by our Company and 400,000,000 Shares offered for purchase by the Selling Shareholders. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, before taking into account any exercise of the Over-allotment Option, the International Offer Shares will represent approximately 22.5% of our enlarged issued share capital immediately after completion of the Global Offering.

Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the Shares with QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements under the US Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Reallocation

The total number of International Offer Shares to be transferred pursuant to the International Offering may change as a result of the clawback arrangement described in the sub-section headed "The Hong Kong Public Offering - Reallocation and Clawback'', exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

Over-Allotment Option

In connection with the Global Offering, Advanced Dairy and Crystal Dairy are expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators at their sole and absolute discretion on behalf of the International Underwriters for up to 30 days after the last day for lodging applications 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, the Joint Global Coordinators will have the right to require Advanced Dairy and Crystal Dairy to sell up to 180,000,000 additional Shares representing 15% of the maximum number of Offer Shares initially available under the Global Offering at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. The Joint Global

Coordinators may also cover any over-allocations by purchasing 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, rules and regulations.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilizing Manager or any person acting for it may choose to borrow Shares from Advanced Dairy and Crystal Dairy, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

(i) such stock borrowing arrangement with Advanced Dairy and Crystal Dairy will only be effected by the Stabilizing Manager for settlement of over-allocations in the International Offering and covering any short position prior to the exercise of the Over-allotment Option;

(ii) the maximum number of Shares borrowed from Advanced Dairy and Crystal Dairy under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

(iii) the same number of Shares so borrowed must be returned to Advanced Dairy and Crystal Dairy or their nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full;

(iv) the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and

(v) no payment will be made to Advanced Dairy and Crystal Dairy by the Stabilizing Manager or its authorized agents in relation to such stock borrowing arrangement.

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, 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 and certain other jurisdictions, activity aimed at reducing the market price is prohibited, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, UBS, as Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing 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 Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 180,000,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization and stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the 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 Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any 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 Offer Shares should note that:

(i) the Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
(ii) there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, or any person acting for it, will maintain such a position;
(iii) liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Shares;
(iv) no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on 18 December 2010, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
(v) the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
(vi) stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the Stabilizing Manager may over-allocate up to and not more than an aggregate of 180,000,000 Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Offering, the Stabilizing Manager may borrow up to 180,000,000 Shares from Advanced Dairy and Crystal Dairy, equivalent to the maximum number of Shares to be sold on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 26 November 2010, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on 26 November 2010.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date.

We expect that our Company will, on or about 20 November 2010, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed "Underwriting" in this prospectus.

WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for the Hong Kong Offer Shares by means of **White Form eIPO**, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or its respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators (or the designated White Form eIPO Service Provider (where applicable)) or their respective agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners at Shares, our directors or chief executive or their respective associates as defined in the Listing Rules or any other connected persons as defined in the Listing Rules of our company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

CHANNELS TO APPLY FOR HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website of the White Form eIPO Service Provider, referred to in this prospectus as the **'White Form eIPO'** service; or

- **electronically instructing** HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** Service or by giving **electronic application instructions** to HKSCC.

WHICH APPLICATION CHANNEL YOU SHOULD USE

- Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **White Form eIPO** by submitting applications online through the designated website at **www.eipo.com.hk**. Use **White Form eIPO** if you want the Hong Kong Offer Shares to be registered in your own name;
- Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.
- Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Hong Kong Offer Shares are not available to existing beneficial owners of Shares in our Company, the Directors or chief executive of our Company or any of our subsidiaries, or associates of any of them (as "associate" is defined in the Listing Rules) or United States Persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

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 Monday, 15 November, 2010 until 12:00 noon on Thursday, 18 November, 2010 from any of the following addresses of the Hong Kong Underwriters:

Citigroup Global Markets Asia Limited at 50/F, Citibank Tower, 3 Garden Road, Central, Hong Kong

UBS AG, Hong Kong Branch at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

Deutsche Bank AG, Hong Kong Branch at 48/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong or any of the following branches of:

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Central	Bank of China Tower Branch	3/F, 1 Garden Road
Hung Hom	Hung Hom (Eldex Industrial Building) Branch	21 Ma Tau Wai Road, Hung Hom
Mong Kok	Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
Diamond Hill	Diamond Hill Branch	G107, Plaza Hollywood, Diamond Hill
Kwun Tong	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
Yuen Long	Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long

The Bank of East Asia, Limited

District	Branch Name	Address
Central	Main Branch	10 Des Voeux Road Central
Wanchai	Wanchai Branch	Shop A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai
North Point	North Point Branch	326-328 King's Road
Quarry Bay	Quarry Bay Branch	1035 King's Road
Shatin	Shatin Plaza Branch	Shop 3 - 4, Level 1, Shatin Plaza
Tuen Mun	Tuen Mun Branch	Shop G16, G/F, Eldo Court Shopping Centre

Standard Chartered Bank (Hong Kong) Limited

District	Branch	Address
Central	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
Central	Central Branch	Shop no. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
TsimShatsui	68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui
Mongkok	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
Kwun Tong	Kwun Tong Branch	1A Yue Man Square, Kwun Tong
Tsuen Wan	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 15 November, 2010 to 12:00 noon on Thursday, 18 November, 2010 from:

(i) the depository counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(ii) your stockbroker, who may have such Application Forms and this prospectus available.

WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, 18 November, 2010, or, if the application lists are not open on that day, by the time and date stated in the section headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in the section headed "Where to collect the Application Forms" below, at the following times:

Monday, 15 November, 2010 — 9:00 a.m. to 5:00 p.m.
Tuesday, 16 November, 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, 17 November, 2010 — 9:00 a.m. to 5:00 p.m.
Thursday, 18 November, 2010 — 9:00 a.m. to 12:00 noon

Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants should input **electronic application instructions** via CCASS at the following times:

Monday, 15 November, 2010 — 9:00 a.m. to 8:30 p.m.(1)
Tuesday, 16 November, 2010 — 8:00 a.m. to 8:30 p.m.(1)
Wednesday, 17 November, 2010 — 8:00 a.m. to 8:30 p.m.(1)
Thursday, 18 November, 2010 — 8:00 a.m.(1) to 12:00 noon

(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 Monday, 15 November, 2010 until 12:00 noon on Thursday, 18 November, 2010 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 18 November, 2010 or if the Application Lists are not open on that day, by the time and date stated in the section headed "Effect of bad weather conditions on the opening of the application lists" below.

White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on 15 November, 2010 until 11:30 a.m. on 18 November, 2010 or such later time as described in the subsection headed "Effect of bad weather conditions on the opening of the application lists" below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on 18 November, 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subsection headed "Effect of bad weather conditions on the opening of the application lists" below.

You will not be permitted to submit your application through the designated website at **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 an application reference number from the website at or 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.

Application lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Thursday, 18 November, 2010, except as provided in the section headed "Effect of bad weather conditions on the opening of the application lists" below. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made until later than Thursday, 18 November, 2010.

Effect of bad weather conditions on the opening of the application lists

The application lists will be opened between 11:45 a.m. and 12:00 noon on Thursday, 18 November, 2010, subject only to weather conditions.

If there is a "black" rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 18 November, 2010, the application lists will not open or close on that day. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

Obtain a WHITE or YELLOW Application Form

You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

Decide how many Hong Kong Offer Shares you want to subscribe. Calculate the amount you must pay on the basis of the maximum Offer Price as stated in the Application Forms, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. The Application Forms have tables showing the exact amount payable for certain numbers of shares up to 60,000,000 Shares (as indicated on the **WHITE** and **YELLOW** Application Forms). Your application must be for a minimum of 1,000 Shares. Application for more than 1,000 Shares must be in one of the number of Shares set out in the table in the respective Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorized attorney, our Company and the Joint Global Coordinators (or their respective agents or nominees), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

Each Application Form must be accompanied by either one cheque or one banker's cashier order.

If you pay by cheque, the cheque must:

(i) be in Hong Kong dollars;

(ii) not be post-dated;

(iii) be drawn on your Hong Kong dollar bank account in Hong Kong;

(iv) show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorized by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;

(v) be made payable to "**Bank of China (Hong Kong) Nominees Limited — Modern Farm Public Offer**"; and

(vi) be crossed "Account Payee Only".

Your application is liable to be rejected if your cheque does not meet all these requirements or is dishonored on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

(i) be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorized by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;

(ii) be in Hong Kong dollars;

(iii) not be post-dated;

(iv) be made payable to "**Bank of China (Hong Kong) Nominees Limited — Modern Farm Public Offer**"; and

(v) be crossed "Account Payee Only".

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements.

Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to above.

Multiple or suspected multiple applications are liable to be rejected. Please refer to "— How many applications you can make" below.

You should note that by signing the Application Form, among other things:

(i) you confirm that you have only relied on the information and representations in this prospectus in making your application and not on any other information or representation concerning us and you agree that neither we, the Joint Global Coordinators, the Underwriters nor any of their respective Directors, officers, employees, partners, agents, advisors or any other parties involved in the Global Offering will have any liability for any such other information or representations;

(ii) you agree that our Company, the Joint Global Coordinators, the Underwriters, and any of their respective Directors, officers, employers, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;

(iii) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares, nor otherwise participate in the International Offering; and

(iv) you agree to disclose to us, the Hong Kong Share Registrar, receiving bankers, advisors, agents, the Joint Global Coordinators and their respective agents the personal data and any information which they require about you or the person(s) for whose benefit you have made this application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

(i) **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):**
- the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.

(ii) **If you are applying as an individual CCASS Investor Participant:**
- you must fill in your name and your Hong Kong identity card number; and
- you must insert your CCASS Participant I.D. in the appropriate box.

(iii) **If you are applying as a joint individual CCASS Investor Participant:**
- you must insert all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all the joint CCASS Investor Participants; and
- you must insert your CCASS Participant I.D. in the appropriate box.

(iv) **If you are applying as a corporate CCASS Investor Participant:**
- you must insert your company name and your company's Hong Kong business registration number; and
- you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company name) in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we and the Joint Global Coordinators, as our agent, may accept it at their discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Global Coordinators, in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

Personal data

The section of the Application Form headed "Personal data" applies to any personal data held by the Joint Global Coordinators, our Company, the Hong Kong Share Registrar, receiving bankers, advisors, and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY THROUGH WHITE FORM eIPO

(i) If you are an individual and meet the criteria set out in "Who Can Apply for Hong Kong Offer Shares" above, you may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO,** the Hong Kong Offer Shares will be issued in your own name.

(ii) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to our Company.

(iii) In addition to the terms and conditions set out in this prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(iv) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated White Form eIPO Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.

(v) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.

(vi) You should give **electronic application instructions** through **White Form eIPO** at the times set out in the section headed "When to apply for the Hong Kong Offer Shares — White Form eIPO" above.

(vii) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on 18 November, 2010, or such later time as described in the section headed "When to Apply for the Hong Kong Offer Shares — Effect of bad weather conditions on the opening of the application lists" above, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

(viii) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for the Hong Kong 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** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

(ix) Warning: The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. Our Company, our Directors, the Joint Global Coordinators, the Joint Bookrunners and the Sponsors take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

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 "China Modern Dairy Holdings Ltd." White Form eIPO application submitted via **www.eipo.com.hk** to support the funding of "Source of DongJiang — Hong Kong Forest" project initiated by Friends of the Earth (HK).

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **White** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **White** Application Form. See the section headed "How many applications you can make" below.

Additional Information

For the purposes of allocating the Hong Kong Offer Shares, each applicant giving electronic application instructions through the **White Form eIPO** Service to the White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at **www.eipo.com.hk**.

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System (*https://ip.ccass.com*) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instruction**s for you if you come to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above 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 Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to our Company and the Hong Kong Share Registrar.

Minimum subscription amount and permitted numbers

You may give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form.

Application for Hong Kong Offer Shares by HKSCC Nominees on Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees does all the things on behalf of each of such persons who:

- agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Shares under the International Offering;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorizes our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations and that person agrees that neither our Company, the Joint Global Coordinators, the Underwriters or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- agrees that our Company, the Joint Global Coordinators, the Underwriters and any of their respective Directors, officers, employees, partners, agents, advisors or any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company and the Hong Kong Share Registrar, receiving bankers, advisors, agents and the Joint Global Coordinators and their respective agents, the personal data and any information which they require about that person or the person(s) for whose benefit the application is made;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable before 25 November 2010, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any public offer shares to any person before 25 November 2010 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 Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares;
- agrees with our Company for ourselves and for the benefit at each at our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Companies Ordinance and the Articles of Association; and
- agrees that such person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

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 will be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, the SFC transaction levy and the Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

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 Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Allocation of Hong Kong Offer Shares

For the purpose of allocating the Hong Kong 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 each such instruction is given shall be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If 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 the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on 25 November, 2010 or, in the event of a contingency, on any other date as shall be 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/passport number or other identification code (Hong Kong business registration number for corporations) in the manner described in the section headed "How to Apply for Hong Kong Offer Shares — Results of Allocations" on 25 November 2010. The basis of allotment of the Hong Kong Public Offering will be published on the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on 25 November 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 25 November 2010 or such other date as shall be 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 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 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 25 November, 2010. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of any refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong 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 initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on 25 November, 2010. No interest will be paid thereon.

Section 40 of the Companies 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 Ordinance.

Warning

Application for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Joint Global Coordinators, the Underwriters and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit **electronic application instructions,** they should either:

(i) submit the **WHITE** or **YELLOW** Application Form (as appropriate); or

(ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form for **electronic application instructions** before 12:00 noon on Thursday, 18 November, 2010 or such later time as described in the section headed "Effect of bad weather conditions on the opening of the Application Lists" above.

HOW MANY APPLICATIONS YOU CAN MAKE

(i) You may make more than one application for the Hong Kong Offer Shares only if you are a **nominee,** in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- another identification number

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed. It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which 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 through the **White Form eIPO** Service; or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider through the **White Form eIPO** Service, and that you are duly authorized to sign the Application Form as that other person's agent.

(ii) Except where you are a nominee and provide the information required to be provided in your applications, **all** of your applications under the Hong Kong Public Offering are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider through the **White Form eIPO** Service (**www.eipo.com.hk**);
- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** Service (**www.eipo.com.hk**);
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC via CCASS or to the White Form eIPO Service Provider through the **White Form eIPO** Service (**www.eipo.com.hk**) to apply for more than 60,000,000 Hong Kong Offer Shares (being 50% of the Hong Kong Offer Shares initially being offered for subscription by the public); or
- apply for or take up any Offer Shares under the International Offering or otherwise participate in the International Offering or indicate an interest for any International Offer Shares.

(iii) All of your applications are liable to be rejected as multiple applications if more than one application 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: (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. **Unlisted company** means a company with no equity securities listed on the Stock Exchange. **Statutory control** in relation to a company means you: (i) control the composition of the board of Directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

If you are suspected of having made multiple electronic applications or if more than one electronic application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instruction** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong 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** 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** by giving **electronic application instructions** through the designated website at **www.eipo.com.hk** and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** and one or more applications by any other means, all of your applications are liable to be rejected.

RESULTS OF ALLOCATIONS

The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC or the designated White Form eIPO Service Provider which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Hong Kong Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- Results of allocations will be available from the Stock Exchange's website at **www.hkexnews.hk**;
- Results of allocations will also be available from our results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on Thursday, 25 November, 2010 to 12:00 midnight on Wednesday, 1 December 2010. The user will be required to key in the Hong Kong identity card/passport/ Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 25 November, 2010 to Sunday, 28 November 2010;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, 25 November 2010 to Saturday, 27 November 2010 at all the receiving bank branches and sub-branches at the addresses set out in the subsection headed "Where to Collect the Application Forms" above.

PRICE OF THE OFFER SHARES

The maximum Offer Price is set out in the Application Forms. You must also pay a brokerage of 1% Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%. The Application Forms have tables showing the exact amount payable for certain numbers of Shares up to 60,000,000 Shares. Your application must be for a minimum of 1,000 Shares. Applications must be in one of the numbers set out in the table. No application for any other number of Shares will be considered and any such application is liable to be rejected.

You must pay the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% in full when you apply for the Shares. You must pay the amount payable upon application for Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form if you apply for the Hong Kong Offer Shares using Application Forms.

If your application is successful, brokerage is paid to the participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, such levy is collected on behalf of the SFC).

If the Offer Price, as finally determined, is lower than the maximum Offer Price, the Company will refund the specific difference, including the brokerage, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. The Company will not pay interest on any refunded amounts. Further details for refund are set out in the section headed "Despatch/Collection of Share Certificates and Refund Monies" below.

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there 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:

(i) for applicants on **WHITE** Application Forms or by **White Form eIPO** service, (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described below); and/or

(ii) for applicants on **WHITE** and **YELLOW** Application Forms, refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but without interest.

(iii) for applicants who apply through the **White Form eIPO** service by paying the application monies through a single bank account and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, e-Refund payment instructions (if any) will be despatched to the application payment account.

(iv) for applicants who apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and whose application is wholly or partially unsuccessful and/or the Final Offer Price being different from the Offer Price initially paid on the application, refund cheques will be sent to the address as specified on the White Form eIPO application by ordinary post and at the applicant's own risk.

Subject as mentioned below, refund cheques under **WHITE** or **YELLOW** Application Forms for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and

Share certificates for successful applicants under the **WHITE** Application Form or to the White Form eIPO Service Provider via the White Form eIPO service are expected to be posted on or before Thursday, 25 November, 2010. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of cheques.

(i) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong 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 p.m. on Thursday, 25 November 2010. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and Share certificate(s) within the time period specified for collection, they will be despatched promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or, if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on you Application Form that you will collect your refund cheque(s) (where applicable) and your Share certificates (where applicable) in person, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) will be despatched to the address on your Application Form on or before Thursday, 25 November 2010 by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form:

If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, 25 November 2010, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for the Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the section headed "How to Apply for Hong Kong Offer Shares — Results of Allocations" on Thursday, 25 November 2010. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 25 November 2010 or such other date as will be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Thursday, 25 November, 2010, by ordinary post and at your own risk.

(iii) If you apply through White Form eIPO service:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 25 November 2010, or such other date as notified by our Company in the newspapers as the date of despatch of e-Refund payment instructions/refund cheque(s)/Share certificate(s). 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 to the designated White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or, if you apply for 1,000,000 Hong Kong Offer Shares but have not indicated on your application that you will collect your Share certificates in person, your Share certificate(s) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider on or around 25 November 2010 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, e-Refund payment instructions (if any) will be despatched to your application payment account on or around Thursday, 25 November 2010.

If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final

Offer Price being different from the Offer Price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider on or around Thursday, 25 November 2010, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set out in this section headed "How to apply through White Form eIPO — Additional Information" of this prospectus.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or through **White Form eIPO** or **electronically instructing** HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

(i) If your application is revoked:

By completing and submitting an Application Form or giving an **electronic application instruction**, you agree that your application or the application made by HKSCC on your behalf is irrevocable until after the fifth day after the time of the opening of the Application Lists (which is expected to be 25 November 2010). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your **electronic application instruction** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before 25 November 2010 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before 25 November 2010 if a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominee 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 the allotment of Hong Kong Offer Shares is void:

The allotment of the Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing of the application lists.

(iii) If you make applications under the Hong Kong Public Offering as well as the International Offering:

You or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Shares in the International Offering. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service electronically, you agree not to apply for International Offer Shares under the International Offering. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Offer Shares, and to identify and reject indications of interest in the International Offering from investors who have received the Hong Kong Offer Shares in the Hong Kong Public Offering.

(iv) If our Company, the Joint Global Coordinators or their respective agents exercise their discretion:

Our Company, the Joint Global Coordinators, White Form eIPO Service Provider (where applicable) and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(v) You will not receive any allotment if:

- your application is a multiple or a suspected multiple applications;
- your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) International Offering. By filling in any of the Application Forms or submitting **electronic application instructions**, you agree not to apply for or indicate any interest for Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;

- you apply for more than 60,000,000 Hong Kong Offer Shares (being 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering);
- our Company believes that by accepting your application, we would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address overleaf is located;
- the Underwriting Agreements do not become unconditional; or
- the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement are/is terminated in accordance with their respective terms.

DEALINGS AND SETTLEMENT

Commencement of Dealings in Our Shares on the Stock Exchange

Dealings in our Shares on the Stock Exchange are expected to commence at 9:30 a.m. on Friday, 26 November 2010. Our Shares will be traded on the Stock Exchange in board lots of 1,000 Shares. The stock code of our Shares is 1117.

Our Shares Will Be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the 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.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

You should seek advice of your stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect your rights and interests.

The following is the text of four reports, each prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

15 November 2010

The Directors
Maanshan Leading Farming Company Limited
Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the pre-acquisition financial information (the "Pre-acquisition Financial Information") relating to Maanshan Leading Farming Company Limited ("Leading Farming") and its subsidiaries (hereinafter collectively referred to as the "Leading Farming Group") for the year ended 30 June 2008 and six days period ended 6 July 2008 (the "Relevant Periods") for inclusion in the prospectus of China Modern Dairy Holdings Ltd. (the "Company") dated 15 November 2010 in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Prospectus").

Leading Farming was established in the People's Republic of China (the "PRC") on 2 September 2005 as a private limited liability company. On 7 July 2008, Leading Farming was acquired by Modern Farming (Group) Co., Ltd. ("Modern Farm") and became a subsidiary of Modern Farm from then on.

Particulars of the subsidiaries which were established in the PRC held by Leading Farming at the end of each reporting period are as follows:

Name of subsidiary	Date of establishment	Registered capital	Equity interest directly attributable to Leading Farming as at 30 June 2008 and 6 July 2008	Principal activities
			%	
Shandong Mengniu International Trading Co., Ltd.#	5 November 2003	RMB20,000,000	100	Import and export agency services

Name of subsidiary	Date of establishment	Registered capital	Equity interest directly attributable to Leading Farming as at 30 June 2008 and 6 July 2008	Principal activities
			%	
Zhangjiakou Saibei Modern Farm Co., Ltd. #	1 December 2005	RMB90,000,000	100	Production of milk
Wenshang Modern Farm Co., Ltd. #	12 May 2006	RMB55,000,000	100	Production of milk
Shangzhi Modern Farm Co., Ltd. #	25 May 2006	RMB55,000,000	100	Production of milk
Hongya Modern Farm Co., Ltd. #	14 June 2007	RMB10,000,000	100	Production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd.*	26 May 2008	RMB10,000,000	70	Production of fertilizers
Zhangjiakou Chabei Modern Farming Dairy Professional Cooperative^	11 September 2007	RMB10,000,000	95	Production of milk

These entities were established in PRC as domestic company and wholly owned by Leading Farming.

* These entities were established in PRC as domestic company.

^ This entity was established in PRC as a farmers' cooperative.

The financial year end date of all the companies comprising Leading Farming Group is 31 December.

The statutory financial statements of Leading Farming for the years ended 31 December 2007 and 2008 were prepared in accordance with the relevant accounting principles and financial regulations in the PRC. They were audited by Anhui Jiangnan CPA Limited ("安徽江南會計師事務所"), the certified public accountant registered in the PRC. No statutory financial statements for its subsidiaries have been prepared for the Relevant Periods as there is no such statutory requirement.

For the purpose of this report, the directors of Leading Farming have prepared the consolidated financial statements of Leading Farming Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements"). Deloitte Touche Tohmatsu CPA Ltd. has carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Pre-acquisition Financial Information of Leading Farming Group for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of Leading Farming who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Pre-acquisition Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Pre-acquisition Financial Information and to report our opinion to you.

In our opinion, the Pre-acquisition Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Leading Farming Group as of 30 June 2008 and 6 July 2008 and of the consolidated results and consolidated cash flows of Leading Farming Group for the Relevant Periods.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
		RMB'000	RMB'000
Sales of milk produced	5	183,882	3,994
Gain arising from changes in fair value less costs to sell of dairy cows	17	19,107	—
Other income	6	11,800	25
Farm operating expenses	7	(130,786)	(3,891)
Employee benefits expense	8	(16,850)	(420)
Depreciation		(10,827)	(100)
Other gains and losses	9	(546)	—
Other expenses		(7,269)	(206)
Profit (loss) before finance costs and tax	10	48,511	(598)
Finance costs	11	(10,573)	(447)
Profit (loss) before tax		37,938	(1,045)
Income tax charge	12	(56)	—
Profit (loss) and total comprehensive income (expense) for the year/period		37,882	(1,045)
Profit (loss) and total comprehensive income (expense) attributable to:			
Owners of Leading Farming		37,878	(1,045)
Non-controlling interests		4	—
		37,882	(1,045)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	30 June 2008	6 July 2008
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	458,328	458,379
Land use rights	16	15,970	15,846
Biological assets	17	446,153	447,210
		920,451	921,435
CURRENT ASSETS			
Inventories	18	8,527	4,533
Trade and other receivables	19	18,661	22,275
Land use rights	16	709	709
Bank balances and cash	20	6,492	14,348
		34,389	41,865
CURRENT LIABILITIES			
Trade and other payables	21	106,182	105,687
Amount due to a related party	28(b)	2,094	2,094
Interest payable		811	811
Borrowings - due within one year	22	166,000	176,000
Deferred income	23	9,942	9,942
		285,029	294,534
NET CURRENT LIABILITIES		(250,640)	(252,669)
TOTAL ASSETS LESS CURRENT LIABILITIES		669,811	668,766
CAPITAL AND RESERVES			
Paid-in capital		202,180	202,180
Reserves		95,008	93,963
Equity attributable to owners of Leading Farming		297,188	296,143
Non-controlling interests		2,296	2,296
		299,484	298,439
NON-CURRENT LIABILITIES			
Borrowings - due after one year	22	227,088	227,088
Deferred income	23	143,239	143,239
		370,327	370,327
		669,811	668,766

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of Leading Farming						
	Paid-in capital	Capital reserve	Statutory surplus reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note i)	(Note ii)	(Note iii)				
Balance at 1 July 2007	202,180	10,490	—	46,640	259,310	—	259,310
Profit and total comprehensive income for the year	—	—	—	37,878	37,878	4	37,882
Transfer	—	—	2,188	(2,188)	—	—	—
Contribution from non-controlling interests	—	—	—	—	—	2,292	2,292
Balance at 30 June 2008	202,180	10,490	2,188	82,330	297,188	2,296	299,484
Loss and total comprehensive expense for the period	—	—	—	(1,045)	(1,045)	—	(1,045)
Balance at 6 July 2008	202,180	10,490	2,188	81,285	296,143	2,296	298,439

Notes:

(i) The paid-in capital represents the registered capital of Leading Farming and is fully paid up.

(ii) Capital reserve represents the difference between the registered capital and the funds contributed by the equity owners of Leading Farming.

(iii) The statutory surplus reserve is non-distributable and the transfer to the reserve is determined by board of directors in accordance with the Articles of Association of Leading Farming and the relevant subsidiaries. Statutory surplus reserve can be used to make up for previous years' losses or converted into additional capital of Leading Farming and the relevant subsidiaries in the PRC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit (loss) before tax	37,938	(1,045)
Adjustments for:		
Depreciation of property, plant and equipment	10,827	100
Release of land use rights	152	124
Interest income	(208)	—
Government grant credited to income	(3,549)	—
Finance costs	10,573	447
Write-off of bad debt	500	—
Loss on disposal of property, plant and equipment	46	—
Gain arising from changes in fair value less costs to sell of dairy cows	(19,107)	—
Operating cash flows before movements in working capital	37,172	(374)
Decrease in inventories	2,676	3,994
Decrease (increase) in trade and other receivables	5,375	(3,614)
Increase (decrease) in trade and other payables	7,836	(495)
Cash generated from (used in) operations	53,059	(489)
Income taxes paid	(91)	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES	52,968	(489)
INVESTING ACTIVITIES		
Interest received	208	—
Purchases of property, plant and equipment	(210,561)	(17)
Addition to biological assets	(142,623)	(1,013)
Purchases of land use rights	(16,831)	—
Proceeds on disposal of property, plant and equipment	29	—
Proceeds on disposal of dairy cows	9,974	—
Government grants received	74,230	—
NET CASH USED IN INVESTING ACTIVITIES	(285,574)	(1,030)
FINANCING ACTIVITIES		
Interest paid	(20,467)	(625)
New borrowings raised	179,864	10,000
Repayment of borrowings	(20,000)	—
Contribution from non-controlling interests	2,292	—
NET CASH FROM FINANCING ACTIVITIES	141,689	9,375
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(90,917)	7,856
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	97,409	6,492
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD represented by bank balances and cash	6,492	14,348

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Leading Farming is a private limited liability company established in the PRC on 2 September 2005. The registered office and the principal place of business of Leading Farming is situated at No. 123, Hongqinan Lu, Economic Development Area, Maanshan City, Anhui Province, the PRC.

The principal activity of Leading Farming Group is production and sales of milk.

The Pre-acquisition Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of Leading Farming Group operate (functional currency).

Going concern

In preparing the Pre-acquisition Financial Information, the directors of Leading Farming (the "Directors") have given careful consideration of Leading Farming Group in light of its net current liabilities of approximately RMB253 million as at 6 July 2008. Having considered RMB1,855 million cash injection before 30 June 2009 by other equity owners, the Directors are satisfied that Leading Farming Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Pre-acquisition Financial Information has been prepared on a going concern basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Pre-acquisition Financial Information for the Relevant Periods, Leading Farming Group has consistently applied International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and Interpretations ("IFRICs"), issued by International Accounting Standards Board ("IASB"), which are effective for the accounting period beginning on 1 July 2009.

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretation which are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs April 2009[1]
IFRSs (Amendments)	Improvements to IFRSs May 2010[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 7 (Amendment)	Disclosures — Transfers of Financial Assets[8]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Amendments that are effective for annual periods beginning on or after 1 January 2010
[2] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2010
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 July 2010
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 January 2013
[8] Effective for annual periods beginning on or after 1 July 2011

Leading Farming Group has not early adopted these new and revised standards, amendments and interpretation in the preparation of the Pre-acquisition Financial Information. The Directors anticipate that the application of these new and revised standards, amendments and interpretation will have no material impact on the results and financial position of Leading Farming Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Pre-acquisition Financial Information has been prepared under the historical cost basis except for the biological assets, which are measured at fair value less cost to sell, as explained in the accounting policies set out below.

The Pre-acquisition Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. These policies have been consistently applied throughout the Relevant Periods. In addition, the Pre-acquisition Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Pre-acquisition Financial Information incorporates the financial statements of Leading Farming and entities controlled by Leading Farming (its subsidiaries). Control is achieved where Leading Farming has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period/year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of Leading Farming Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity attributable to the owners of Leading Farming.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of value added tax and returns.

Revenue from sales of milk produced is recognized when the milk is delivered and title has been passed.

Revenue from sales of goods are recognized when the goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Leading Farming Group as lessee

Rentals payable under operating leases payments are recognized as expenses on a straight-line basis over the term of the relevant lease. Contingent rental expenses, if any, are charged as expenses in the periods in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expenses on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (the functional currency, i.e. RMB).

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalization.

All other borrowing costs are recognized in profit and loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contribution.

Government grants

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognized in profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, an entity shall recognize the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Other grants

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Leading Farming Group with no future related costs are recognized in the profit or loss in the period in which they become receivable. Other government grants related to depreciable assets are recognized as deferred income in the consolidated statement of financial position and released to profit or loss over the useful lives of the related assets.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods/years and it further excludes items that are never taxable or deductible. Leading Farming Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the Pre-Acquisition Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where Leading Farming Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Leading Farming Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognized.

Land use rights

Land use rights are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At the end of each reporting period, Leading Farming Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, Leading Farming Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using weighted average method.

Biological assets

Dairy cows

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

The feeding costs and other related costs including the depreciation charge, utilities cost and consumables incurred for raising of heifers and calves are capitalized, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Milk

Agricultural produce represents the milk. Milk is recognized at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation cost, excluding finance cost and income taxes.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Leading Farming Group's financial assets represent loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Leading Farming Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 days, and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of Leading Farming Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including borrowings, trade and other payables, interest payable and amount due to a related party are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by Leading Farming are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Leading Farming Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Fair value of dairy cows

Leading Farming Group's 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 at the end of reporting periods adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk 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 market-determined prices are unavailable. Any change in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of the assumptions used are disclosed in note 17.

5. SALES OF MILK PRODUCED AND SEGMENT INFORMATION

Sales of milk produced represented mainly the fair value of milk produced less cost to sell at the point of harvest.

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of Leading Farming Group that are regularly reviewed by the chief operating decision maker, the President of Leading Farming Group (the "President"), in order to allocate resources and to assess performance. The operation of Leading Farming Group constitutes one operating segment i.e. production and sales of milk. The information reported to Leading

Farming Group's President for the purpose of resource allocation and assessment of performance does not contain the gain arising from changes in fair value, less costs to sell, of dairy cows, and the President reviewed the profit (loss) before tax, assets and liabilities as a whole and the difference between the profit (loss) before tax and assets reported under IFRSs and to the President is mainly arising from the difference of the accounting treatment of the dairy cows. Under the report to the President, the dairy cows are stated at cost less depreciation but the dairy cows are stated at their fair value less costs to sell under IFRSs. The difference of the profit (loss) before tax and assets reported to the President and IFRSs are as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Loss before tax reported to the President	(10,970)	(1,235)
Add: Gain arising from changes in fair value less costs to sell of dairy cows	19,107	—
Depreciation of dairy cows	29,801	190
Profit (loss) before tax under IFRSs	37,938	(1,045)

	As at 30 June 2008	As at 7 July 2008
	RMB'000	RMB'000
Assets reported to the President	848,483	856,753
Add: Gain arising from changes in fair value less costs to sell of dairy cows	70,030	70,030
Accumulated depreciation of dairy cows	36,327	36,517
Assets under IFRSs	954,840	963,300

The segment liabilities is same as total liabilities under IFRSs at the end of respective reporting periods.

All external sales of milk produced of Leading Farming Group during the Relevant Periods are contributable to customers established in the PRC, the place of domicile of Leading Farming Group's operating entities. Meanwhile, Leading Farming Group's non-current assets are all located in the PRC.

Sales of milk produced of RMB181,761,000 and RMB3,994,000 for the year ended 30 June 2008 and period from 1 July 2008 to 6 July 2008 respectively are from a single external customer.

6. OTHER INCOME

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Government grant related to		
- Biological assets (Note i)	2,150	—
- Income (Note ii)	5,168	—
- Other assets (Note 23)	3,549	—
Interest income	208	—
Others	725	25
	11,800	25

Note i: These government grants are unconditional government subsidies received by Leading Farming Group from relevant government bodies for the purpose of supporting Leading Farming Group to purchase dairy cows.

Note ii: These government grants are unconditional government subsidies received by Leading Farming Group from relevant government bodies for the purpose of giving financial support to Leading Farming Group's operation.

7. FARM OPERATING EXPENSES

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Feeds	116,367	2,663
Utilities	4,448	63
Other farm operating expenses	9,971	1,165
Total farm operating expenses	130,786	3,891

8. EMPLOYEE BENEFITS EXPENSE

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Salaries, bonuses and allowances	16,491	411
Contributions to retirement benefit schemes	359	9
	16,850	420

The employees of Leading Farming Group's PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the local government. The subsidiaries in the PRC are required to contribute a specified percentage of their basic payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of Leading Farming Group with respect to the retirement benefit schemes is to make the specified contributions.

9. OTHER GAINS AND LOSSES

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	46	—
Write-off of bad debt	500	—
	546	—

10. PROFIT (LOSS) BEFORE FINANCE COSTS AND TAX

Profit (loss) before finance costs and tax has been arrived at after charging:

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Auditors' remuneration	50	—
Release of land use rights	152	124

11. FINANCE COSTS

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	20,819	617
Other borrowing wholly repayable within five years	459	8
Total borrowing costs	21,278	625
Less: capitalized amount	(10,705)	(178)
	10,573	447

The weighted average interest rate in specific borrowings being capitalised was 4.23% per annum for both periods.

12. INCOME TAX CHARGE

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
The charge comprises:		
Current tax		
PRC enterprise income tax	56	—

The tax charge for the Relevant Periods represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of Leading Farming and its subsidiaries established in the PRC.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises from 1 January 2008. Prior to the New EIT Law, the subsidiaries in the PRC are subject to statutory income tax rate of 33% before taking into account the entitled concessionary tax rates and exemption. The change in statutory tax rate has no material impact on the deferred tax of the Leading Farming Group since no deferred tax has been recognized before the change. In addition, the New EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% or 10% withholding tax under the tax treaty or the domestic law.

The income tax rates applicable to Leading Farming and its subsidiaries established in the PRC are as follows:

	Year ended 31 December 2007 (Note)	Year ended 31 December 2008 (Note)
Leading Farming	0%	0%
Shandong Mengniu International Trading Co,.Ltd.	33%	25%
Zhangjiakou Saibei Modern Farm Co,. Ltd.	0%	0%
Wenshang Modern Farm Co,. Ltd.	0%	0%
Shangzhi Modern Farm Co,. Ltd.	0%	0%
Hongya Modern Farm Co,. Ltd.	0%	0%
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd.	N/A	25%
Zhangjiakou Chabei Modern Farming Dairy Professional Cooperative	0%	0%

Note: According to the prevailing tax rules and regulation, those entities of Leading Farming Group operating in agricultural business is exempted from enterprise income tax.

The tax charge for the Relevant Periods can be reconciled to the profit (loss) per the consolidated statements of comprehensive income as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Profit (loss) before tax	37,938	(1,045)
Tax at applicable income tax rate at 25%	9,485	(261)
Effect of tax exemptions granted to agricultural entities	(9,429)	261
Income tax charge	56	—

13. DIRECTORS' EMOLUMENTS

Details of emoluments paid by Leading Farming Group to the directors of Leading Farming during the Relevant Periods.

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Executive directors		
- Salaries and other allowances	338	6
- Retirement benefits scheme contributions	59	1
	397	7
Executive directors		
Mr. Deng Jiuqiang	123	2
Mrs. Gao Lina	110	2
Mr. Liu Peixian	164	3
	397	7

No directors waived or agreed to waive any emoluments during the Relevant Periods.

14. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in Leading Farming Group, three were directors of Leading Farming whose emolument are included in the disclosures in note 13 above. The emoluments of the remaining two during the year ended 30 June 2008 and six days period ended 6 July 2008 are as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Salaries and other benefits	232	4
Retirement benefit schemes contributions	39	1
	271	5

No emoluments were paid by Leading Farming Group to the directors or the five highest paid individuals as inducement to join or upon joining Leading Farming Group or as compensation for loss of office.

The emoluments of each of these two individuals were below HK$1,000,000 during the Relevant Periods.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Plant and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 July 2007	38,593	5,194	17,934	135,461	197,182
Additions	366	7,366	15,613	254,407	277,752
Transfer	205,682	—	24,981	(230,663)	—
Disposals	—	(3)	(93)	—	(96)
At 30 June 2008	244,641	12,557	58,435	159,205	474,838
Additions	—	—	—	195	195
At 6 July 2008	244,641	12,557	58,435	159,400	475,033
ACCUMULATED DEPRECIATION					
At 1 July 2007	2,561	616	380	—	3,557
Charge for the year	7,599	1,712	3,663	—	12,974
Eliminated on disposals	—	(1)	(20)	—	(21)
At 30 June 2008	10,160	2,327	4,023	—	16,510
Charge for the period	111	6	27	—	144
At 6 July 2008	10,271	2,333	4,050	—	16,654
CARRYING AMOUNT					
At 30 June 2008	234,481	10,230	54,412	159,205	458,328
At 6 July 2008	234,370	10,224	54,385	159,400	458,379

As at 30 June 2008 and 6 July 2008, certain Leading Farming Group's buildings and plant and equipment with an aggregate carrying amount of RMB56,417,000 and RMB56,391,000, respectively were pledged as security for bank and other loans of Leading Farming Group (Note 22).

As at 30 June 2008 and 6 July 2008, Leading Farming Group is in the process of obtaining the building ownership certificates of buildings with carrying amounts of RMB234,481,000 and RMB234,370,000, respectively.

Depreciation is charged using straight-line method over the expected useful life, after taking into account its estimate residual value, as follows:

Buildings	20 years
Motor vehicles	5 years
Plant and equipment	5 - 10 years

During the reporting period ended 30 June 2008 and six days period ended 6 July 2008, depreciation charge amounting to RMB2,147,000 and RMB44,000 respectively have been capitalized in biological assets.

16. LAND USE RIGHTS

	RMB'000
At 1 July 2007	—
Addition	16,831
Release to profit or loss	(152)
At 30 June 2008	16,679
Release to profit or loss	(124)
At 6 July 2008	16,555

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
- Current assets	709	709
- Non-current assets	15,970	15,846
	16,679	16,555

The amount represents the payment for land use rights situated in the PRC. The leasehold interests in land have lease terms ranging from 20 to 50 years.

As at 30 June 2008 and 6 July 2008, land use rights with carrying amount of RMB4,293,000 and RMB4,261,000, respectively were pledged against certain bank facilities granted to Leading Farming Group (Note 22).

17. BIOLOGICAL ASSETS

A - Nature of Activities

Leading Farming and its subsidiaries are primarily milk production companies, that principally engaged in production and sales of milk. Dairy cows are primarily held to produce milk.

The quantity of dairy cows owned by Leading Farming Group at 30 June 2008 and 6 July 2008 is shown below. Leading Farming Group's dairy cows are primarily milkable cows held for milk production. Heifers and calves held at 30 June 2008 and 6 July 2008 are dairy cows that have not reached the age to produce milk.

	30 June 2008	6 July 2008
	head	head
Dairy cows		
Milkable cows	14,964	14,964
Heifers and calves	9,394	9,394
Total dairy cows	24,358	24,358

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	KG	KG
Volume of sales of milk produced	55,888,196	805,898

Leading Farming Group is exposed to fair value risks arising from changes in price of the dairy products. Leading Farming Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of Leading Farming are of the view that there is no available derivative or other contracts which Leading Farming Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately 9 month pregnancy term, a calf is born and the milkable cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before approximately 60 days dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sales of dairy cows is not one of the Group's principal activities and is not included as revenue. The sales of dairy cows is determined based on the actual selling price.

B - Value of Dairy cows

The value of dairy cows at end of the reporting period was:

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Dairy cows	446,153	447,210

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
Balance as at 1 July 2007	166,812	125,438	292,250
Increases due to purchase	13,555	17,522	31,077
Increase due to raising (Feeding cost and others)	113,693	—	113,693
Transfer	(176,670)	176,670	—
Decrease due to sales	(4,554)	(5,420)	(9,974)
Gain arising from changes in fair value less costs to sell of dairy cows	26,971	(7,864)	19,107
Balance as at 30 June 2008	139,807	306,346	446,153
Increase due to raising (Feeding costs and others)	1,057	—	1,057
Balance as at 6 July 2008	140,864	306,346	447,210

Leading Farming Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Sallmanns Limited ("Sallmanns") in early November 2010, a firm of independent qualified professional valuers not connected with Leading Farming Group, who has appropriate qualifications and recent experiences in valuation of biological assets. The address of Sallmanns is 17/F, Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The fair value less costs to sell of heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices of milkable cows are not available, Sallmanns has applied the net present value approach to calculate the fair value less cost to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing cows at the end of the reporting period will reduce at a certain culling rate due to the natural or unnatural factors.
- The culling rates adopted are 8%, 12%, 20%, 20% and 100% for milkable cows in the first to fifth lactation cycles. These rates are based on the historical breeding data of Leading Farming and future operating plans.
- The quantities of dairy cows will increase as calves are born.
- The expected average prices of milk during the projected period of 5 years, which is the estimated production period of a dairy cow, are estimated after taking into account certain percentage growth for each projected year after considering future demand and inflation in the PRC.

- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture.
- Costs are average costs based on historical cost information.
- The discount rate used is 11.04%.

As at 30 June 2008 and 6 July 2008, Leading Farming Group has pledged dairy cows with carrying amount of RMB339,353,000 and RMB340,157,000, respectively to banks to secure the general banking facilities granted to Leading Farming Group.

The aggregate gain or loss arising during the year ended 30 June 2008 and six days period ended 6 July 2008 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of dairy cows is analyzed as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Sales of milk/fair value of milk produced less costs to sell	183,882	3,994
Gain arising from changes in fair value less costs to sell of dairy cows	19,107	—
	202,989	3,994

18. INVENTORIES

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Feeds	7,688	3,694
Others	839	839
	8,527	4,533

19. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of respective reporting periods:

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Trade receivables		
- within 60 days based on invoice date	7,406	10,447
- over 60 days based on invoice date	35	35
	7,441	10,482
Advances to suppliers	8,680	9,253
Others	2,540	2,540
	18,661	22,275

Leading Farming Group allows credit period of 60 days to its trade customers.

Trade receivables at the end of respective reporting periods principally represent receivables from sales of milk.

Before accepting any new customer, Leading Farming Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Included in Leading Farming Group's trade receivable balance are debtors with aggregate carrying amount of RMB35,000 which are past due as at 30 June 2008 and 6 July 2008 for which Leading Farming Group has not provided for impairment loss. Leading Farming Group does not hold any collateral over these balances. The average age of these receivables is 180 days.

20. BANK BALANCES AND CASH

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market saving rates ranging from 0.36% to 3.33% per annum as at 30 June 2008 and 6 July 2008.

Bank balances and cash at 30 June 2008 and 6 July 2008 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

21. TRADE AND OTHER PAYABLES

The credit period taken for the settlement of trade purchases is 30 to 60 days. The following is an aged analysis of trade payables at the end of the reporting period:

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Trade payables		
- within 60 days based on invoice date	37,677	37,677
- over 60 days based on invoice date	4,525	3,419
	42,202	41,096
Payable for acquisition of property, plant and equipment	54,392	54,392
Advance payment from customers	163	163
Accrued staff costs	3,906	4,553
Others	5,519	5,483
	106,182	105,687

22. BORROWINGS

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Bank borrowings	386,000	396,000
Other borrowing (Note i)	7,088	7,088
	393,088	403,088
Unsecured borrowings	36,000	46,000
Secured borrowings (Note ii)	296,088	296,088
Guaranteed borrowings (Note iii)	61,000	61,000
	393,088	403,088
Carrying amount repayable:		
Within one year	166,000	176,000
Between one to two years	84,700	84,700
Between two to five years	142,388	142,388
	393,088	403,088
Less: Amounts due within one year shown under current liabilities	(166,000)	(176,000)
	227,088	227,088

The borrowings comprise:

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Fixed-rate borrowings	107,088	107,088
Variable-rate borrowings	286,000	296,000

The effective interest rates, which are also equal to contracted interest rates, at the end of respective reporting periods are as follows:

	30 June 2008	6 July 2008
Fixed-rate borrowings	2.4% to 7.74%	2.4% to 7.74%
Variable-rate borrowings	6.12% to 7.65%	6.12% to 7.65%

All borrowings are denominated in RMB. Variable-rate borrowings interest rates are determined based on the borrowing rates announced by the People's Bank of China.

Notes:

(i) Other borrowing represented the loan from local government for financing the purchasing of dairy cow for Leading Farming Group. The loan was secured by certain plant and equipment owned by Leading Farm Group as set out in note 15, interest bearing of 2.4% per annum and was repayable on 31 October 2011.

(ii) Borrowings were secured by certain property, plant and equipment, land use rights and dairy cows owned by Leading Farming Group as set out in notes 15, 16 and 17 respectively.

(iii) Of the guaranteed borrowings, RMB20,000,000 was guaranteed by an equity owner of Leading Farming and the remaining balance were guaranteed by Leading Farming's subsidiaries.

23. DEFERRED INCOME

	Arising from government grants
	RMB'000
At 1 July 2007	82,500
Additions	74,230
Released to income	(3,549)
At 30 June 2008 and 6 July 2008	153,181

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
- Current portion	9,942	9,942
- Non-current portion	143,239	143,239
	153,181	153,181

Deferred income arising from government grant represents the government subsidies obtained in relation to the construction and acquisition of property, plant and equipment, which was included in the consolidated statements of financial position as deferred income and are credited to profit or loss on a systematic basis over the useful lives of the related assets.

24. CAPITAL RISK MANAGEMENT

Leading Farming Group manages its capital to ensure that entities in Leading Farming Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. Leading Farming Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Leading Farming Group consists of net debt, comprising bank and other borrowings as disclosed in Note 22, net of cash and cash equivalents and equity attributable to owners of Leading Farming, comprising paid-in capital, retained earnings and other reserves as disclosed in the consolidated statements of changes in equity.

Leading Farming Group's management reviews the capital structure on a regular basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. Leading Farming Group will balance its overall capital structure through the payment of dividends, injection of capital and as well as the issue of new debt or the redemption of existing debt.

25. FINANCIAL INSTRUMENTS

Categories of financial instruments

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	16,473	27,370
Financial liabilities:		
Amortized cost	502,012	511,517

Financial risk management objectives and polices

Leading Farming Group's major financial instruments include trade and other receivables, trade and other payables, amount due to a related party, interest payable, borrowings, bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. Leading Farming Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged during the Relevant Periods.

Credit risk

Leading Farming Group's maximum exposure to credit risk which will cause a financial loss to Leading Farming Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position at the end of the respective reporting periods.

In order to minimize the credit risk, the management of Leading Farming Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by Leading Farming Group's management based on prior experience and the current economic environment. Leading Farming Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Leading Farming consider that Leading Farming Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorized banks in the PRC.

Leading Farming Group has concentration of credit risk as 98.9% and 100% of total trade receivables as at 30 June 2008 and 6 July 2008, respectively was due from Leading Farming Group's largest customer.

Interest rate risk

Leading Farming Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances and bank borrowings which carry interest at variable interest rates.

Leading Farming Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings. Leading Farming Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to market lending interest rates for non-derivative instruments at the end of each reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses since they are not considered sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings outstanding at the end of respective reporting periods were outstanding for the whole year/period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of each reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, Leading Farming Group's profit for the year ended 30 June 2008 would decrease/increase by RMB180,000 and the loss for the six days period ended 6 July 2008 would increase/decrease by RMB3,000; and Leading Farming Group's property, plant and equipment would increase/decrease by RMB1,250,000 and RMB21,000 as at 30 June 2008 and 6 July 2008 for interest capitalisation.

Liquidity risk

Leading Farming Group finance their operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary liquidity is available when required. The management monitors the liquidity position of Leading Farming Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations. With reference to the existing unutilized facilities, newly obtained facilities up to the date of this report and re-financing arrangements, the Directors consider the liquidity and source of capital of the daily operation are sufficient.

Leading Farming Group has net current liabilities of approximately RMB253 million as at 6 July 2008. The Directors consider Leading Farming Group has sufficient internally generated funds and available facilities to meet Leading Farming Group's financial obligations.

The following table details Leading Farming Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Leading Farming Group can be required to pay. The table includes both interest and principal.

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2008							
Non-interest bearing	—	108,924	—	—	—	108,924	108,924
Fixed interest rate borrowings	7	103,500	—	—	7,570	111,070	107,088
Variable interest rate borrowings	7	40,010	44,960	100,100	154,242	339,312	286,000
		252,434	44,960	100,100	161,812	559,306	502,012

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 6 July 2008							
Non-interest bearing	—	108,429	—	—	—	108,429	108,429
Fixed interest rate borrowings	7	103,500	—	—	7,570	111,070	107,088
Variable interest rate borrowings	7	50,360	44,960	100,100	154,242	349,662	296,000
		262,289	44,960	100,100	161,812	569,161	511,517

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Leading Farming consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Pre-acquisition Financial Information approximate their fair values at the end of respective reporting periods.

26. OPERATING LEASE COMMITMENTS

Leading Farming Group as lessee

At the end of each reporting period, Leading Farming Group was committed to make future minimum lease payments in respect of plant and vehicles rented under non-cancellable operating leases which fall due as follows:

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Within one year	692	692
In the second to fifth year inclusive	1,917	1,917
Over five years	6,113	6,113
	8,722	8,722

Operating lease payments represent rentals payable by Leading Farming Group for certain of its plant and vehicles which are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years.

The minimum lease payments paid under operating lease during the year ended 30 June 2008 and six days period ended 6 July 2008 is approximately RMB94,000 and RMB1,000 respectively.

27. CAPITAL COMMITMENTS

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Pre-acquisition Financial Information	147,374	147,374

28. RELATED PARTY TRANSACTIONS

(a) Name and relationship with a related party is as follows:

Name	Relationship
Inner Mongolia Jiuqiang Machinery Co., Ltd.	Company owned by a director

(b) At the end of each reporting period, Leading Farming Group had the following balance with the related party:

Amount due to related party

	30 June 2008	6 July 2008
	RMB'000	RMB'000
Other payable nature		
Inner Mongolia Jiuqiang Machinery Co., Ltd. (Note)	2,094	2,094

Note: The amount mainly represented construction cost payable at the end of respective reporting periods. It was interest-free, unsecured and repayable on demand.

Except for the guarantee mentioned in note 22, there are no other significant transaction with other related parties.

(c) Compensation of key management personnel

The emoluments of key management during the Relevant Periods were as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 6 July 2008
	RMB'000	RMB'000
Short-term employees benefits	570	10
Post-employment benefits	98	2
	668	12

C. SUBSEQUENT EVENTS

Subsequent to 6 July 2008, owners of Leading Farming entered into an agreement with Modern Farm to transfer all the businesses, assets and liabilities of Leading Farming Group to Modern Farm at a consideration of RMB202,180,000. The transaction was completed on 7 July 2008 and Leading Farming became a subsidiary of Modern Farm.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Deloitte.
德勤

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Deloitte Touche Tohmatsu
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88 Queensway
Hong Kong

15 November 2010

The Directors
Modern Farming (Group) Co., Ltd.
Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Modern Farming (Group) Co., Ltd. ("Modern Farm") and its subsidiaries (hereinafter collectively referred to as the "Modern Farm Group") for the period from 7 July 2008 (date of establishment) to 30 June 2009 and the year ended 30 June 2010 (the "Relevant Periods") for inclusion in the prospectus of China Modern Dairy Holdings Ltd. (the "Company") dated 15 November 2010 in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Prospectus").

Modern Farm was established in the People's Republic of China (the "PRC") on 7 July 2008 as a private limited liability company.

Particulars of the subsidiaries which were established in the PRC held by Modern Farm at the end of each reporting period are as follows:

Name of subsidiary	Date of establishment	Registered capital	Equity interest directly attributable to Modern Farm as at 30 June 2009	Equity interest directly attributable to Modern Farm as at 30 June 2010	Principal activities
			%	%	
Maanshan Leading Farming Company Limited ("Leading Farming")	2 September 2005	RMB250,000,000	(note i)	(note i)	Production of milk
Shandong Mengniu International Trading Co., Ltd.#	5 November 2003	RMB20,000,000	100	100	Import and export agency services
Helingeer Modern Farming Co,. Ltd. (Formerly known as Inner Mongolia Mengniu AustAsia Model Dairy Farm Co., Ltd.)#	12 July 2004	RMB96,100,000	100	100	Production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd. #	1 December 2005	RMB90,000,000	100	100	Production of milk

Name of subsidiary	Date of establishment	Registered capital	Equity interest directly attributable to Modern Farm as at 30 June 2009	Equity interest directly attributable to Modern Farm as at 30 June 2010	Principal activities
			%	%	
Wenshang Modern Farm Co., Ltd.#	12 May 2006	RMB55,000,000	100	100	Production of milk
Shangzhi Modern Farm Co., Ltd. #	25 May 2006	RMB55,000,000	100	100	Production of milk
Hongya Modern Farm Co., Ltd. #	14 June 2007	RMB10,000,000	100	100	Production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd. #	26 May 2008	RMB10,000,000	100	100	Production of fertilizers
Modern Farming (Chabei) Co., Ltd.#	17 November 2008	RMB8,000,000	100	100	Production of milk
Modern Farming (Baoji) Co., Ltd. #	2 December 2008	RMB10,000,000	100	100	Production of milk
Maanshan Modern Farming Feedstock Co., Ltd. #	24 February 2009	RMB1,000,000	100	100	Sales of feeds
Modern Farm (Feidong) Co., Ltd.#	2 December 2009	RMB50,000,000	—	100	Production of milk
Modern Farming (Inner Mongolia) Dairy Product Sales Co., Ltd.*	30 April 2010	RMB3,000,000	—	56	Sales of milk
Feidong Sijibao Organic Fertiliser Co., Ltd. #	18 September 2009	RMB1,000,000	—	100	Production of fertilizers
Baoji Sijibao Organic Fertiliser Co., Ltd. #	18 September 2009	RMB1,000,000	—	100	Production of fertilizers
Hongya Sijibao Organic Fertiliser Co., Ltd. #	16 September 2009	RMB1,000,000	—	100	Production of fertilizers
Shangzhi Sijibao Organic Fertiliser Co., Ltd. #	16 September 2009	RMB1,000,000	—	100	Production of fertilizers
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd. #	19 April 2010	RMB1,000,000	—	100	Production of fertilizers
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd. #	26 April 2010	RMB1,000,000	—	100	Production of fertilizers
Modern Farming (Tongshan) Co., Ltd.#	15 May 2010	RMB30,000,000	—	100	Production of milk
Modern Farming (Tongliao) Co., Ltd.#	12 June 2010	RMB30,000,000	—	100	Production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd. #	25 June 2009	RMB5,000,000	(note ii)	100	Production of milk

Note i: It was established in PRC as domestic company and was acquired in July 2008 and disposed of before 30 June 2009.

Note ii: It was acquired in June 2010.

These entities were established in PRC as domestic company and wholly owned by Modern Farm.

* The entity was established in PRC as a domestic company.

The financial year end date of all the companies now comprising Modern Farm Group is 31 December.

The statutory financial statements of Modern Farm and certain of its subsidiaries were prepared in accordance with the relevant accounting principles and financial regulations in the PRC. They were audited by the following certified public accountants registered in the PRC. No statutory financial statements for other subsidiaries established in the PRC have been prepared for the Relevant Periods as there is no such statutory requirement.

Name of subsidiary	Financial year/period	Name of auditor
Modern Farm	From 7 July 2008 (date of establishment) to 31 December 2008 and year ended 31 December 2009	Anhui Jiangnan CPA Limited ("安徽江南會計師事務所")
Leading Farming	Year ended 31 December 2008	Anhui Jiangnan CPA Limited ("安徽江南會計師事務所")
Helingeer Modern Farming Co., Ltd.	Year ended 31 December 2009	Anhui Jiangnan CPA Limited ("安徽江南會計師事務所")

For the purpose of this report, the directors of Modern Farm have prepared the consolidated financial statements of Modern Farm Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements"). Deloitte Touche Tohmatsu CPA Ltd. has carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Modern Farm Group for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements. No adjustments were considered necessary by us to the Underlying Financial Statements for the preparation of the Financial Information in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of Modern Farm who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Modern Farm Group as of 30 June 2009 and 2010 and of the consolidated results and consolidated cash flows of Modern Farm Group for the Relevant Periods.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
		RMB'000	RMB'000
Sales of milk produced	6	334,015	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	18	70,573	60,620
Other income	7	25,036	65,371
Farm operating expenses	8	(263,746)	(437,616)
Employee benefits expense	9	(47,152)	(66,695)
Depreciation		(22,068)	(44,174)
Other gains and losses	10	(1,490)	(613)
Other expenses		(32,145)	(28,275)
Bargain purchase gain	25	3,257	—
Profit before finance costs and tax	11	66,280	138,393
Finance costs	12	(23,606)	(29,765)
Profit before tax		42,674	108,628
Income tax charge	13	—	(73)
Profit and total comprehensive income for the period/year		42,674	108,555
Profit and total comprehensive income attributable to:			
Owners of Modern Farm		42,674	108,555
Non-controlling interests		—	—
		42,674	108,555

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	30 June 2009	30 June 2010
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	947,508	1,578,395
Land use rights	17	41,185	63,616
Long-term prepaid rentals		259	194
Deposit for acquisition of biological assets		37,381	13,028
Biological assets	18	936,816	1,742,891
		1,963,149	3,398,124
CURRENT ASSETS			
Inventories	19	83,138	139,407
Trade and other receivables	20	78,618	76,772
Land use rights	17	930	1,184
Pledged bank balances	21	48,696	36,350
Bank balances and cash	21	731,090	249,528
		942,472	503,241
CURRENT LIABILITIES			
Trade and other payables	22	188,306	351,050
Amount due to a related party	31(b)	6,622	1,247
Interest payable		1,424	1,249
Borrowings - due within one year	23	251,595	384,647
Deferred income	24	52	3,868
		447,999	742,061
NET CURRENT ASSETS (LIABILITIES)		494,473	(238,820)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,457,622	3,159,304
CAPITAL AND RESERVES			
Paid-in capital		517,754	517,754
Reserves		1,635,858	1,744,413
Equity attributable to owners of Modern Farm		2,153,612	2,262,167
Non-controlling interests		—	1,320
		2,153,612	2,263,487
NON-CURRENT LIABILITIES			
Borrowings - due after one year	23	300,595	840,470
Deferred income	24	3,415	55,347
		304,010	895,817
		2,457,622	3,159,304

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of Modern Farm						
	Paid-in capital	Capital reserve	Share options reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000 (Note i)	RMB'000 (Note ii)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Contribution from equity owners at date of establishment . . .	202,180	—	—	—	202,180	—	202,180
Acquisition of subsidiaries.	—	—	—	—	—	2,296	2,296
Contribution from equity owners . .	315,574	1,584,112	—	—	1,899,686	—	1,899,686
Acquisition of non-controlling interest	—	—	—	—	—	(2,296)	(2,296)
Profit and total comprehensive income for the period.	—	—	—	42,674	42,674	—	42,674
Recognition of equity-settled share-based payment	—	—	9,072	—	9,072	—	9,072
Balance at 30 June 2009.	517,754	1,584,112	9,072	42,674	2,153,612	—	2,153,612
Profit and total comprehensive income for the year	—	—	—	108,555	108,555	—	108,555
Contributions from non-controlling interests	—	—	—	—	—	1,320	1,320
Balance at 30 June 2010.	517,754	1,584,112	9,072	151,229	2,262,167	1,320	2,263,487

Notes:

(i) The paid-in capital represents the registered capital of Modern Farm and is fully paid up.

(ii) Capital reserve mainly arising from (i) the difference of RMB247,144,000 between the consideration paid and the fair value of the net assets attributable to the adjusted interest in a subsidiary being acquired from certain equity owners of Modern Farm; (ii) the difference of RMB1,120,006,000 between the registered capital and the funds contributed by the new equity owners during the Equity Financing (as defined in note 1 to the Financial Information); and (iii) the difference of RMB216,962,000 between the registered capital and funds contributed by the existing equity owners of Modern Farm.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	42,674	108,628
Adjustments for:		
Depreciation of property, plant and equipment	22,068	44,174
Bargain purchase gain	(3,257)	—
Release of land use rights and long-term prepaid rental	720	1,097
Interest income	(3,192)	(3,001)
Government grant credited to income	(113)	(967)
Finance costs	23,606	29,765
Write-off of bad debt	767	445
Payable written off	(1,662)	(887)
Loss (gain) on disposal of property, plant and equipment	483	(1,006)
Expense recognised in respect of equity-settled share-based payment	9,072	—
Gain arising from changes in fair value less costs to sell of dairy cows	(70,573)	(60,620)
Operating cash flows before movements in working capital	20,593	117,628
Increase in inventories	(21,065)	(54,121)
(Increase) decrease in trade and other receivables	(46,576)	9,729
(Decrease) increase in trade and other payables	(99,490)	47,037
Cash (used in) generated from operations	(146,538)	120,273
Income taxes paid	(47)	(73)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(146,585)	120,200

	Note	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
		RMB'000	RMB'000
INVESTING ACTIVITIES			
Interest received		3,192	3,001
Purchases of property, plant and equipment		(342,960)	(534,682)
Addition to biological assets		(339,523)	(743,534)
(Increase) decrease in pledged bank balances		(48,696)	12,346
Purchases of land use rights		(15,124)	(23,717)
Proceeds on disposal of property, plant and equipment		—	6,996
Proceeds on disposal of dairy cows		41,869	87,640
Payment of long-term prepaid rentals		(324)	—
Net cash outflow from acquisition of subsidiaries	25	(209,144)	(45,586)
Government grants received		3,580	56,715
NET CASH USED IN INVESTING ACTIVITIES		(907,130)	(1,180,821)
FINANCING ACTIVITIES			
Interest paid		(31,653)	(55,188)
New borrowings raised		264,152	1,010,653
Repayment of borrowings		(300,120)	(377,726)
Contribution from the equity owners		1,854,722	—
Contribution from non-controlling interests		—	1,320
Purchase of additional interest in a subsidiary		(2,296)	—
NET CASH FROM FINANCING ACTIVITIES		1,784,805	579,059
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		731,090	(481,562)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR		—	731,090
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR, represented by bank balances and cash		731,090	249,528

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Modern Farm is a private limited liability company established in the PRC on 7 July 2008. The registered office and the principal place of business of Modern Farm is situated at No. 123, Hongqinan Lu, Economic Development Area, Maanshan City, Anhui Province, the PRC.

The principal activity of Modern Farm Group is production and sales of milk.

The Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of Modern Farm Group operate (functional currency).

Certain equity owners of Leading Farming has established Modern Farm in July 2008 to acquire 100% interest in Leading Farming in July 2008.

By 4 rounds of equity financings (the "Equity Financings") made by the Company (incorporated in the Cayman Islands) through Aquitair Holdings Limited ("Aquitair") (incorporated in Ireland), a wholly owned subsidiary of the Company during the period from September 2008 to June 2009, the Company has obtained 50.05% equity interest in Modern Farm. Details in respect of the Equity Financings are set out in the table below:

Rounds of Equity Financings	Date of completion	Financing amounts	Equity interest in Modern Farm held by the Company (through Aquitair) after each round of Equity Financings
		RMB'000	
1	14 October 2008	150,636	9.96%
2	4 December 2008	545,602	33.73%
3	26 February 2009	614,698	48.82%
4	26 June 2009	68,200	50.05%

As a result of the Equity Financings, the Modern Farm became a sino-foreign enterprise and its parent is Aquitair and its ultimate holding company is Advance Dairy Company Limited. The ultimate controlling party is KKR Asian Fund L.P. (incorporated in the Cayman Islands).

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

Going concern

In preparing the Financial Information, the directors of Modern Farm (the "Directors") have given careful consideration of Modern Farm Group in light of its net current liabilities of approximately RMB239 million as at 30 June 2010. Having considered the secured credit facilities of approximately RMB1,109 million which remains unutilized as at 30 September 2010, the Directors are satisfied that Modern Farm Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Financial Information has been prepared on a going concern basis.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Modern Farm Group has consistently applied the International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and Interpretations ("IFRICs"), issued by International Accounting Standards Board ("IASB"), which are effective for the accounting period beginning on 1 July 2009.

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretation which are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs April 2009[1]
IFRSs (Amendments)	Improvements to IFRSs May 2010[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 9	Financial Instruments[7]
IFRS 7 (Amendment)	Disclosures — Transfers of Financial Assets[8]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Amendments that are effective for annual periods beginning on or after 1 January 2010
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013
8 Effective for annual periods beginning on or after 1 July 2011

Modern Farm Group has not early adopted these new and revised standards, amendments and interpretation in the preparation of the Financial Information. The Directors anticipate that the application of the new and revised standards, amendments and interpretation will have no material impact on the consolidated results and financial position of Modern Farm.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for the biological assets, which are measured at fair value less costs to sell, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. These policies have been consistently applied throughout the Relevant Periods. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of Modern Farm and entities controlled by Modern Farm (its subsidiaries). Control is achieved where Modern Farm has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period/year are included in the consolidated statements of comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of Modern Farm Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity attributable to the owners of Modern Farm.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of Modern Farm and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in Modern Farm Group's ownership interests in existing subsidiaries

Changes in Modern Farm Group's ownership interest in a subsidiary that do not result in Modern Farm Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of Modern Farm Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Modern Farm.

When Modern Farm Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregated amount of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by Modern Farm Group, liabilities incurred by Modern Farm Group to former owners of the acquiree and the equity interests issued by Modern Farm Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets and liabilities that meet the conditions for recognition under IFRS 3(2008) Business Combinations are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by Modern Farm Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, Modern Farm Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests was initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Where a business combination is achieved in stages, Modern Farm Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when Modern Farm Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amount arising from previously held equity interest recognized in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when Modern Farm Group obtains control over the acquiree.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of value added tax and returns.

Revenue from sales of milk produced is recognized when the milk is delivered and title has been passed.

Revenue from sales of goods are recognized when the goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Modern Farm Group as lessee

Rentals payable under operating leases payments are recognized as expenses on a straight-line basis over the term of the relevant lease. Contingent rental expenses, if any, are charged as expenses in the periods in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expenses on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (the functional currency, i.e. RMB).

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalization.

All other borrowing costs are recognized in profit and loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contribution.

Government grants

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognized in profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, an entity shall recognize the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Other grants

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Modern Farm Group with no future related costs are recognized in the profit or loss in the period in which they become receivable. Other government grants related to depreciable assets are recognized as deferred income in the consolidated statement of financial position and released to profit or loss over the useful lives of the related assets.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to capital reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods/years and it further excludes items that are never taxable or deductible. Modern Farm Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where Modern Farm Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Modern Farm Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognized.

Land use rights

Land use rights are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At the end of each reporting period, Modern Farm Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, Modern Farm Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using weighted average method.

Biological assets

Dairy cows

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

The feeding costs and other related costs including the depreciation charge, utilities cost and consumables incurred for raising of heifers and calves are capitalized, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Milk

Agricultural produce represents the milk. Milk is recognized at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation cost, excluding finance cost and income taxes.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Modern Farm Group's financial assets represent loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank balances and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Modern Farm Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 days, and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of Modern Farm Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including borrowings, trade and other payables, interest payable and amount due to a related party are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by Modern Farm are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Modern Farm Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Fair value of dairy cows

Modern Farm Group's 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 at the end of each reporting periods adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk 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 market-determined prices are unavailable. Any change in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of the assumptions used are disclosed in note 18.

6. SALES OF MILK PRODUCED AND SEGMENT INFORMATION

Sales of milk produced represented mainly the fair value of milk produced less costs to sell at the point of harvest.

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of Modern Farm Group that are regularly reviewed by the chief operating decision maker, the President of Modern Farm Group (the "President"), in order to allocate resources and to assess performance. The operation of the Modern Farm Group constitutes one operating segment i.e. production and sales of milk. The information reported to Modern Farm Group's President for the purpose of resource allocation and assessment of performance, does not contain the gain arising from changes in fair value, less costs to sell, of dairy cows, and the President reviewed the profit before tax, assets and liabilities as a whole and the difference between the profit before tax and assets reported under IFRSs and to the President is mainly arising from the difference of the accounting treatment of the dairy cows. Under the report to the President, the dairy cows are stated at cost less depreciation but the dairy cows are stated at their fair value less costs to sell under IFRSs. The difference of the profit (loss) before tax and assets reported to the President and IFRSs are as follows:

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Loss before tax reported to the President	(65,916)	(8,371)
Add: Gain arising from changes in fair value less costs to sell of dairy cows	70,573	60,620
Depreciation of dairy cows	38,017	56,379
Profit before tax under IFRSs	42,674	108,628

	As at 30 June 2009	As at 30 June 2010
	RMB'000	RMB'000
Assets reported to the President	2,309,658	2,816,678
Add: Gain arising from changes in fair value less costs to sell of dairy cows	539,907	1,007,305
Accumulated depreciation of dairy cows	56,056	77,382
Assets under IFRSs	2,905,621	3,901,365

The segment liabilities is same as total liabilities under IFRSs at end of respective reporting periods.

All external sales of milk produced of Modern Farm Group during the Relevant Periods are contributable to customers established in the PRC, the place of domicile of Modern Farm Group's operating entities. Meanwhile, Modern Farm Group's non-current assets are all located in the PRC.

Sales of milk produced of RMB332,712,000 and RMB575,441,000 for the period ended 30 June 2009 and year ended 30 June 2010 respectively is from a single external customer.

7. OTHER INCOME

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Government grant related to		
- Biological assets (Note i)	4,804	34,390
- Income (Note ii)	12,311	23,766
- Other assets (Note 24)	113	967
Sales of fertilizers	1,161	526
Bank interest income	3,192	3,001
Write-off of payables	1,662	887
Others	1,793	1,834
	25,036	65,371

Note i: These government grants are unconditional government subsidies received by Modern Farm Group from relevant government bodies for the purpose of supporting Modern Farm Group to purchase dairy cows.

Note ii: These government grants are unconditional government subsidies received by Modern Farm Group from relevant government bodies for the purpose of giving financial support to Modern Farm Group's operation.

8. FARM OPERATING EXPENSES

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Feeds	245,478	396,225
Utilities	10,709	15,484
Other farm operating expenses	7,559	25,907
Total farm operating expenses	263,746	437,616

9. EMPLOYEE BENEFITS EXPENSE

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Salaries, bonuses and allowances	34,917	58,341
Contributions to retirement benefit schemes	3,163	8,354
Equity-settled share-based payment	9,072	—
	47,152	66,695

The employees of Modern Farm and its PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the local government. The subsidiaries in the PRC are required to contribute a specified percentage of their basic payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of Modern Farm Group with respect to the retirement benefit schemes is to make the specified contributions.

10. OTHER GAINS AND LOSSES

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Net foreign exchange loss	240	1,174
Write-off of bad debt	767	445
Loss (gain) on disposal of property, plant and equipment	483	(1,006)
	1,490	613

11. PROFIT BEFORE FINANCE COSTS AND TAX

Profit before finance costs and tax has been arrived at after charging:

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Auditors' remuneration	999	951
Release of land use rights	655	1,032

12. FINANCE COSTS

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	31,743	47,872
Bank borrowings wholly repayable after five years	—	6,612
Other borrowings wholly repayable within five years	459	529
Total borrowing cost	32,202	55,013
Less: capitalized amount	(8,596)	(25,248)
	23,606	29,765

The weighted average interest rate on specific borrowings being capitalised was 7.16% and 3.24% for the period from 7 July 2008 to 30 June 2009 and year ended 30 June 2010 respectively.

13. INCOME TAX CHARGE

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
The charge comprises:		
Current tax:		
PRC enterprise income tax	—	73

The tax charge for the Relevant Periods represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of Modern Farm and its subsidiaries established in the PRC.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises from 1 January 2008. In addition, the New EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% or 10% withholding tax under the tax treaty or the domestic law.

The income tax rates applicable to Modern Farm and its subsidiaries established in the PRC are as follows:

	Year ended/ending 31 December		
	2008	2009	2010
	(Note)	(Note)	(Note)
Modern Farm	0%	0%	0%
Leading Farming	0%	N/A	N/A
Shandong Mengniu International Trading Co,.Ltd.	25%	25%	25%
Helingeer Modern Farming Co,. Ltd.	0%	0%	0%
Zhangjiakou Saibei Modern Farm Co,. Ltd.	0%	0%	0%
Wenshang Modern Farm Co,. Ltd.	0%	0%	0%
Shangzhi Modern Farm Co,. Ltd.	0%	0%	0%
Hongya Modern Farm Co,. Ltd.	0%	0%	0%
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd.	25%	25%	25%
Modern Farming (Chabei) Co,. Ltd.	0%	0%	0%
Modern Farming (Baoji) Co,. Ltd.	0%	0%	0%
Maanshan Modern Farming Feedstock Co,. Ltd.	N/A	25%	25%
Modern Farm (Feidong) Co,. Ltd.	N/A	0%	0%
Modern Farming (Inner Mongolia) Dairy Product Sales Co,. Ltd.	N/A	N/A	25%
Feidong Sijibao Organic Fertiliser Co., Ltd.	N/A	25%	25%
Baoji Sijibao Organic Fertiliser Co., Ltd.	N/A	25%	25%
Hongya Sijibao Organic Fertiliser Co., Ltd.	N/A	25%	25%
Shangzhi Sijibao Organic Fertiliser Co., Ltd.	N/A	25%	25%
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd.	N/A	N/A	25%
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd.	N/A	N/A	25%
Modern Farming (Tongshan) Co,. Ltd.	N/A	N/A	0%
Modern Farming (Tongliao) Co,. Ltd.	N/A	N/A	0%
Modern Farm (Chabei) Hengsheng Co,. Ltd.	N/A	N/A	0%

Note:

According to the prevailing tax rules and regulation, those entities of Modern Farm Group operating in agricultural business is exempted from enterprise income tax.

The tax charge for the Relevant Periods can be reconciled to the profit per the consolidated statements of comprehensive income as follows:

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Profit before tax	42,674	108,628
Tax at applicable income tax rate at 25%	10,669	27,157
Effect of tax exemption granted to agricultural entities	(10,669)	(27,084)
Income tax charge	—	73

14. DIRECTORS' EMOLUMENTS

Details of emoluments paid by Modern Farm Group to the directors of Modern Farm during the Relevant Periods.

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Executive directors		
- Salaries, discretionary bonus and other allowances	662	1,911
- Retirement benefits scheme contributions	70	70
- Equity-settled share-based payment (note 26)	6,077	—
Non-executive directors	—	—
	6,809	1,981
Executive directors		
Mr. Deng Jiuqiang	305	1,028
Mrs. Gao Lina	3,268	528
Mr. Han Chunlin (appointed on 14 November 2008)	3,236	425
Non-executive directors		
Mr. Lu Jun	—	—
Mr. Wolhardt Julian Juul	—	—
Mr. Hui Chi Kin Max	—	—
	6,809	1,981

No directors waived or agreed to waive any emoluments during the Relevant Periods.

15. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in Modern Farm Group, three were directors of Modern Farm whose emolument are included in the disclosures in note 14 above. The emoluments of the remaining two during the period from 7 July 2008 (date of establishment) to 30 June 2009 and year ended 30 June 2010 respectively are as follows:

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Salaries and other benefits	437	497
Retirement benefit schemes contributions	46	46
Equity-settled share-based payment (note 26)	2,995	—
	3,478	543

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	No. of employees	No. of employees
Nil to HK$ 1,000,000	1	2
HK$3,000,001 to HK$3,500,000	1	—
	2	2

No emoluments were paid by Modern Farm Group to the directors or the five highest paid individuals as inducement to join or upon joining Modern Farm Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Plant and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At date of establishment	—	—	—	—	—
Additions	4,161	4,889	40,542	344,025	393,617
Acquisition of subsidiaries	345,031	10,592	73,998	160,635	590,256
Transfer	179,788	—	5,988	(185,776)	—
Disposal	(116)	—	(457)	—	(573)
At 30 June 2009	528,864	15,481	120,071	318,884	983,300
Acquisition of a subsidiary	436	—	4,644	39,653	44,733
Additions	2,211	5,350	85,585	574,114	667,260
Transfer	522,526	—	73,060	(595,586)	—
Disposals	(7,023)	(67)	(2,290)	—	(9,380)
At 30 June 2010	1,047,014	20,764	281,070	337,065	1,685,913
ACCUMULATED DEPRECIATION					
At date of establishment	—	—	—	—	—
Charge for the period	22,597	452	12,833	—	35,882
Eliminated on disposals	—	—	(90)	—	(90)
At 30 June 2009	22,597	452	12,743	—	35,792
Charge for the year	45,582	1,702	27,832	—	75,116
Eliminated on disposals	(1,881)	(35)	(1,474)	—	(3,390)
At 30 June 2010	66,298	2,119	39,101	—	107,518
CARRYING AMOUNT					
At 30 June 2009	506,267	15,029	107,328	318,884	947,508
At 30 June 2010	980,716	18,645	241,969	337,065	1,578,395

As at 30 June 2009 and 30 June 2010, certain of Modern Farm Group's buildings and plant and equipment with an aggregate carrying amount of RMB145,782,000 and RMB144,890,000 respectively were pledged as security for bank and other loans of Modern Farm Group (Note 23).

As at 30 June 2009 and 30 June 2010, Modern Farm Group is in the process of obtaining the building ownership certificates of buildings with carrying amounts of RMB402,760,000 and RMB884,853,000 respectively.

Depreciation is charged using straight-line over the expected useful life, after taking into account its estimate residual value, as follows:

Buildings	20 years
Motor vehicles	5 years
Plant and equipment	5 - 10 years

During the reporting periods ended 30 June 2009 and 2010, depreciation charge amounting to RMB13,814,000 and RMB30,942,000 respectively have been capitalized in biological assets.

17. LAND USE RIGHTS

	RMB'000
At date of establishment	—
Acquisition of subsidiaries	27,646
Addition	15,124
Release to profit and loss	(655)
At 30 June 2009	42,115
Addition	23,717
Release to profit and loss	(1,032)
At 30 June 2010	64,800

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
- Current assets	930	1,184
- Non-current assets	41,185	63,616
	42,115	64,800

The amount represents the payment for land use rights situated in the PRC. The leasehold interests in land have lease terms ranging from 20 to 50 years.

As at 30 June 2009 and 30 June 2010, land use rights with carrying amount of RMB4,220,000 and RMB14,184,000 respectively were pledged against certain bank facilities granted to Modern Farm Group (Note 23).

18. BIOLOGICAL ASSETS

A - Nature of Activities

Modern Farm Group and its subsidiaries are primarily milk production companies, that principally engaged in production and sales of milk produced. Dairy cows are primarily held to produce milk.

The quantity of dairy cows owned by Modern Farm Group at 30 June 2009 and 30 June 2010 is shown below. Modern Farm Group's dairy cows are primarily milkable cows held for milk production. Heifers and calves held at 30 June 2009 and 30 June 2010 are dairy cows that have not reached the age to produce milk.

	30 June 2009	30 June 2010
	head	head
Dairy cows		
Milkable cows	20,427	26,607
Heifers and calves	23,532	45,584
Total dairy cows	43,959	72,191

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	KG	KG
Volume of sales of milk produced	96,306,325	158,080,873

Modern Farm Group is exposed to fair value risks arising from changes in price of the dairy products. Modern Farm Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of Modern Farm are of the view that there is no available derivative or other contracts which Modern Farm Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately 9 month pregnancy term, a calf is born and the milkable cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before approximately 60 days dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sales of dairy cows is not one of the Group's principal activities and is not included as revenue. The sales of dairy cows is determined based on the actual selling price.

B - Value of Dairy cows

The value of dairy cows at end of reporting periods was:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Dairy cows	936,816	1,742,891

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
At date of establishment	—	—	—
Acquisition of subsidiaries	194,738	397,418	592,156
Increases due to purchase	137,463	4,951	142,414
Increase due to raising (Feeding cost and others)	173,542	—	173,542
Transfer	(162,247)	162,247	—
Decrease due to sales	(13,289)	(28,580)	(41,869)
Gains arising from changes in fair value less costs to sell	109,767	(39,194)	70,573
Balance as at 30 June 2009	439,974	496,842	936,816
Acquisition of a subsidiary	13,563	20,703	34,266
Increases due to purchase	451,424	—	451,424
Increase due to raising (Feeding cost and others)	347,405	—	347,405
Transfer	(534,448)	534,448	—
Decrease due to sales	(7,762)	(79,878)	(87,640)
Gains arising from changes in fair value less costs to sell	180,438	(119,818)	60,620
Balance as at 30 June 2010	890,594	852,297	1,742,891

Modern Farm Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Sallmanns Limited ("Sallmanns") in early November 2010, a firm of independent qualified professional valuers not connected with Modern Farm Group, who has appropriate qualifications and recent experiences in valuation of biological assets. The address of Sallmanns is 17/F, Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The fair value less costs to sell of heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices of milkable cows are not available, Sallmanns has applied the net present value approach to calculate the fair value less cost to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing cows at the end of the reporting period will reduce at a certain culling rate due to the natural or unnatural factors.
- The culling rates adopted are 8%, 12%, 20%, 20% and 100% for milkable cows in the first to fifth lactation cycles. These rates are based on the historical breeding data of Modern Farm and future operating plans.
- The quantities of dairy cows will increase as calves are born.
- The expected average prices of milk during the projected period of 5 years, which is the estimated production period of a dairy cow are estimated after, taking into account certain percentage growth for each projected year after considering future demand and inflation in the PRC;
- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture;
- Costs are average costs based on historical cost information.
- The discount rates used are 9.7% and 9.24% as at 30 June 2009 and 30 June 2010 respectively.

As at 30 June 2009 and 30 June 2010, Modern Farm Group has pledged dairy cows with carrying amount of RMB367,489,000 and RMB1,315,640,000 respectively to banks to secure the general banking facilities granted to Modern Farm Group.

The aggregate gain or loss arising during the period ended 30 June 2009 and year ended 30 June 2010 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of dairy cows is analyzed as follows:

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Sales of milk/fair value of milk produced less costs to sell	334,015	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	70,573	60,620
	404,588	650,395

19. INVENTORIES

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Feeds	79,050	130,963
Others	4,088	8,444
	83,138	139,407

20. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of respective reporting periods:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Trade receivables		
- within 60 days based on invoice date	35,247	44,301
- over 60 days based on invoice date	483	353
	35,730	44,654
Advances to suppliers	17,802	17,228
Others	25,086	14,890
	78,618	76,772

The Modern Farm Group allows credit period of 60 days to its trade customers.

Trade receivables at the end of respective reporting periods principally represent receivables from sales of milk.

Before accepting any new customer, the Modern Farm Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB483,000 and RMB353,000 which are past due as at 30 June 2009 and 30 June 2010, respectively for which the Modern Farm Group has not provided for impairment loss. The Modern Farm Group does not hold any collateral over these balances. The average age of these receivables as at 30 June 2009 and 30 June 2010 are 180 days.

21. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

Pledged bank balances

The pledged bank balances as at 30 June 2009 and 2010 represent deposits pledged for short-term bank borrowings. The pledged bank balances carry interest at prevailing market saving rates at 0.36% and 0.36% per annum respectively.

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market saving rates ranging from 0.36% to 3.33% and 0.36% to 1.98% per annum as at 30 June 2009 and 30 June 2010 respectively.

Bank balances and cash at 30 June 2009 and 30 June 2010 were denominated in USD and RMB. RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Bank balances and cash that are denominated in currency other than the functional currency of the relevant entities are set out below:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
USD	660,673	64,578

22. TRADE AND OTHER PAYABLES

The credit period taken for the settlement of trade purchases is 60 days. The following is an aged analysis of trade payables at the end of the respective reporting periods:

	2009	2010
	RMB'000	RMB'000
Trade payables		
Within 60 days based on invoice date	82,607	111,507
Over 60 days based on invoice date	1,334	3,532
	83,941	115,039
Payable for acquisition of property, plant and equipment	37,533	150,238
Consideration payable for acquisition of a subsidiary	47,524	5,150
Accrued staff costs	9,897	14,644
Advance payment from customers	1,627	57,977
Others	7,784	8,002
	104,365	236,011
	188,306	351,050

23. BORROWINGS

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Bank borrowings	543,950	1,216,992
Other borrowings (Note i)	8,240	8,125
	552,190	1,225,117
Unsecured borrowings	71,153	209,696
Guaranteed borrowings (Note iii)	77,470	74,170
Secured borrowings (Note ii)	403,567	941,251
	552,190	1,225,117
Carrying amount repayable:		
Within one year	251,595	384,647
Between one to two years	120,125	162,264
Between two to five years	180,470	407,206
Over five years	—	271,000
	552,190	1,225,117
Less: Amounts due within one year shown under current liabilities	(251,595)	(384,647)
	300,595	840,470

The bank and other borrowings comprise:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Fixed-rate borrowings	142,590	285,159
Variable-rate borrowings	409,600	939,958

The effective interest rates, which are also equal to contracted interest rates, per annum at the end of the respective reporting periods are as follows:

	30 June 2009	30 June 2010
Fixed-rate borrowings	2.40% to 7.47%	2.40% to 7.47%
Variable-rate borrowings	6.12% to 7.65%	4.86% to 7.29%

All borrowings are denominated in RMB. Variable-rate borrowings interest rates are determined based on the borrowing rates announced by the People's Bank of China.

Notes:

(i) Other borrowings represented the loans from local government for financing the purchase of dairy cows for Modern Farm Group. The loans were secured by certain plant and equipment owned by Modern Farm Group as set out in note 16, interest bearing of 2.4% per annum and were repayable on 31 October 2011 and 1 November 2013.

(ii) The loans were secured by:

i) certain property, plant and equipment, land use rights, dairy cows and bank balances owned by Modern Farm Group as set out in Notes 16, 17, 18 and 21 respectively; and

ii) 100% equity interest in Zhangjiakou Seibei Modern Farm Co., Ltd., Modern Farm (Feidong) Co., Ltd and Helingeer Modern Farming Co., Ltd. held by Modern Farm.

(iii) The balances were guaranteed by Modern Farm Group's subsidiaries.

24. DEFERRED INCOME

	Arising from government grants
	RMB'000
At date of establishment	—
Additions	3,580
Released to income	(113)
At 30 June 2009	3,467
Additions	56,715
Released to income	(967)
At 30 June 2010	59,215

	At 30 June 2009	At 30 June 2010
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
- Current portion	52	3,868
- Non-current portion	3,415	55,347
	3,467	59,215

Deferred income arising from government grant represents the government subsidies obtained in relation to the construction and acquisition of property, plant and equipment, which was included in the consolidated statements of financial position as deferred income and credited to the consolidated statements of comprehensive income on a systematic basis over the useful lives of the related assets.

25. ACQUISITION OF SUBSIDIARIES

(a) On 7 July 2008, Modern Farm acquired 100% equity interest in Leading Farming from certain equity owners of Modern Farm and third parties. Leading Farming and Modern Farm have some common equity owners. Leading Farming and its subsidiaries are principally engaged in dairy cow farming and were acquired with the objective of expansion of business.

Consideration transferred

	RMB'000
Cash	202,180

Assets and liabilities recognized at the date of acquisition

	RMB'000
Current assets	
Cash and cash equivalents	14,348
Trade and other receivables	22,275
Inventories	4,533
Land use rights	709
Non-current assets	
Property, plant and equipment	458,379
Land use rights	15,846
Biological assets	447,210
Current liabilities	
Trade and other payables	(105,687)
Amount due to a related party	(2,094)
Interest payable	(811)
Borrowings - due within one year	(176,000)
Non-current liabilities	
Borrowings - due after one year	(227,088)
	451,620

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB22,275,000 had gross contractual amounts of RMB22,275,000.

Non-controlling interests

The non-controlling interest (5% in Zhangjiakou Chabei Modern Farming Dairy Cow Professional Cooperative and 30% in Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd.) recognized at the acquisition date was measured by reference to the proportionate share of the fair value of the acquiree's identifiable net assets and amounted to RMB2,296,000.

Contribution for owners of Modern Farm arising on acquisition

	RMB'000
Consideration transferred	202,180
Plus: non-controlling interests	2,296
Less: fair value of identifiable net assets acquired	(451,620)
Contribution from owners of Modern Farm recognized in capital reserve	(247,144)

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	(202,180)
Less: cash and cash equivalent balances acquired	14,348
	(187,832)

Impact of acquisition on the results of the Modern Farm Group

Leading Farming and its subsidiaries contributed approximately RMB234,672,000 sales of milk produced and RMB18,213,000 profit to Modern Farm Group's sales of milk produced and profit for the period between the date of acquisition and 30 June 2009.

(b) On 31 December 2008, Modern Farm acquired 100% equity interest in Inner Mongolia Mengniu AustAsia Model Dairy Farm Co., Ltd. (subsequently change the name to Helingeer Modern Farming Co., Ltd. "Helingeer Modern Farm") Helingeer Modern Farm is principally engaged in dairy cow farming and was acquired with the objective of expansion of business.

Consideration transferred

	RMB'000
Cash paid during the year ended 30 June 2010 and recorded as other payable as at 30 June 2009	47,524
Cash paid during the year ended 30 June 2009	48,576
	96,100

Assets and liabilities recognized at the date of acquisition

	RMB'000
Current assets	
Bank balances and cash	13,278
Pledged bank balances	13,986
Trade and other receivables	10,534
Inventories	57,540
Land use rights	244
Non-current assets	
Property, plant and equipment	131,877
Land use rights	10,847
Biological assets	144,946
Current liabilities	
Trade and other payables	(72,163)
Amount due to a related party	(16,662)
Borrowings - due within one year	(195,070)
	99,357

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB10,534,000 had gross contractual amounts of RMB10,534,000.

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	(48,576)
Less: cash and cash equivalent balances acquired	27,264
	(21,312)

Bargain purchase gain arising on acquisition

	RMB'000
Consideration transferred	96,100
Less: fair value of identifiable net assets acquired	(99,357)
Bargain purchase gain arising on acquisition	(3,257)

The bargain purchase gain arose on the acquisition of Helingeer Modern Farm is attributable to the acquisition consideration was determined in November 2008 but the acquisition transaction was completed in December 2008.

Impact of acquisition on the results of the Modern Farm Group

Helingeer Modern Farm contributed approximately RMB99,343,000 sales of milk produced and RMB12,790,000 profit to Modern Farm Group's sales of milk produced and profit for the period between the date of acquisition and 30 June 2009.

If the acquisitions had been completed on the date of establishment, total Modern Farm Group sales of milk produced for the period ended 30 June 2009 would have been approximately RMB439,795,000, and profit before tax for the period ended 30 June 2009 would have been approximately RMB50,988,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of sales of milk produced and results of operations of Modern Farm Group that actually would have been achieved had the acquisitions been completed on the date of establishment, nor is intended to be a projection of future results.

(c) On 30 June 2010, Modern Farm acquired 100% equity interest in Modern Farm (Chabei) Hengsheng Co., Ltd. ("Hengsheng Modern Farm"). Hengsheng Modern Farm is principally engaged in dairy cow farming and was acquired with the objective of expansion of business.

Consideration transferred

	RMB'000
Other payable	5,150
Cash	9
	5,159

Assets and liabilities recognized at the date of acquisition

	RMB'000
Current assets	
Cash and cash equivalents	1,947
Trade and other receivables	8,328
Inventories	2,148
Non-current assets	
Property, plant and equipment	44,733
Biological assets	34,266
Current liabilities	
Trade and other payables	(46,263)
Borrowings - due within one year	(40,000)
	5,159

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB8,328,000 had gross contractual amounts of RMB8,328,000.

Net cash inflow arising on acquisition

	RMB'000
Consideration paid in cash	(9)
Less: cash and cash equivalent balances acquired	1,947
	1,938

Impact of acquisition on the results of the Modern Farm Group

Hengsheng Modern Farm has no contribution in profit and sales of milk produced to Modern Farm Group's profit and sales of milk produced for the year ended 30 June 2010.

If the acquisition had been completed since 1 July 2009, total Modern Farm Group sales of milk produced for the year ended 30 June 2010 would have been approximately RMB606,446,000, and profit before tax for the year would have been approximately RMB109,166,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of sales of milk produced and results of operations of Modern Farm Group that actually would have been achieved had the acquisition been completed on the date of establishment, nor is intended to be a projection of future results.

26. SHARE-BASED PAYMENT TRANSACTIONS

The Modern Farm's option scheme (the "Scheme") was adopted pursuant to agreement dated 9 June 2009 for the primary purpose of providing incentives to directors and eligible employees of Modern Farm Group, and will expire on 8 June 2019. Under the Scheme, the Directors granted options to two directors and one top management of Modern Farm (the "MF Grantees") to subscribe for a total of RMB10,821,069 paid-in capital (the "MF Options") and each MF Option with an exercise price RMB5.9883 per RMB1 paid-in capital on 17 June 2009.

At 30 June 2009 and 2010, the amount of paid-in capital in respect of which the MF Grantees can subscribe for and remained outstanding under the Scheme was RMB10,821,069 and RMB10,821,069, respectively representing 2.09% and 2.09% of the paid-in capital of Modern Farm at those dates respectively.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant. The exercise price is determined by the Directors. In accordance with the terms of the Scheme, options issued during the period ended 30 June 2009 vested at the date of grant.

The fair value of each MF Option granted during the period ended 30 June 2009 is RMB0.8384. Options were priced using a binomial option pricing model. The fair value of options granted during the period ended 30 June 2009 was estimated on the date of grant using the following assumption:

Estimated fair value of each RMB1 paid-in capital	RMB5.45
Exercise price	RMB5.9883
Expected volatility	39.32%
Expected option life	10 years
Dividend yield	3%
Risk-free interest rate	3.13%

Estimated fair value of each RMB1 paid-in capital was determined by reference to recent capital injection transaction.

Expected volatility was determined by using the historical volatility of comparable companies. The expected option life used in the mode has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restriction and behavioural consideration.

Modern Farm recognized the total expenses of RMB9,072,000 for the period ended 30 June 2009 in relation to options granted by Modern Farm.

On 31 October 2010, the Company granted options of the Company to the MF Grantees to replace the MF Options which lapsed and ceased to have effect at the same time.

27. CAPITAL RISK MANAGEMENT

Modern Farm Group manages its capital to ensure that entities in Modern Farm Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. Modern Farm Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Modern Farm Group consists of net debt, comprising bank and other borrowings as disclosed in Note 23, net of cash and cash equivalents and equity attributable to owners of Modern Farm, comprising paid-in capital, retained earnings and other reserves as disclosed in the consolidated statements of changes in equity.

Modern Farm Group's management reviews the capital structure on a regular basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. Modern Farm Group will balance its overall capital structure through the payment of dividends, injection of capital and as well as the issue of new debt or the redemption of existing debt.

28. FINANCIAL INSTRUMENTS

Categories of financial instruments

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	840,602	345,422
Financial liabilities:		
Amortized cost	746,915	1,520,686

Financial risk management objectives and polices

Modern Farm Group's major financial instruments include trade and other receivables, trade and other payables, amount due to a related party, interest payable, borrowings, pledged bank balances, bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. Modern Farm Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged during the Relevant Periods.

Credit risk

Modern Farm Group's maximum exposure to credit risk which will cause a financial loss to Modern Farm Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position at the end of the respective reporting periods.

In order to minimize the credit risk, the management of Modern Farm Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by the Modern Farm Group's management based on prior experience and the current economic environment. Modern Farm Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Modern Farm consider that Modern Farm Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorized banks in the PRC.

Modern Farm Group has concentration of credit risk as 99.6% and 97.6% of total trade receivables as at 30 June 2009 and 30 June 2010, respectively, was due from Modern Farm Group's largest customer.

Interest rate risk

Modern Farm Group are exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances, pledged bank balances and bank borrowings which carry interest at variable interest rates.

Modern Farm Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings. Modern Farm Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to market lending interest rates for non-derivative instruments at the end of each reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses since they are not considered sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings outstanding at the end of respective reporting periods were outstanding for the whole period/year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of each reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, Modern Farm Group's profit for the period/year would decrease/increase by RMB1,448,000 and RMB1,300,000 for the period from 7 July 2008 (date of establishment) to 30 June 2009 and year ended 30 June 2010 respectively and Modern Farm Group's property, plant and equipment would increase/decrease by RMB600,000 and RMB3,400,000 as at 30 June 2009 and 30 June 2010, respectively for interest capitalization.

Liquidity risk

The Modern Farm Group finance their operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary liquidity is available when required. The management monitors the liquidity position of the Modern Farm Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations. With reference to the existing unutilized facilities, newly obtained facilities up to the date of this report and re-financing arrangements, the Directors consider the liquidity and source of capital for the daily operation are sufficient.

The Modern Farm Group has net current liabilities of approximately RMB239 million as at 30 June 2010. The Directors consider the Modern Farm Group has sufficient internally generated funds and available facilities to meet the Modern Farm Group's financial obligations.

The following table details Modern Farm Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Modern Farm Group can be required to pay. The table includes both interest and principal.

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	Over 2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2009							
Non-interest bearing	—	194,725	—	—	—	194,725	194,725
Fixed interest rate borrowings	7	139,167	—	3,740	4,669	147,576	142,590
Variable interest rate borrowings	7	131,466	10,236	136,943	200,640	479,285	409,600
		465,358	10,236	140,683	205,309	821,586	746,915
As at 30 June 2010							
Non-interest bearing	—	295,569	—	—	—	295,569	295,569
Fixed interest rate borrowings	6	59,868	126,175	46,148	70,707	302,898	285,159
Variable interest rate borrowings	6	150,357	106,334	162,760	691,488	1,110,939	939,958
		505,794	232,509	208,908	762,195	1,709,406	1,520,686

Foreign currency risk

Modern Farm Group collects its sales of milk produced in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The major asset denominated in foreign currency is the bank balances and cash which disclosed in note 21. The balances represent the capital injection by the equity-owners.

Modern Farm Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. Modern Farm Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

Foreign currency sensitivity analysis

0.5% is the sensitivity rate used in each reporting period when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

At the end of each reporting period, if the exchange rate had been strengthen/weaken in Renminbi against US Dollars by 0.5% and all other variables were held constant, Modern Farm Group's profit for the period/year would decrease/increase by RMB3,303,000 and RMB323,000 for the period from 7 July 2008 (date of establishment) to 30 June 2009 and year ended 30 June 2010 respectively.

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Modern Farm consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values at the end of respective reporting periods.

29. OPERATING LEASE COMMITMENTS

Modern Farm Group as lessee

At the end of each reporting period, Modern Farm Group was committed to making future minimum lease payments in respect of plant and vehicles rented under non-cancellable operating leases which fall due as follows:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Within one year	533	941
In the second to fifth year inclusive	1,498	787
Over five years	5,999	5,770
	8,030	7,498

Operating lease payments represent rentals payable by Modern Farm Group for certain of its plant and vehicles which are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years.

The minimum lease payments paid under operating lease during the period ended 30 June 2009 and the year ended 30 June 2010 are approximately RMB553,000 and RMB542,000 respectively.

30. CAPITAL COMMITMENTS

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Capital expenditure contracted but not provided for in respect of the acquisition of:		
- property plant and equipment	299,905	261,573
- biological assets	299,850	303,152
	599,755	564,725

31. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related party is as follows:

Name	Relationship
Inner Mongolia Jiuqiang Machinery Co., Ltd.	Company owned by a director

(b) At the end of each reporting period, Modern Farm Group had the following balances with related party:

Amount due to a related party

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Other payable nature		
Inner Mongolia Jiuqiang Machinery Co., Ltd. (Note)	6,622	1,247

Note: The amount mainly represented construction cost payable at the end of respective reporting periods. It was interest-free, unsecured and repayable on demand.

Except for the transaction mentioned in Note 25(a), there is no other significant transactions with other related parties.

(c) Compensation of key management personnel

The emoluments of key management during Relevant Periods were as follows:

	7 July 2008 (date of establishment) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Short-term employees benefits	1,099	2,408
Post-employment benefits	116	116
Equity-settled share-based payment	9,072	—
	10,287	2,524

C. SUBSEQUENT EVENTS

On 31 October 2010, the Company granted share options of the Company to the MF Grantees to replace the MF Options which lapsed and ceased to have effect at the same time. Details of the options issued by the Company to the MF Grantees are set out in the sub-section headed "D. Other Information — 2. Management Options" in Appendix VI to the Prospectus.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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Hong Kong

15 November 2010

The Directors
China Modern Dairy Holdings Ltd.
Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the period from 30 July 2008 (date of incorporation) to 30 June 2009 and the year ended 30 June 2010 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 15 November 2010 in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Prospectus").

The Company was incorporated in the Cayman Islands on 30 July 2008 as a private limited liability company.

Particulars of the subsidiaries held by the Company at the end of each reporting period and date of report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at						Principal activities
			30 June 2009		30 June 2010		Date of report		
			Directly	Indirectly	Directly	Indirectly	Directly	Indirectly	
			%	%	%	%	%	%	
Advanced Dairy Company Limited ("Lux")	Luxemburg 18 August 2008	USD40,000	100	—	100	—	100	—	Investment holding
Aquitair Holdings Limited ("Aquitair")	Republic of Ireland 24 July 2008	USD200,000,000	—	100	—	100	—	100	Investment holding

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at						Principal activities
			30 June 2009		30 June 2010		Date of report		
			Directly	Indirectly	Directly	Indirectly	Directly	Indirectly	
			%	%	%	%	%	%	
Modern Farming (Group) Co., Ltd. ("Modern Farm")*	People's Republic of China ("PRC") 7 July 2008	RMB517,754,488	—	50.05	—	50.05	—	97.68	Production of milk
Maanshan Leading Farming Company Limited	PRC 2 September 2005	RMB250,000,000	—	(note i)	—	(note i)	—	(note i)	Production of milk
Shandong Mengniu International Trading Co., Ltd. #	PRC 5 November 2003	RMB20,000,000	—	50.05	—	50.05	—	97.68	Import and export agency services
Helingeer Modern Farming Co., Ltd. # (Formerly known as lnner Mongolia Mengniu AustAsia Model Dairy Farm Co., Ltd.)	PRC 12 July 2004	RMB96,100,000	—	50.05	—	50.05	—	97.68	Production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd. #	PRC 1 December 2005	RMB90,000,000	—	50.05	—	50.05	—	97.68	Production of milk
Wenshang Modern Farm Co., Ltd. #	PRC 12 May 2006	RMB55,000,000	—	50.05	—	50.05	—	97.68	Production of milk
Shangzhi Modern Farm Co., Ltd. #	PRC 25 May 2006	RMB55,000,000	—	50.05	—	50.05	—	97.68	Production of milk
Hongya Modern Farm Co., Ltd. #	PRC 14 June 2007	RMB10,000,000	—	50.05	—	50.05	—	97.68	Production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd. #	PRC 26 May 2008	RMB10,000,000	—	50.05	—	50.05	—	97.68	Production of fertilizers
Modern Farming (Chabei) Co., Ltd. #	PRC 17 November 2008	RMB8,000,000	—	50.05	—	50.05	—	97.68	Production of milk
Modern Farming (Baoji) Co., Ltd. #	PRC 2 December 2008	RMB10,000,000	—	50.05	—	50.05	—	97.68	Production of milk
Maanshan Modern Farming Feedstock Co., Ltd. #	PRC 24 February 2009	RMB1,000,000	—	50.05	—	50.05	—	97.68	Sales of feeds

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at						Principal activities
			30 June 2009		30 June 2010		Date of report		
			Directly	Indirectly	Directly	Indirectly	Directly	Indirectly	
			%	%	%	%	%	%	
Modern Farm (Feidong) Co., Ltd. #	PRC 2 December 2009	RMB50,000,000	—	—	—	50.05	—	97.68	Production of milk
Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd. ^	PRC 30 April 2010	RMB3,000,000	—	—	—	28.00	—	54.70	Sales of milk
Feidong Sijibao Organic Fertiliser Co., Ltd. #	PRC 18 September 2009	RMB1,000,000	—	—	—	50.05	—	97.68	Production of fertilizers
Baoji Sijibao Organic Fertiliser Co., Ltd. #	PRC 18 September 2009	RMB1,000,000	—	—	—	50.05	—	97.68	Production of fertilizers
Hongya Sijibao Organic Fertiliser Co., Ltd. #	PRC 16 September 2009	RMB1,000,000	—	—	—	50.05	—	97.68	Production of fertilizers
Shangzhi Sijibao Organic Fertiliser Co., Ltd. #	PRC 16 September 2009	RMB1,000,000	—	—	—	50.05	—	97.68	Production of fertilizers
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd. #	PRC 19 April 2010	RMB1,000,000	—	—	—	50.05	—	97.68	Production of fertilizers
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd. #	PRC 26 April 2010	RMB1,000,000	—	—	—	50.05	—	97.68	Production of fertilizers
Modern Farming (Tongshan) Co., Ltd. #	PRC 15 May 2010	RMB30,000,000	—	—	—	50.05	—	97.68	Production of milk
Modern Farming (Tongliao) Co., Ltd. #	PRC 25 June 2010	RMB30,000,000	—	—	—	50.05	—	97.68	Production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd. #	PRC 25 June 2009	RMB5,000,000	(note ii)	(note ii)	—	50.05	—	97.68	Production of milk

Note i: It was established in PRC as a domestic company and was acquired in July 2008 and disposed of before 30 June 2009.

Note ii: It was acquired in June 2010.

These entities were established in PRC as domestic company and wholly owned by Modern Farm.

* The entity was established in PRC and became a sino-foreign enterprise from November 2009.

^ The entity was established in PRC as a domestic company.

The financial year end date of all the companies established in the PRC, Lux and Aquitair is 31 December. For the Company, its financial year end date is 30 June.

No audited financial statements have been prepared for the Company, Lux and Aquitair since their incorporation as there is no statutory audit requirement in the Cayman Islands, Luxemburg and Republic of Ireland.

The statutory financial statements of the Company's certain subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations in the PRC. They were audited by the following certified public accountants registered in the PRC. No statutory financial statements for other subsidiaries established in the PRC have been prepared for the Relevant periods as there is no such statutory requirement.

Name of subsidiary	Financial year/period	Name of auditor
Modern Farm	From 7 July 2008 (date of establishment) to 31 December 2008 and year ended 31 December 2009	Anhui Jiangnan CPA Limited ("安徽江南會計師事務所")
Helingeer Modern Farming Co., Ltd.	Year ended 31 December 2009	Anhui Jiangnan CPA Limited ("安徽江南會計師事務所")

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements"). Deloitte Touche Tohmatsu CPA Ltd. has carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as of 30 June 2009 and 2010 and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
		RMB'000	RMB'000
Sales of milk produced	6	—	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	20	—	60,620
Other income	7	—	65,371
Farm operating expenses	8	—	(437,616)
Employee benefits expense	9	—	(66,695)
Depreciation		—	(44,174)
Other gains and losses	10	—	(613)
Other expenses		(9,947)	(29,474)
Share of result of an associate		57,356	—
Loss on deemed disposal of an associate		(55,520)	—
(Loss) profit before finance costs and tax	11	(8,111)	137,194
Finance costs	12	—	(29,765)
(Loss) profit before tax		(8,111)	107,429
Income tax charge	13	—	(73)
(Loss) profit and total comprehensive (expense) income for the period/year		(8,111)	107,356
(Loss) profit and total comprehensive (expense) income attributable to:			
Owners of the Company		(8,111)	53,132
Non-controlling interests		—	54,224
		(8,111)	107,356
(Loss) earning per share (RMB)	16		
Basic		(0.4) cent	2.59 cents
Diluted		(0.4) cent	2.54 cents

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	30 June 2009	30 June 2010
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	947,508	1,578,395
Land use rights	18	41,185	63,616
Goodwill	19	301,354	301,354
Long-term prepaid rentals		259	194
Deposit for acquisition of biological assets		37,381	13,028
Biological assets	20	936,816	1,742,891
		2,264,503	3,699,478
CURRENT ASSETS			
Inventories	21	83,138	139,407
Trade and other receivables	22	78,618	76,772
Land use rights	18	930	1,184
Pledged bank balances	23	48,696	36,350
Bank balances and cash	23	733,720	250,959
		945,102	504,672
CURRENT LIABILITIES			
Trade and other payables	24	188,306	351,050
Amount due to a related party	35(b)	6,622	1,247
Interest payable		1,424	1,249
Borrowings - due within one year	25	251,595	384,647
Deferred income	26	—	3,868
		447,947	742,061
NET CURRENT ASSETS (LIABILITIES)		497,155	(237,389)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,761,658	3,462,089
CAPITAL AND RESERVES			
Share capital	27	272	272
Reserves		1,383,330	1,436,462
Equity attributable to owners of the Company		1,383,602	1,436,734
Non-controlling interests		1,077,461	1,133,005
		2,461,063	2,569,739
NON-CURRENT LIABILITIES			
Borrowings - due after one year	25	300,595	840,470
Deferred income	26	—	51,880
		300,595	892,350
		2,761,658	3,462,089

STATEMENTS OF FINANCIAL POSITION

	Notes	30 June 2009	30 June 2010
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Investment in a subsidiary	28	1,379,136	1,379,136
CURRENT ASSETS			
Bank balances and cash	23	343	337
TOTAL ASSETS		1,379,479	1,379,473
CAPITAL AND RESERVES			
Share capital	27	272	272
Reserves		1,379,207	1,379,201
		1,379,479	1,379,473

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000 (Note i)	RMB'000	RMB'000	RMB'000	RMB'000
At date of incorporation	—	—	—	—	—	—
Issue of shares during the period	272	—	—	272	—	272
Acquisition of subsidiaries	—	—	—	—	1,077,461	1,077,461
Contribution from equity owners	—	1,391,441	—	1,391,441	—	1,391,441
Loss and total comprehensive expense for the period	—	—	(8,111)	(8,111)	—	(8,111)
Balance at 30 June 2009	272	1,391,441	(8,111)	1,383,602	1,077,461	2,461,063
Profit and total comprehensive income for the year	—	—	53,132	53,132	54,224	107,356
Contributions from non-controlling interests	—	—	—	—	1,320	1,320
Balance at 30 June 2010	272	1,391,441	45,021	1,436,734	1,133,005	2,569,739

Note:

(i) Other reserve represents the contribution from the owners for the operation of the Group.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
		RMB'000	RMB'000
OPERATING ACTIVITIES			
(Loss) profit before tax		(8,111)	107,429
Adjustments for:			
Share of result of an associate		(57,356)	—
Depreciation of property, plant and equipment		—	44,174
Release of land use rights and long-term prepaid rental		—	1,097
Interest income		—	(3,001)
Government granted credited to income		—	(967)
Finance costs		—	29,765
Loss on deemed disposal of an associate		55,520	—
Write-off of bad debt		—	445
Payable written off		—	(887)
Gain on disposal of property, plant and equipment		—	(1,006)
Gain arising from changes in fair value less costs to sell of dairy cows		—	(60,620)
Operating cash flows before movements in working capital		(9,947)	116,429
Increase in inventories		—	(54,121)
Decrease in trade and other receivables		—	9,729
Increase in trade and other payables		—	47,037
Cash (used in) generated from operations		(9,947)	119,074
Income taxes paid		—	(73)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(9,947)	119,001
INVESTING ACTIVITIES			
Interest received		—	3,001
Purchases of property, plant and equipment		—	(534,682)
Addition in biological assets		—	(743,534)
Decrease in pledged bank balances		—	12,346
Purchases of land use rights		—	(23,717)
Proceeds on disposal of property, plant and equipment		—	6,996
Proceeds on disposal of dairy cows		—	87,640
Investment in Modern Farm		(1,310,936)	—
Net cash inflow (outflow) from deemed acquisition/acquisition of subsidiaries	29	662,890	(45,586)
Government grants received		—	56,715
NET CASH USED IN INVESTING ACTIVITIES		(648,046)	(1,180,821)

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Interest paid	—	(55,188)
New borrowings raised	—	1,010,653
Repayment of borrowings	—	(377,726)
Issue of shares	272	—
Contributions from the equity owners	1,391,441	—
Contribution from non-controlling interests	—	1,320
NET CASH FROM FINANCING ACTIVITIES	1,391,713	579,059
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	733,720	(482,761)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR	—	733,720
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR, represented by bank balances and cash	733,720	250,959

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company is a private limited liability company incorporated in the Cayman Islands on 30 July 2008. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KYI-1104, Cayman Islands and its principal place of business is located at Economic and Technological Development Zone, Maanshan City, Anhui Province, PRC.

Its parent is Advanced Dairy I Company Limited (incorporated in the Cayman Islands) ("Advanced Dairy I") and its ultimate holding company is Advance Dairy Company Limited. The ultimate controlling party is KKR Asian Fund L.P. (incorporated in the Cayman Islands).

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in production and sales of milk.

The Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (functional currency).

The Company adopted 31 December as its financial year end date on the date of incorporation. The Directors consider to choose 30 June as its financial year end date to best present the results of operation of the Group on a comparable basis after the completion of the Equity Financings (as defined in note 2) in June 2009. Accordingly, the Company changed its financial year end date from 31 December to 30 June pursuant to the resolution passed in the board of directors' meeting on 6 August 2010.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Company was established on 30 July 2008. As part of the reorganization, it has acquired equity interest of Modern Farm through a series of capital injection and held 50.05% interest in Modern Farm since 26 June 2009. As disclosed in Section D(a) to this report, the Company acquired an additional 47.63% interest in Modern Farm in November 2010.

By 4 rounds of equity financings (the "Equity Financings") made by the Company through Aquitair during the period from September 2008 to June 2009, the Company has obtained 50.05% equity interest in Modern Farm. Details in respect of the Equity Financings are set out in the table below:

Rounds of Equity Financings	Date of completion	Financing amounts	Equity interest in Modern Farm held by the Company (through Aquitair) after each round of Equity Financings
		RMB'000	
1	14 October 2008	150,636	9.96%
2	4 December 2008	545,602	33.73%
3	26 February 2009	614,698	48.82%
4	26 June 2009	68,200	50.05%

As a result of the Equity Financings, the Company's investment in Modern Farm were accounted for as a step-up acquisition. The accounting policy of step-up acquisition is set out in Note 4.

Going concern

In preparing the Financial Information, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of approximately RMB237 million as at 30 June 2010. Having considered the secured credit facilities of approximately RMB1,109 million which remains unutilized as at 30 September 2010, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Financial Information has been prepared on a going concern basis.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently applied the International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and Interpretations ("IFRICs"), issued by International Accounting Standards Board ("IASB"), which are effective for the accounting period beginning on 1 July 2009.

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretation which are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs April 2009[1]
IFRSs (Amendments)	Improvements to IFRSs May 2010[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 7 (Amendment)	Disclosures — Transfers of Financial Assets[8]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Amendments that are effective for annual periods beginning on or after 1 January 2010

2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

3 Effective for annual periods beginning on or after 1 January 2010

4 Effective for annual periods beginning on or after 1 February 2010

5 Effective for annual periods beginning on or after 1 July 2010

6 Effective for annual periods beginning on or after 1 January 2011

7 Effective for annual periods beginning on or after 1 January 2013

8 Effective for annual periods beginning on or after 1 July 2011

The Group has not early adopted these new and revised standards, amendments and interpretation in the preparation of the Financial Information. The Directors anticipate that the application of the new and revised standards, amendments and interpretation will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for the biological assets, which are measured at fair value less costs to sell, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. These policies have been consistently applied throughout the Relevant Periods. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period/year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregated amount of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets and liabilities that meet the conditions for recognition under IFRS 3(2008) Business Combinations are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests was initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from previously held equity interest recognized in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of value added tax and returns.

Revenue from sales of milk produced is recognized when the milk is delivered and title has been passed.

Revenue from sales of goods is recognized when the goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases payments are recognized as expenses on a straight-line basis over the term of the relevant lease. Contingent rental expenses, if any, are charged as expenses in the periods in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expenses on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (the functional currency, i.e. RMB).

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalization.

All other borrowing costs are recognized in profit and loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contribution.

Government grants

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognized in profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, an entity shall recognize the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Other grants

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in the profit or loss in the period in which they become receivable. Other government grants related to depreciable assets are recognized as deferred income in the consolidated statement of financial position and released to profit or loss over the useful lives of the related assets.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to capital reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from net profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods/years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognized.

Land use rights

Land use rights are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories
Inventories are stated at the lower of cost and net realizable value. Cost is calculated using weighted average method.

Biological assets

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

The feeding costs and other related costs including the depreciation charge, utilities cost and consumables incurred for raising of heifers and calves are capitalized, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Milk
Agricultural produce represents the milk. Milk is recognized at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation cost, excluding finance cost and income taxes.

Financial instruments
Financial assets and financial liabilities are recognized on the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets
The Group's and the Company's financial assets represent loans and receivables.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank balances and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including borrowings, trade and other payables, interest payable and amount due to a related party are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Fair value of dairy cows

The Group's 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 at the end of reporting period adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of the dairy cows ; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any change in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of assumptions used are disclosed in note 20.

Estimated impairment of goodwill

In determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2009 and 2010, the carrying amount of goodwill is RMB301,354,000. Details of the recoverable amount calculation are disclosed in note 19.

6. SALES OF MILK PRODUCED AND SEGMENT INFORMATION

Sales of milk produced represented mainly the fair value of milk produced less costs to sell at the point of harvest.

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of Group that are regularly reviewed by the chief operating decision maker, the president of the Group ("the President"), in order to allocate resources and to assess performance. The operation of the Group constitutes one operating segment i.e. production and sales of milk. The information reported to Group's President for the purpose of resource allocation and assessment of performance, does not contain the gain arising from changes in fair value, less costs to sell, of dairy cows, and the President reviewed the profit before tax, assets and liabilities as a whole and the difference between the profit before tax and assets reported under IFRSs and to the President is mainly arising from the difference of the accounting treatment of the dairy cows. Under the report to the President, the dairy cows are stated at cost less depreciation but the dairy cows are stated at their fair value less costs to sell under IFRSs. The difference of the profit (loss) before tax and assets reported to the President and IFRSs are as follows:

	1 July 2009 to 30 June 2010
	RMB'000
Loss before tax reported to the President	(9,643)
Add: Gain arising from changes in fair value less costs to sell of dairy cows	60,620
Depreciation of dairy cows	56,452
Profit before tax under IFRSs	107,429

	As at 30 June 2010
	RMB'000
Assets reported to the President	3,119,463
Add: Gain arising from changes in fair value less costs to sell of dairy cows	1,007,305
Accumulated depreciation of dairy cows	77,382
Assets under IFRSs	4,204,150

The segment liabilities is same as total liabilities under IFRSs at end of reporting period.

During the period from 30 July 2008 (date of incorporation) to 30 June 2009, the Company was only an investment holding company and milk production business was acquired at end of June 2009 with details set out in note 29(a). The President did not review any financial information of the Group in year 2009 for resources allocations and performance assessment.

All external sales of milk produced of the Group during the Relevant Periods are contributable to customers established in the PRC, the place of domicile of the Group's operating entities. Meanwhile, the Group's non-current assets are all located in the PRC.

Sales of milk produced of RMB575,441,000 (2009:Nil) is from a single external customer.

7. OTHER INCOME

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Government grant related to		
- Biological assets (Note i)	—	34,390
- Income (Note ii)	—	23,766
- Other assets (Note 26)	—	967
Sales of fertilizers	—	526
Bank interest income	—	3,001
Write-off of payables	—	887
Others	—	1,834
	—	65,371

Note i: These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of supporting the Group to purchase dairy cows.

Note ii: These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving financial support to the Group's operation.

8. FARM OPERATING EXPENSES

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Feeds	—	396,225
Utilities	—	15,484
Other farm operating expenses	—	25,907
Total farm operating expenses	—	437,616

9. EMPLOYEE BENEFITS EXPENSE

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Salaries, bonuses and allowances	—	58,341
Contributions to retirement benefit schemes	—	8,354
	—	66,695

The employees of the Group and its PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the local government. The subsidiaries in the PRC are required to contribute a specified percentage of their basic payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

10. OTHER GAINS AND LOSSES

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Net foreign exchange loss	—	1,174
Write-off of bad debt	—	445
Gain on disposal of property, plant and equipment	—	(1,006)
	—	613

11. (LOSS) PROFIT BEFORE FINANCE COSTS AND TAX

(Loss) profit before finance costs and tax has been arrived at after charging:

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Auditors' remuneration	—	951
Release of land use rights	—	1,032

12. FINANCE COSTS

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	—	47,872
Bank borrowings wholly repayable after five years	—	6,612
Other borrowings wholly repayable within five years	—	529
Total borrowing cost	—	55,013
Less: Capitalized amount	—	(25,248)
	—	29,765

The weighted average interest rate on specific borrowings being capitalised was 3.24% for the year ended 30 June 2010.

13. INCOME TAX CHARGE

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
The charge comprises:		
Current tax:		
PRC enterprise income tax	—	73

The tax charge for the Relevant Periods represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the subsidiaries established in the PRC.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises from 1 January 2008. In addition, the New EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% or 10% withholding tax under the tax treaty or the domestic law.

As at 30 June 2009, deferred taxation has not been provided for in the Financial Information due to the fact that there has no undistributed profit of relevant PRC subsidiaries.

As at 30 June 2010, deferred taxation has not been provided for in the Financial Information in respect of undistributed profits of relevant PRC subsidiaries, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the profits generated in 2010 will not be distributed in the foreseeable future. The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognized was approximately RMB54,332,000 as at 30 June 2010.

The income tax rates applicable to the Company and its subsidiaries are as follows:

	Year ended/ending 31 December		
	2008	2009	2010
	(Note)	(Note)	(Note)
The Company	Exempted	Exempted	Exempted
Lux	Exempted	Exempted	Exempted
Aquitair	Exempted	Exempted	Exempted
Modern Farm	0%	0%	0%
Maanshan Leading Farming Company Limited	0%	N/A	N/A
Shandong Mengniu International Trading Co., Ltd.	25%	25%	25%
Helingeer Modern Farming Co., Ltd.	0%	0%	0%
Zhangjiakou Saibei Modern Farm Co., Ltd.	0%	0%	0%
Wenshang Modern Farm Co., Ltd.	0%	0%	0%
Shangzhi Modern Farm Co., Ltd.	0%	0%	0%
Hongya Modern Farm Co., Ltd.	0%	0%	0%
Modern Farming Group (Anhui) Sijibao Organic Fertilizer Co., Ltd.	25%	25%	25%
Modern Farming (Chabei) Co., Ltd.	0%	0%	0%
Modern Farming (Baoji) Co., Ltd..	0%	0%	0%
Maanshan Modern Farming Feedstock Co., Ltd..	N/A	25%	25%
Modern Farm (Feidong) Co., Ltd.	N/A	0%	0%
Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd.	N/A	N/A	25%
Feidong Sijibao Organic Fertiliser Co., Ltd.	N/A	25%	25%
Baoji Sijibao Organic Fertiliser Co., Ltd.	N/A	25%	25%
Hongya Sijibao Organic Fertiliser Co., Ltd.	N/A	25%	25%
Shangzhi Sijibao Organic Fertiliser Co., Ltd.	N/A	25%	25%
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd.	N/A	N/A	25%
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd.	N/A	N/A	25%
Modern Farming (Tongshan) Co., Ltd.	N/A	N/A	0%
Modern Farming (Tongliao) Co., Ltd.	N/A	N/A	0%
Modern Farm (Chabei) Hengsheng Co., Ltd.	N/A	N/A	0%

Note: According to the prevailing tax rules and regulation in the PRC, those entities of the Group operating in agricultural business in the PRC is exempted from enterprise income tax.

The tax charge for the Relevant Periods can be reconciled to the (loss) profit per the consolidated statements of comprehensive income as follows:

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
(Loss) profit before tax	(8,111)	107,429
Tax at applicable income tax rate at 25%	(2,028)	26,857
Tax effect of share of result of an associate	(13,232)	—
Effect of non-deductible expenses	15,260	373
Effect of tax exemption granted to agricultural entities	—	(27,157)
Income tax charge	—	73

14. DIRECTORS' EMOLUMENTS

Details of emoluments paid by the Group to the directors of the Company during the Relevant Periods.

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Executive directors		
- Salaries discretionary bonus, and other allowances	—	1,911
- Retirement benefits scheme contributions	—	70
	—	1,981
Executive directors		
Mr. Deng Jiuqiang (appointed on 14 November 2008)	—	1,028
Mrs. Gao Lina (appointed on 14 November 2008)	—	528
Mr. Han Chunlin (appointed on 14 November 2008)	—	425
Mr. William J. Janetschek (resigned on 23 February 2009)	—	—
Mr. Terence Gallagher (resigned on 14 November 2008)	—	—
Non-executive directors		
Mr. Wolhardt Julian Juul (appointed on 30 July 2008)	—	—
Mr. Hui Chi Kin Max (appointed on 23 February 2009)	—	—
Mr. Weng Xiangwei (appointed on 14 November 2008)	—	—
	—	1,981

No directors waived or agreed to waive any emoluments during the Relevant Periods.

15. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three were directors of the Company whose emolument are included in the disclosures in note 14 above. There was no emoluments paid to any staff during the period from 7 July 2008 (date of incorporation) to 30 June 2009. The emoluments of the remaining two individuals for the year ended 30 June 2010 is as follows:

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Salaries and other benefits	—	497
Retirement benefit schemes contributions	—	46
	—	543

No emoluments were paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of each of these two individuals were below HK$1,000,000 during the Relevant Periods.

16. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company for the Relevant Periods is based on the following data:

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
(Loss) earnings for the purpose of basic (loss) earnings per share	(8,111)	53,132
Adjustment to the share of profit of Modern Farm and its subsidiaries based on dilution of their earnings per share (note 30)	—	(1,112)
(Loss) earnings for the purpose of diluted (loss) earnings per share	(8,111)	52,020
	shares	shares
Number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	2,049,600,000	2,049,600,000

The number of ordinary shares for the purposes of calculating basic and diluted (loss) earnings per share has been determined assuming 5,124,000 ordinary shares were allotted and credited to Advanced Dairy I and the capitalization issue as disclosed in Appendix VI of the Prospectus occurred on the date of incorporation of the Company.

For the period ended 30 June 2009, the computation of diluted loss per share does not take into account the adjustment to the share of profit of Modern Farm and its subsidiaries since the MF Options (as defined in note 30) are anti-dilutive.

17 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Plant and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At date of incorporation .	—	—	—	—	—
Acquisition of subsidiaries	506,267	15,029	107,328	318,884	947,508
At 30 June 2009	506,267	15,029	107,328	318,884	947,508
Additions.	2,211	5,350	85,585	574,114	667,260
Acquisition of a subsidiary.	436	—	4,644	39,653	44,733
Transfer.	522,526	—	73,060	(595,586)	—
Disposals.	(7,023)	(67)	(2,290)	—	(9,380)
At 30 June 2010	1,024,417	20,312	268,327	337,065	1,650,121
ACCUMULATED DEPRECIATION					
At date of incorporation .	—	—	—	—	—
At 30 June 2009	—	—	—	—	—
Charge for the year	45,582	1,702	27,832	—	75,116
Eliminated on disposals. .	(1,881)	(35)	(1,474)	—	(3,390)
At 30 June 2010	43,701	1,667	26,358	—	71,726
CARRYING AMOUNT					
At 30 June 2009	506,267	15,029	107,328	318,884	947,508
At 30 June 2010	980,716	18,645	241,969	337,065	1,578,395

As at 30 June 2009 and 30 June 2010, certain of the Group's buildings and plant and equipment with an aggregate carrying amount of RMB145,782,000 and RMB144,890,000 respectively were pledged as security for bank and other loans of the Group (Note 25).

As at 30 June 2009 and 30 June 2010, the Group is in the process of obtaining the building ownership certificates of buildings with carrying amounts of RMB402,760,000 and RMB884,853,000 respectively.

Depreciation is charged using straight-line method over the expected useful life, after taking into account its estimate residual value, as follows:

Buildings	20 years
Motor vehicles.	5 years
Plant and equipment	5 - 10 years

During the reporting periods ended 30 June 2009 and 2010, depreciation charge amounting to nil and RMB30,942,000 respectively have been capitalized in biological assets.

18. LAND USE RIGHTS

	RMB'000
At date of incorporation	—
Acquisition of subsidiaries	42,115
At 30 June 2009	42,115
Addition	23,717
Release to profit or loss	(1,032)
At 30 June 2010	64,800

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
- Current assets	930	1,184
- Non-current assets	41,185	63,616
	42,115	64,800

The amount represents the payment for land use rights situated in the PRC. The leasehold interests in land have lease terms ranging from 20 to 50 years.

As at 30 June 2009 and 30 June 2010, land use rights with carrying amount of RMB4,220,000 and RMB14,184,000, respectively were pledged against certain bank for facilities granted to the Group (Note 25).

19. GOODWILL

	THE GROUP
	RMB'000
Cost	
At date of incorporation	—
Arising on acquisition of subsidiaries	301,354
At 30 June 2009 and 2010	301,354

As explained in note 6, the information reported to the Group's president for the purpose of resource allocation and assessment of performance is based on the overall operation of farms, which is the only operating segment reported internally. Accordingly, for the purposes of impairment testing, goodwill has been allocated to the single cash generating unit ("CGU").

As at the end of each reporting period, management of the Group determines that there are no impairments of its CGU containing goodwill with indefinite useful lives.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of one year approved by management and discount rate of 9.24%. Cash flows beyond the budgeted period are extrapolated using a 5% growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted sales and operating expenses. Such assumption is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of its CGU.

20. BIOLOGICAL ASSETS

A - Nature of Activities

The Group and its subsidiaries are primarily engaged in milk production companies that principally engaged in production and sales of milk. Dairy cows are primarily held to produce milk.

The quantity of dairy cows owned by the Group at 30 June 2009 and 30 June 2010 is shown below. The Group's dairy cows are primarily milkable cows held for milk production. Heifers and calves held at 30 June 2009 and 30 June 2010 are dairy cows that have not reached the age that can produce milk.

	30 June 2009	30 June 2010
	head	head
Dairy cows		
Milkable cows	20,427	26,607
Heifers and calves	23,532	45,584
Total dairy cows	43,959	72,191

	1 July 2009 to 30 June 2010
	KG
Volume of sales of milk produced	158,080,873

The Group is exposed to fair value risks arising from changes in price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately 9 month pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before approximately 60 days dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer The sales of dairy cows is not one of the Group's principal activities and is not included as revenue. The sales of dairy cows is determined based on the actual selling price.

B - Value of Dairy Cows

The value of dairy cows at end of reporting periods was:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Dairy cows	936,816	1,742,891

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
At date of incorporation	—	—	—
Acquisition of a subsidiaries	439,974	496,842	936,816
At 30 June 2009	439,974	496,842	936,816
Acquisition of subsidiaries	13,563	20,703	34,266
Increases due to purchase	451,424	—	451,424
Increase due to raising (Feeding cost and others)	347,405	—	347,405
Transfer	(534,448)	534,448	—
Decrease due to sales	(7,762)	(79,878)	(87,640)
Gains arising from changes in fair value less costs to sell	180,438	(119,818)	60,620
Balance as at 30 June 2010	890,594	852,297	1,742,891

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Sallmanns Limited ("Sallmanns") in early November 2010, a firm of independent qualified professional valuers not connected with the Group, who has appropriate qualifications and recent experiences in valuation of biological assets. The address of Sallmanns is 17/F, Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The fair value less costs to sell of the heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices of milkable cows are not available, Sallmanns has applied the net present value approach to calculate the fair value less cost to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of the reporting period will reduce at a certain culling rate due to the natural or unnatural factors.
- The culling rates adopted are 8%, 12%, 20%, 20% and 100% for milkable cows in the first to fifth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.
- The quantities of dairy cows will increase as calves are born.

- The expected average prices of milk during the projected period of 5 years, which is the estimated production period a dairy cow, are estimated after taking into account certain percentage growth for each projected year after considering future demand and inflation in the PRC;
- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture;
- Costs are average costs based on historical cost information.
- The discount rates used are 9.7% and 9.24% as at 30 June 2009 and 30 June2010 respectively.

As at 30 June 2009 and 30 June 2010, the Group has pledged dairy cows with carrying amount of RMB367,489,000 and RMB1,315,640,000 respectively to banks to secure the general banking facilities granted to the Group.

The aggregate gain or loss arising during the period from 30 July 2008 (date of incorporation) to 30 June 2009 and the year ended 30 June 2010 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of dairy cows is analyzed as follows:

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Sales of milk/fair value of milk produced less costs to sell	—	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	—	60,620
	—	650,395

21. INVENTORIES

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Feeds	79,050	130,963
Others	4,088	8,444
	83,138	139,407

22. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of respective reporting periods:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Trade receivables		
- within 60 days based on invoice date	35,247	44,301
- over 60 days based on invoice date	483	353
	35,730	44,654
Advances to suppliers	17,802	17,228
Others	25,086	14,890
	78,618	76,772

The Group allows credit period of 60 days to its trade customers.

Trade receivables at the end of respective reporting periods principally represent receivables from sales of milk.

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB483,000 and RMB353,000 which are past due as at 30 June 2009 and 30 June 2010, respectively for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables as at 30 June 2009 and 30 June 2010 are 180 days.

23. PLEDGED BANK BALANCES AND BANK BALANCES AND CASH

Pledged bank balances

The pledged bank balances as at 30 June 2009 and 2010 represent deposits pledged for short-term bank borrowings. The pledged bank balances carry interest at prevailing market saving rates at 0.36% and 0.36% per annum respectively.

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market saving rates ranging from 0.36% to 3.33% and 0.36% to 1.98% per annum as at 30 June 2009 and 30 June 2010 respectively.

Bank balances and cash at 30 June 2009 and 30 June 2010 were denominated in USD and RMB. RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Bank balances and cash that are denominated in currency other than the functional currency of the relevant entities are set out below:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
USD	660,673	64,578

24. TRADE AND OTHER PAYABLES

The credit period taken for the settlement of trade purchases is 60 days. The following is an aged analysis of trade and other payables at the end of the respective reporting periods:

	2009	2010
	RMB'000	RMB'000
Trade payables		
Within 60 days based on invoice date	82,607	111,507
Over 60 days based on invoice date	1,334	3,532
	83,941	115,039
Payable for acquisition of property, plant and equipment	37,533	150,238
Consideration payable for acquisition of a subsidiary	47,524	5,150
Accrued staff costs	9,897	14,644
Advance payment from customers	1,627	57,977
Others	7,784	8,002
	104,365	236,011
	188,306	351,050

25. BORROWINGS

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Bank borrowings	543,950	1,216,992
Other borrowings (Note i)	8,240	8,125
	552,190	1,225,117
Unsecured borrowings	71,153	209,696
Secured borrowings (Note ii)	403,567	941,251
Guaranteed borrowings (Note iii)	77,470	74,170
	552,190	1,225,117
Carrying amount repayable:		
Within one year	251,595	384,647
Between one to two years	120,125	162,264
Between two to five years	180,470	407,206
Over five years	—	271,000
	552,190	1,225,117
Less: Amounts due within one year shown under current liabilities	(251,595)	(384,647)
	300,595	840,470

The bank and other borrowings comprise:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Fixed-rate borrowings	142,590	285,159
Variable-rate borrowings	409,600	939,958

The effective interest rates, which are also equal to contracted interest rates, per annum at the end of the respective reporting periods are as follows:

	30 June 2009	30 June 2010
Fixed-rate borrowings	2.40% to 7.47%	2.40% to 7.47%
Variable-rate borrowings	6.12% to 7.65%	4.86% to 7.29%

All borrowings are denominated in RMB. Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China.

Notes:

(i) Other borrowings represented the loans from local government for financing the purchase of dairy cows for the Group. The loans were secured by certain plant and equipment owned by the Group as set out in note 17, interest bearing of 2.4% per annum and were repayable on 31 October 2011 and 1 November 2013.

(ii) The loans were secured by

i) certain property, plant and equipment, land use rights, dairy cows and bank deposits owned by the Group as set out in Notes 17, 18, 20 and 23, respectively; and

ii) 100% equity interest in Zhangjiakou Saibei Modern Farm Co., Ltd, Modern Farm (Feidong) Co., Ltd. and Helingeer Modern Farming Co., Ltd. held by Modern Farm.

(iii) The balances were guaranteed by Group's subsidiaries.

26. DEFERRED INCOME

	Arising from government grants
	RMB'000
At date of incorporation	—
Additions	56,715
Released to income	(967)
At 30 June 2010	55,748

	At 30 June 2009	At 30 June 2010
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
- Current portion	—	3,868
- Non-current portion	—	51,880
	—	55,748

Deferred income arising from government grant represents the government subsidies obtained in relation to the construction and acquisition of property, plant and equipment, which was included in the consolidated statements of financial position as deferred income and credited to the consolidated statements of comprehensive income on a systematic basis over the useful lives of the related assets.

27. SHARE CAPITAL

	Number of shares	Share capital
	'000	USD'000
Ordinary shares of USD1 each		
Authorized		
At date of incorporation, 30 June 2009 and 30 June 2010	50	50
Issued and fully paid		
At date of incorporation	1	1
Issued during the period	39	39
At 30 June 2009 and 30 June 2010	40	40

	RMB'000
Presented as.	272

The Company issued and allotted 1 share and 39,999 shares of US$1 each at par to the shareholders on 30 July 2008 and 18 August 2008 respectively.

On 29 July 2010, the authorized capital of the Company was increased from US$50,000 divided into 50,000 shares of a par value of US$1.00 each to the aggregate of US$50,000 and HK$1,000,000 divided into (i) 50,000 shares with a par value of US$1.00 each ("US$ Shares") and (ii) 10,000,000 ordinary shares with a par value of HK$0.1 each by the creation of 10,000,000 ordinary shares with a par value of HK$0.1 each (the "Shares").

On 30 July 2010, 5,124,000 Shares were allotted and issued credited to Advanced Dairy I at par value and then the 40,000 issued US$ Shares held by Advanced Dairy I were repurchased and cancelled by the Company.

On 30 July 2010, all of the 50,000 authorized but unissued US$ Shares were cancelled and the amount of our authorized share capital was diminished by the amount of the US$ Shares so cancelled.

On 30 July 2010, 573,647 Shares, 1,944,632 Shares, 1,869,546 Shares and 488,175 Shares were allotted and issued as nil paid by the Company to Jinmu Holdings Co., Ltd., Yinmu Holdings Co., Ltd., Xinmu Holdings Co., Ltd. and Youmu Dairy Holdings Co., Ltd., respectively with the payment of the subscription monies deferred.

28. INVESTMENT IN A SUBSIDIARY

	At 30 June 2009	At 30 June 2010
	RMB'000	RMB'000
Unlisted equity investment, at cost	1,379,136	1,379,136

29. DEEMED ACQUISITION/ACQUISITION OF SUBSIDIARIES

(a) On 26 June 2009, the Company acquired additional 1.23% equity interest in Modern Farm through capital injection of RMB68,200,000 to Modern Farm, which became 50.05% owned subsidiary of the Group. Modern Farm and its subsidiaries (collectively referred to as "Modern Farm Group") are principally engaged in dairy farming and were acquired with the objective of expansion of business.

Assets and liabilities recognized at the date of acquisition

	RMB'000
Current assets	
Cash and cash equivalents	662,890
Trade and other receivables	78,618
Inventories	83,138
Pledged bank balances	48,696
Land use rights	930
Non-current assets	
Property, plant and equipment	947,508
Land use rights	41,185
Long-term prepaid rental	259
Deposit paid for acquisition of biological assets	37,381
Biological assets	936,816
Current liabilities	
Trade and other payables	(188,306)
Amount due to a related party	(6,622)
Interest payable	(1,424)
Borrowings - due within one year	(251,595)
Non-current liabilities	
Borrowings - due after one year	(300,595)
Assets and liabilities of Modern Farm Group	2,088,879
Capital injection by cash	68,200
	2,157,079

The receivables acquired (which principally comprised trade receivables and advance payments) with a fair value of RMB78,618,000 had gross contractual amounts of RMB78,618,000.

Non-controlling interests

The non-controlling interest (49.95%) in Modern Farm and its subsidiaries recognized at the acquisition date was measured by reference to the proportionate share of the fair value of the acquiree's identifiable net assets and amounted to RMB1,077,461,000.

Goodwill arising on acquisition

	RMB'000
Fair value of previously-held interest	1,312,772
Non-controlling interests	1,077,461
	2,390,233
Less: fair value of identifiable net assets acquired	(2,088,879)
Goodwill arising on acquisition	301,354

Goodwill arose on the acquisition of Modern Farm Group because the acquisition included the management and skilled workforce on cow raising of Modern Farm Group.

The fair value of the Group's 48.82% interest in Modern Farm held before the business combination was amounted to RMB1,312,772,000. The Group recognized a loss on deemed disposal of an associate at the amount of RMB55,520,000 as a result of measuring at fair value its 48.82% interest in Modern Farm.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

Modern Farm Group contributed approximately nil profit and sales of milk produced to Group's profit and sales of milk produced for the period between the date of acquisition and 30 June 2009, the end of the reporting period.

Had the Equity Financing been effected at 30 July 2008 and Modern Farm became a 50.05% owned subsidiary since then, total group sales of milk produced for the period from 30 July 2008 (date of incorporation) to 30 June 2009 would have been approximately RMB334,015,000, and profit before tax for the period would have been approximately RMB65,404,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of sales of milk produced and results of operations of the Group that actually would have been achieved had the acquisition been completed on the date of incorporation, nor is intended to be a projection of future results.

Net cash inflow arising on acquisition

	RMB'000
Cash and cash equivalent balances acquired	662,890

(b) On 30 June 2010, Modern Farm acquired 100% equity interest in Modern Farm (Chabei) Hengsheng Co., Ltd. ("Hengsheng Modern Farm"). Hengsheng Modern Farm is principally engaged in dairy farming and was acquired with the objective of expansion of business.

Consideration transferred

	RMB'000
Other payable	5,150
Cash	9
	5,159

Assets and liabilities recognized at the date of acquisition

	RMB'000
Current assets	
Cash and cash equivalents	1,947
Trade and other receivables	8,328
Inventories	2,148
Non-current assets	
Property, plant and equipment	44,733
Biological assets	34,266
Current liabilities	
Trade and other payables	(46,263)
Borrowings - due within one year	(40,000)
	5,159

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB8,328,000 had gross contractual amounts of RMB8,328,000.

Net cash inflow arising on acquisition

	RMB'000
Consideration paid in cash	(9)
Less: cash and cash equivalent balances acquired	1,947
	1,938

Impact of acquisition on the results of the Group

Hengsheng Modern Farm has no contribution in profit and sales of milk produced to Group's profit and sales of milk produced for the year ended 30 June 2010.

If the acquisition had been completed since 1 July 2009, total group sales of milk produced for the year ended 30 June 2010 would have been approximately RMB606,446,000, and profit before tax for the year would have been approximately RMB109,166,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of sales of milk produced and results of operations of the Group that actually would have been achieved had the acquisition been completed on the date of incorporation, nor is intended to be a projection of future results.

30. SHARE-BASED PAYMENT TRANSACTIONS

Modern Farm's option scheme (the "Scheme") was adopted pursuant to agreement dated 9 June 2009 for the primary purpose of providing incentives to directors and eligible employees of Modern Farm and its subsidiaries, and will expire on 8 June 2019. Under the Scheme, Modern Farm's directors granted options to two directors and one top management of Modern Farm (the "MF Grantees") to subscribe for a total of RMB10,821,069 paid-in capital (the "MF Options") and each MF Option with an exercise price RMB5.9883 per RMB1 paid-in capital on 17 June 2009.

At 30 June 2009 and 2010, the amount of paid-in capital in respect of which the MF Grantees can subscribe for and remained outstanding under the Scheme was RMB10,821,069 and RMB10,821,069 respectively, representing 2.09% and 2.09% of the paid-in capital of Modern Farm at those dates respectively.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant (17 June 2009). The exercise price is determined by Modern Farm's directors. In accordance with the terms of the Scheme, option issued during the period ended 30 June 2009 vested at the date of grant.

On 31 October 2010, the Company granted share options of the Company to the MF Grantees to replace the MF Options which lapsed and ceased to have effect at the same time.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of net debt, comprising bank and other borrowings as disclosed in Note 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, retained earnings and other reserves as disclosed in the consolidated statements of changes in equity.

The Group's management reviews the capital structure on a regular basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, injection of capital and as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	The Group		The Company	
	30 June 2009	30 June 2010	30 June 2009	30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:				
Loans and receivables (including cash and cash equivalents)	843,232	346,853	343	337
Financial liabilities:				
Amortized cost	746,915	1,520,686	—	—

Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, trade and other payables, amount due to a related party, interest payable, borrowings, pledged bank balances, bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged during the Relevant Periods.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position at the end of the respective reporting periods.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by the Company management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorized banks in the PRC.

The Group has concentration of credit risk as over 99.6% and 97.6% of total trade receivables as at 30 June 2009 and 30 June 2010, respectively was due from the Group's largest customer.

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances, pledged bank balances and bank borrowings which carry interest at variable interest rates.

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to market lending interest rates for non-derivative instruments at the end of each reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses since they are not considered sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings outstanding at the end of respective reporting periods were outstanding for the whole period/year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of each reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the period ended 30 June 2009 would increase/decrease by RMB1,448,000 and the Group's profit for the year ended 30 June 2010 would decrease/increase by RMB1,300,000; and Modern Farm Group's property, plant and equipment would increase/decrease by RMB600,000 and RMB3,400,000 as at 30 June 2009 and 30 June 2010 for interest capitalisation.

Liquidity risk

The Group finance their operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary liquidity is available when required. The management monitors the liquidity position of the Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations. With reference to the existing unutilized facilities, newly obtained facilities up to the date of this report and re-financing arrangements, the Directors consider the liquidity and source of capital for the daily operation are sufficient.

The Group has net current liabilities of approximately RMB237 million as at 30 June 2010. The Directors consider the Group has sufficient internally generated funds and available facilities to meet the Group's financial obligations.

The following table details the Group contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal.

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	Over 2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2009							
Non-interest bearing	—	194,725	—	—	—	194,725	194,725
Fixed interest rate borrowings	7	139,167	—	3,740	4,669	147,576	142,590
Variable interest rate borrowings	7	131,466	10,236	136,943	200,640	479,285	409,600
		465,358	10,236	140,683	205,309	821,586	746,915
As at 30 June 2010							
Non-interest bearing	—	295,569	—	—	—	295,569	295,569
Fixed interest rate borrowings	6	59,868	126,175	46,148	70,707	302,898	285,159
Variable interest rate borrowings	6	150,357	106,334	162,760	691,488	1,110,939	939,958
		505,794	232,509	208,908	762,195	1,709,406	1,520,686

Foreign currency risk

The Group collects most of the sales of milk produced in RMB and incurs most of the expenditures as well as capital expenditures in RMB.

The major asset denominated in foreign currency is the bank balances and cash which disclosed in note 23. The balances represent the capital injection by the Company to a subsidiary in the PRC.

The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

Foreign currency sensitivity analysis

0.5% is the sensitivity rate used in each reporting period when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

At the end of each reporting period, if the exchange rate had been strengthen/weaken in Renminbi against US Dollars by 0.5% and all other variables were held constant, the Group's loss for the period ended 30 June 2009 would increase/decrease by RMB3,303,000 and the Group's profit for the year ended 30 June 2010 would decrease/increase by RMB323,000.

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values at the end of respective reporting period.

33. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of each reporting period, the Group was committed to making future minimum lease payments in respect of plant and vehicles rented under non-cancellable operating leases which fall due as follows:

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Within one year	533	941
In the second to fifth year inclusive	1,498	787
Over five years	5,999	5,770
	8,030	7,498

Operating lease payments represent rentals payable by the Group for certain of its plant and vehicles which are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years.

The minimum lease payments paid under operating lease during the period ended 30 June 2009 and the year ended 30 June 2010 are approximately RMB553,000 and RMB542,000 respectively.

34. CAPITAL COMMITMENTS

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Capital expenditure contracted but not provided for, in respect of acquisition of:		
- property, plant and equipment	299,905	261,573
- biological assets	299,850	303,152
	599,755	564,725

35. RELATED PARTY TRANSACTIONS

(a) Name and relationship with a related party is as follows:

Name	Relationship
Inner Mongolia Jiuqiang Machinery Co., Ltd.	Company owned by a director

(b) At the end of the reporting periods, the Group had the following balances with related party:

Amount due to a related party

	30 June 2009	30 June 2010
	RMB'000	RMB'000
Other payable nature		
Inner Mongolia Jiuqiang Machinery Co., Ltd. (Note)	6,622	1,247

Note: The amount mainly represents the construction cost payable at the end of the reporting periods. It was interest-free, unsecured and repayable on demand.

(c) Compensation of key management personnel

The emoluments of key management during Relevant Periods were as follows:

	30 July 2008 (date of incorporation) to 30 June 2009	1 July 2009 to 30 June 2010
	RMB'000	RMB'000
Short-term employees benefits	—	2,408
Post-employment benefits	—	116
	—	2,524

C. DIRECTORS' REMUNERATION

Save as disclosed in note 14 to this report, no remuneration has been paid or is payable to the Directors by the Company or any of its subsidiaries during the Relevant Periods.

Under the arrangements presently in force, the aggregate amount of the Company's Directors' fees and other emoluments for the year ending 30 June 2011 is estimated to be RMB3,120,000, excluding bonus and share-based compensation which cannot be estimated at the current stage.

D. SUBSEQUENT EVENTS

Other than those disclosed in elsewhere of the Financial Information, the Group has the following events occurred subsequent to 30 June 2010:

(a) Pursuant to the equity transfer agreement entered into between Aquitair and certain PRC equity holders of Modern Farm on 17 September 2010, the Company acquired an additional 47.63% interests in Modern Farm for a consideration of RMB903,116,860. The acquisition was completed in November 2010.

(b) On 31 October 2010, written resolutions of the shareholders of the Company was passed to resolve the matters as set out in the section headed "Resolutions in writing of the Shareholders of our Company Passed on 31 October 2010" in Appendix VI to the Prospectus.

(c) On 31 October 2010, the Company granted share options of the Company to the MF Grantees to replace the MF Options which lapsed and ceased to have effect at the same time. Details of the options issued by the Company to the MF Grantees are set out in the sub-section headed "D. Other Information — 2. Management Options" in Appendix VI to the Prospectus.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies comprising the Group in respect of any period subsequent to 30 June 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Deloitte.
德勤

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15 November 2010

The Directors
Inner Mongolia Mengniu AustAsia Model Dairy Farm Co., Ltd.
Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the pre-acquisition financial information (the "Pre-acquisition Financial Information") relating to Inner Mongolia Mengniu AustAsia Model Dairy Farm Co., Ltd. ("Aoya Farm") (subsequently change the name to Helingeer Modern Farming Co., Ltd.) for the year ended 30 June 2008 and six months period ended 30 December 2008 (the "Relevant Periods") for inclusion in the prospectus of China Modern Dairy Holdings Ltd. (the "Company") dated 15 November 2010 in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Prospectus").

Aoya Farm was established in the People's Republic of China (the "PRC") on 12 July 2004 as a private limited company.

The statutory financial year end date of Aoya Farm is 31 December. No statutory financial statements for Aoya Farm have been prepared for the Relevant Periods as there is no such statutory requirements.

For the purpose of this report, the directors of Aoya Farm have prepared the financial statements of Aoya Farm for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements"). Deloitte Touche Tohmatsu CPA Ltd. has carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Pre-acquisition Financial Information of Aoya Farm for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of Aoya Farm who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Pre-acquisition Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Pre-acquisition Financial Information and to report our opinion to you.

In our opinion, the Pre-acquisition Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Aoya Farm as of 30 June 2008 and 30 December 2008 and of the results and cash flows of Aoya Farm for the Relevant Periods.

A. FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
		RMB'000	RMB'000
Sales of milk produced	5	150,445	105,780
Loss arising from changes in fair value less costs to sell of dairy cows	18	(11,403)	(21,228)
Other income	6	2,364	227
Farm operating expenses	7	(89,579)	(60,461)
Employee benefits expense	8	(5,419)	(2,898)
Depreciation		(6,502)	(3,217)
Other gains and losses	9	122	(149)
Other expenses		(3,778)	(1,491)
Profit before finance costs and tax	10	36,250	16,563
Finance costs	11	(14,594)	(8,249)
Profit before tax		21,656	8,314
Income tax charge	12	—	—
Profit and total comprehensive income for the year/period attributable to owners of Aoya Farm		21,656	8,314

STATEMENTS OF FINANCIAL POSITION

	Notes	30 June 2008	30 December 2008
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	134,547	131,877
Land use rights	17	10,969	10,847
Biological assets	18	150,961	144,946
		296,477	287,670
CURRENT ASSETS			
Inventories	19	27,680	57,540
Trade and other receivables	20	9,430	10,534
Land use rights	17	244	244
Amount due from a related party	26(b)	330	—
Pledged bank balances	21	6,623	13,986
Bank balances and cash	21	4,438	13,278
		48,745	95,582
CURRENT LIABILITIES			
Trade and other payables	22	47,542	72,163
Amounts due to related parties	26(b)	2,007	16,662
Borrowings - due within one year	23	166,030	195,070
		215,579	283,895
NET CURRENT LIABILITIES		(166,834)	(188,313)
TOTAL ASSETS LESS CURRENT LIABILITIES		129,643	99,357
CAPITAL AND RESERVES			
Paid-in capital		93,670	93,670
Reserves		29,373	5,687
Equity attributable to owners of Aoya Farm		123,043	99,357
NON-CURRENT LIABILITY			
Borrowings - due after one year	23	6,600	—
		129,643	99,357

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of Aoya Farm			
	Paid-in capital	Statutory surplus reserve	Retained earnings	Total
	RMB'000 (Note)	RMB'000	RMB'000	RMB'000
Balance at 1 July 2007	93,670	—	7,717	101,387
Profit and total comprehensive income for the year	—	—	21,656	21,656
Balance at 30 June 2008	93,670	—	29,373	123,043
Profit and total comprehensive income for the period	—	—	8,314	8,314
Dividend paid (note 13)	—	—	(32,000)	(32,000)
Transfer	—	5,225	(5,225)	—
Balance at 30 December 2008	93,670	5,225	462	99,357

Note: The paid-in capital represents the registered capital of Aoya Farm and is fully paid up.

STATEMENTS OF CASH FLOWS

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	21,656	8,314
Adjustments for:		
Depreciation of property, plant and equipment	6,502	3,217
Release of land use rights	244	122
Interest income	(127)	(72)
Finance costs	14,594	8,249
Loss on disposal of property, plant and equipment	8	147
Loss arising from changes in fair value less costs to sell of dairy cows	11,403	21,228
Operating cash flows before movements in working capital	54,280	41,205
Increase in inventories	(12,954)	(29,860)
Increase in trade and other receivables	(3,821)	(1,104)
Increase in trade and other payables	12,069	15,252
Cash generated from operations	49,574	25,493
Income taxes paid	—	—
NET CASH FROM OPERATING ACTIVITIES	49,574	25,493
INVESTING ACTIVITIES		
Interest received	127	72
Purchases of property, plant and equipment	(13,811)	(2,289)
Addition in biological assets	(30,840)	(20,277)
Advance to a related party	(330)	—
Repayment of advance to a related party	1,150	330
Increase in pledged bank balances	(6,623)	(7,363)
Proceeds on disposal of property, plant and equipment	—	1
Proceeds on disposal of dairy cows	9,269	6,777
NET CASH USED IN INVESTING ACTIVITIES	(41,058)	(22,749)

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Dividend paid	—	(22,750)
Interest paid	(15,405)	(8,249)
Advance to related parties	(4,909)	(2,007)
Repayment of advance to related parties	2,007	16,662
New borrowings raised	81,880	117,550
Repayment of borrowings	(78,215)	(95,110)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(14,642)	6,096
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,126)	8,840
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	10,564	4,438
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		
represented by bank balances and cash	4,438	13,278

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Aoya Farm is a private limited liability company established in the PRC on 12 July 2004. The registered office and the principal place of business of Aoya Farm is situated in Economic Development Area, Huhhot City, Inner Mongolia Province, the PRC.

The principal activity of Aoya Farm is production and sales of milk. On 30 December 2008, Aoya Farm was acquired by Modern Farming (Group) Co., Limited ("Modern Farm") and became a subsidiary of Modern Farm from then on (the "Acquisition").

Prior to the Acquisition, parent of Aoya Farm is AustDairy Limited (incorporated in British Virgin Islands) and its ultimate holding company is South East Asian Foods PTE Ltd. (incorporated in Singapore) ("SEAF"). Upon the Acquisition, Modern Farm is the parent of Aoya Farm and its ultimate holding company is Advance Dairy Company Limited. KKR Asian Fund L.P. which incorporated in the Cayman Island is the ultimate controlling party.

The Pre-acquisition Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which Aoya Farm operates (its functional currency).

Going concern

In preparing the Pre-acquisition Financial Information, the directors of Aoya Farm (the "Directors") have given careful consideration of Aoya Farm in light of its net current liabilities of approximately RMB188 million as at 30 December 2008. Having considered Modern Farm has provided financial support to Aoya Farm after Modern Farm became its holding company, the Directors are satisfied that Aoya Farm will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Pre-acquisition Financial Information has been prepared on a going concern basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Pre-acquisition Financial Information for the Relevant Periods, Aoya Farm has consistently applied International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and Interpretations ("IFRICs"), issued by International Accounting Standards Board ("IASB"), which are effective for the accounting period beginning on 1 July 2009.

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretations which are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs April 2009[1]
IFRSs (Amendments)	Improvements to IFRSs May 2010[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]

IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 7 (Amendment)	Disclosures — Transfers of Financial Assets[8]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Amendments that are effective for annual periods beginning on or after 1 January 2010

2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

3 Effective for annual periods beginning on or after 1 January 2010

4 Effective for annual periods beginning on or after 1 February 2010

5 Effective for annual periods beginning on or after 1 July 2010

6 Effective for annual periods beginning on or after 1 January 2011

7 Effective for annual periods beginning on or after 1 January 2013

8 Effective for annual periods beginning on or after 1 July 2011

Aoya Farm has not early adopted these new and revised standards, amendments and interpretations in the preparation of the Pre-acquisition Financial Information. The Directors anticipate that the application of these new and revised standards, amendments and interpretations will have no material impact on the results and financial position of Aoya Farm.

3. SIGNIFICANT ACCOUNTING POLICIES

The Pre-acquisition Financial Information has been prepared under the historical cost basis except for the biological assets, which are measured at fair values less cost to sell, as explained in the accounting policies set out below.

The Pre-acquisition Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. These policies have been consistently applied throughout the Relevant Periods. In addition, the Pre-acquisition Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of value added tax and returns.

Revenue from sales of milk produced is recognized when the milk is delivered and title has been passed.

Revenue from sales of goods are recognized when the goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Aoya Farm as lessee

Rentals payable under operating lease payments are recognized as expenses on a straight-line basis over the term of the relevant lease. Contingent rental expenses are charged as expenses in the periods in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expenses on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalization.

All other borrowing costs are recognized in profit and loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contribution.

Government grants

Government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Aoya Farm with no future related costs are recognized in the profit or loss in the period in which they become receivable. Other government grants related to depreciable assets are recognized as deferred income in the statement of financial position and released to profit or loss over the useful lives of the related assets.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods/years and it further excludes items that are never taxable or deductible. Aoya Farm's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the Pre-Acquisition Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Aoya Farm expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognized.

Land use rights

Land use rights are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At the end of each reporting period, Aoya Farm reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, Aoya Farm estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using weighted average method.

Biological assets

Dairy cows

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

The feeding costs and other related costs including the depreciation charge, utilities cost and consumables incurred for raising of heifers and calves are capitalized, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Milk

Agricultural produce represents the milk. Milk is recognized at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation cost, excluding finance cost and income tax.

Financial instruments

Financial assets and financial liabilities are recognized on the statements of financial position when an entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Aoya Farm's financial assets represent loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related party, pledged bank balances and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Aoya Farm's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 days, and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of Aoya Farm after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including borrowings, trade and other payables, and amounts due to related parties are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by Aoya Farm are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Aoya Farm has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Fair value of dairy cows

Aoya Farm's 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 at the end of reporting periods adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of respective dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any change in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of the assumptions used are disclosed in note 18.

5. SALES OF MILK PRODUCED AND SEGMENT INFORMATION

Sales of milk produced represented mainly the fair value of milk produced less costs to sell at the point of harvest.

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of Aoya Farm that are regularly reviewed by the chief operating decision maker, the President of Aoya Farm (the "President"), in order to allocate resources and to assess performance. The operation of the Aoya Farm constitutes one operating segment i.e. production and sales of milk. The information reported to Aoya Farm's President for the purpose of resource allocation and assessment of performance, does not contain the gain arising from changes in fair value less costs to sell of dairy cows, and the President reviewed the profit before tax, assets and liabilities as a whole and the difference between the profit before tax and assets reported under IFRSs and to the President is mainly arising from the difference of the accounting treatment of the dairy cows. Under the report to the President, the dairy cows are stated at cost less depreciation but the dairy cows are stated at their fair value less costs to sell under IFRSs. The difference of the profit (loss) before tax and assets reported to the President and IFRSs are as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Profit (loss) before tax reported to the President	9,416	20,919
Less: Loss arising from change in fair value less costs to sell of dairy cows	(11,403)	(21,228)
Add: Depreciation of dairy cows	23,643	8,623
Profit (loss) before tax under IFRSs	21,656	8,314

	As at 30 June 2008	As at 30 December 2008
	RMB'000	RMB'000
Assets reported to the President	340,761	397,886
Add: Loss arising from change in fair value less costs to sell of dairy cows	(32,993)	(54,221)
Accumulated depreciation of dairy cows	37,454	39,587
Assets under IFRSs	345,222	383,252

The segment liabilities is same as total liabilities under IFRSs at end of respective reporting periods.

All external sales of milk produced of Aoya Farm during the Relevant Periods are contributable to customers established in the PRC, the place of domicile of Aoya Farm. Meanwhile, Aoya Farm's non-current assets are all located in the PRC.

Sales of milk produced of RMB150,445,000 and RMB105,780,000 for the year ended 30 June 2008 and six months period ended 30 December 2008 respectively are from a single external customer.

6. OTHER INCOME

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Government grant related to income (Note)	1,702	88
Bank interest income	127	72
Others	535	67
	2,364	227

Note: These government grants are unconditional government subsidies received by Aoya Farm from relevant government bodies for the purpose of giving financial support to Aoya Farm's operation.

7. FARM OPERATING EXPENSES

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Feeds	83,131	54,782
Utilities	2,603	1,495
Other farm operating expenses	3,845	4,184
Total farm operating expenses	89,579	60,461

8. EMPLOYEE BENEFITS EXPENSE

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Salaries, bonuses and allowances	5,096	2,551
Contributions to retirement benefit schemes	323	347
	5,419	2,898

The employees of Aoya Farm are members of the state-managed retirement benefit schemes operated by the local government. Aoya Farm is required to contribute a specified percentage of its basic payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of Aoya Farm with respect to the retirement benefit schemes is to make the specified contributions.

9. OTHER GAINS AND LOSSES

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	(8)	(147)
Net exchange gain (loss)	130	(2)
	122	(149)

10. PROFIT BEFORE FINANCE COSTS AND TAX

Profit before finance costs and tax has been arrived at after charging:

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Auditors' remuneration	87	80
Release of land use rights	244	122

11. FINANCE COSTS

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	12,870	6,368
Other borrowings wholly repayable within five years	1,724	1,498
Amounts due to related parties wholly repayable within five years	—	383
	14,594	8,249

12. INCOME TAX CHARGE

The tax charge for the Relevant Periods represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of Aoya Farm.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises from 1 January 2008.

According to the prevailing tax rules and regulation, Aoya Farm is operating in agricultural business and is exempted from enterprise income tax.

13. DIVIDENDS

On 16 September 2008, a dividend in the total amount of approximately RMB32,000,000 was declared by Aoya Farm and paid to its then owners.

14. DIRECTORS' EMOLUMENTS

Details of emoluments paid by Aoya Farm to the Directors during the Relevant Periods.

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Executive directors		
- Salaries and other allowances	312	175
- Retirement benefits scheme contributions	24	12
Non-executive director	—	—
	336	187
Executive directors		
Mr. Yang Ku (resigned on 20 October 2009)	336	187
Mr. Xu Yun (resigned on 20 October 2009)	—	—
	336	187
Non-executive director		
Mr. Guo Xiaocen (resigned on 20 October 2009)	—	—

No director waived or agreed to waive any emoluments during the Relevant Periods.

15. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in Aoya Farm, one was director of Aoya Farm whose emolument is included in the disclosures in note 14 above. The emoluments of the remaining four during the year ended 30 June 2008 and six months period ended 30 December 2008 are as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Salaries and other benefits	529	208
Retirement benefit schemes contributions	31	54
	560	262

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	No. of employees	No. of employees
Nil to HK$1,000,000	4	4

No emoluments were paid by Aoya Farm to the directors or the five highest paid individuals as inducement to join or upon joining Aoya Farm or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Plant and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 July 2007	127,270	834	25,016	132	153,252
Additions	68	—	2,098	2,953	5,119
Transfer	467	—	—	(467)	—
Disposals	—	—	(16)	—	(16)
At 30 June 2008	127,805	834	27,098	2,618	158,355
Additions	268	38	1,359	743	2,408
Transfer	886	—	1,093	(1,979)	—
Disposals	—	—	(4)	(146)	(150)
At 30 December 2008	128,959	872	29,546	1,236	160,613
ACCUMULATED DEPRECIATION					
At 1 July 2007	9,499	277	4,428	—	14,204
Charge for the year	6,882	150	2,580	—	9,612
Eliminated on disposals	—	—	(8)	—	(8)
At 30 June 2008	16,381	427	7,000	—	23,808
Charge for the period	3,461	77	1,392	—	4,930
Eliminated on disposals	—	—	(2)	—	(2)
At 30 December 2008	19,842	504	8,390	—	28,736
CARRYING AMOUNT					
At 30 June 2008	111,424	407	20,098	2,618	134,547
At 31 December 2008	109,117	368	21,156	1,236	131,877

As at 30 June 2008 and 30 December 2008, all of Aoya Farm's buildings with an aggregate carrying amount of RMB111,424,000 and RMB 109,117,000 respectively were pledged as security for bank loans of Aoya Farm (Note 23).

Depreciation is charged using straight-line method over the expected useful life, after taking into account its estimated residual value, as follows:

Buildings	20 years
Motor vehicles	5 years
Plant and equipment	10 years

During the year ended 30 June 2008 and six months period ended 30 December 2008, depreciation charge amounting to RMB3,110,000 and RMB1,713,000 respectively have been capitalized in biological assets.

17. LAND USE RIGHTS

	RMB'000
At 1 July 2007	11,457
Release to profit or loss	(244)
At 30 June 2008	11,213
Release to profit or loss	(122)
At 30 December 2008	11,091

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
- Current assets	244	244
- Non-current assets	10,969	10,847
	11,213	11,091

The amount represents the payment for land use rights situated in the PRC. The leasehold interest in land has lease term in 50 years.

As at 30 June 2008 and 30 December 2008, land use rights with carrying amount of RMB11,213,000 and RMB 11,091,000 respectively were pledged against certain bank facilities granted to Aoya Farm (Note 23).

18. BIOLOGICAL ASSETS

A - Nature of Activities

Aoya Farm is primarily milk production company, that principally engaged in production and sales of milk. Dairy cows are primarily held to produce milk (see Note 5).

The quantity of dairy cows owned by Aoya Farm at 30 June 2008 and 30 December 2008 is shown below. Aoya Farm's cows are primarily milkable cows held for milk production. Heifers and calves held at 30 June 2008 and 30 December 2008 are dairy cows that have not reached the age to produce milk.

	30 June 2008	30 December 2008
	Head	Head
Dairy cows		
Milkable cows	5,902	6,132
Heifers and calves	4,378	4,902
Total dairy cows	10,280	11,034

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	KG	KG
Volume of sales of milk produced	49,219,840	31,043,560

Aoya Farm is exposed to fair value risks arising from changes in price of the dairy products. Aoya Farm does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the Directors are of the view that there is no available derivative or other contracts which Aoya Farm can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately 9 month pregnancy term, a calf is born and the milkable cow begins to produce milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before approximately 60 days dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sales of dairy cows is not one of Aoya Farm's principal activities and is not included as revenue. The sales of dairy cows is determined based on the actual selling price.

B - Value of Dairy Cows

The value of dairy cows at end of the reporting period was:

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Dairy cows	150,961	144,946

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
Balance as at 1 July 2007	48,535	89,148	137,683
Increase due to raising (Feeding cost and others)	33,950	—	33,950
Transfer	(29,152)	29,152	—
Decrease due to sales	(723)	(8,546)	(9,269)
Loss arising from changes in fair value less costs to sell	(2,554)	(8,849)	(11,403)
Balance as at 30 June 2008	50,056	100,905	150,961
Increase due to raising (Feeding cost and others)	21,990	—	21,990
Transfer	(15,774)	15,774	—
Decrease due to sales	(273)	(6,504)	(6,777)
Loss arising from changes in fair value less costs to sell	(2,125)	(19,103)	(21,228)
Balance as at 30 December 2008	53,874	91,072	144,946

Aoya Farm's dairy cows in the PRC were independently valued by Jones Lang LaSalle Sallmanns Limited ("Sallmanns") on early November 2010, respectively, a firm of independent qualified professional valuers not connected with Aoya Farm, who has appropriate qualifications and recent experiences in valuation of biological assets. The address of Sallmanns is 17/F, Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The fair value less costs to sell of heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices of milkable cows are not available, Sallmanns has applied the net present value approach to calculate the fair value less cost to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing cows at the end of the reporting period will reduce at a certain culling rate due to the natural or unnatural factors.
- The culling rates adopted are 8%, 12%, 20%, 20% and 100% for milkable cows in the first to fifth location cycles are based on the historical breeding data of Aoya Farm and future operating plans.
- The quantities of dairy cows will increase as calves are born.
- The expected average prices of milk during the projected period of 5 years, which is the estimated production period of a dairy cow, are estimated after taking into account certain percentage growth for each projected year after considering future demand and inflation in the PRC.
- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture.
- Costs are average costs based on historical cost information.
- The discount rate used is 10.4%.

The aggregate gain or loss arising during the year ended 30 June 2008 and ended 30 December 2008 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of dairy cows is analyzed as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Sales of milk/fair value of milk produced less costs to sell	150,445	105,780
Loss arising from changes in fair value less costs to sell of dairy cows	(11,403)	(21,228)
	139,402	84,552

19. INVENTORIES

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Feeds	26,850	55,902
Others	830	1,638
	27,680	57,540

20. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of respective reporting periods:

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Trade receivables		
- within 60 days based on invoice date	7,592	9,320
Advances to suppliers	1,058	563
Others	780	651
	9,430	10,534

Aoya Farm allows credit period of 60 days to its trade customer.

Trade receivables at the end of respective reporting periods principally represent receivables from sales of milk.

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. No balances as at the end of the respective reporting periods are past due.

21. PLEDGED BANK BALANCES AND BANK BALANCES AND CASH

Pledged bank balances

The pledged bank balances as at 30 June 2008 and 30 December 2008 represent deposits pledged for short-term bank borrowings. The pledged bank balances carry interest at prevailing market saving rates at 0.72% and 0.72% per annum respectively.

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market saving rates ranging from 0.72% to 0.81% per annum as at 30 June 2008 and 30 December 2008.

Bank balances and cash at 30 June 2008 and 30 December 2008 were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

22. TRADE AND OTHER PAYABLES

The credit period taken for the settlement of trade purchases is 30 to 60 days. The following is an aged analysis of trade payables at the end of the reporting period:

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Trade payables		
- within 60 days based on invoice date	16,803	37,423
- over 60 days based on invoice date	19,116	22,575
	35,919	59,998
Payable for acquisition of property, plant and equipment	730	849
Advance payment from a customer	7,500	—
Dividend payables	—	9,250
Accrued insurance	2,121	—
Accrued staff costs	755	1,004
Others	517	1,062
	47,542	72,163

23. BORROWINGS

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Bank borrowings	166,030	185,070
Other borrowing (Note i)	6,600	10,000
	172,630	195,070
Unsecured borrowing (Note i)	76,650	80,050
Guaranteed borrowings (Note ii)	—	76,200
Secured borrowings	95,980	38,820
	172,630	195,070
Carrying amount repayable:		
Within one year	166,030	195,070
Between one to two years	6,600	—
	172,630	195,070
Less: Amounts due within one year shown under current liabilities	166,030	195,070
	6,600	—

The borrowings comprise:

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Fixed-rate borrowings	113,230	168,870
Variable-rate borrowings	59,400	26,200

The effective interest rates, which are also equal to contracted interest rates, at the end of respective reporting period are as follows:

	30 June 2008	30 December 2008
Fixed-rate borrowings	5.91% to 9.34%	5.31% to 9.34%
Variable-rate borrowings	7.88% to 9.07%	7.88% to 9.07%

All borrowings are denominated in RMB. Interest rates of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China.

Note i: As at 30 June 2008, other borrowing represented a loan from unrelated third party for financing the operation of Aoya Farm. The loan was unsecured, interest bearing of 6.03% per annum and was repayable within one year. As at 30 December 2008, other borrowing represented a loan from Modern Farm, the sole owner of Aoya Farm subsequent to the Acquisition. The loan was unsecured, interest bearing of 5.92% per annum and was repayable within one year.

Note ii: The balances were guaranteed by Mengniu Dairy Group Ltd.

24. CAPITAL RISK MANAGEMENT

The management of Aoya Farm manages the capital of the entity to ensure that Aoya Farm will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. Aoya Farm's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Aoya Farm consists of net debt, comprising bank and other borrowings as disclosed in note 23, net of cash and cash equivalents and equity attributable to owners of Aoya Farm, comprising paid-in capital, retained earnings and other reserves as disclosed in the statements of changes in equity.

Aoya Farm's management reviews the capital structure on a regular basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. Aoya Farm will balance its overall capital structure through the payment of dividends, injection of capital and as well as the issue of new debt or the redemption of existing debt.

25. FINANCIAL INSTRUMENTS

Categories of financial instruments

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	19,763	37,235
Financial liabilities:		
Amortised cost	214,679	283,895

Financial risk management objectives and polices

Aoya Farm's major financial instruments include trade and other receivables, trade and other payables, amounts due from/to related parties, borrowings, pledged bank balances and bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. Aoya Farm's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged during the Relevant Periods.

Credit risk

Aoya Farm's maximum exposure to credit risk which will cause a financial loss to Aoya Farm due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the statements of financial position at the end of the respective reporting periods.

In order to minimize the credit risk, the management of Aoya Farm has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the statements of financial position are net of allowances for doubtful receivables, if any, estimated by Aoya Farm's management based on prior experience and the current economic environment. Aoya Farm reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that Aoya Farm's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorized banks in the PRC.

Aoya Farm has concentration of credit risk as all of trade receivables as at 30 June 2008 and 30 December 2008 were due from Aoya Farm's sole customer.

Interest rate risk

Aoya Farm is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances, pledged bank balances and bank borrowings which carry interest at variable interest rates.

Aoya Farm's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings and amount due to related parties. Aoya Farm currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to market lending interest rates for non-derivative instruments at the end of each reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses since they are not considered sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings outstanding at the end of respective reporting periods were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of each reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, Aoya Farm's profit for the year/period would decrease/increase by RMB297,000 and RMB131,000 for the year ended 30 June 2008 and six months period ended 30 December 2008 respectively;

Liquidity risk

Aoya Farm finances its operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary liquidity is available when required. The management monitors the liquidity position of Aoya Farm on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations.

Aoya Farm has net current liabilities of approximately RMB188 million as at 30 December 2008. The Directors consider that Aoya Farm has no significant liquidity risk as Modern Farm has provided financial support from the date of Acquisition to Aoya Farm to meet in full its financial obligations as they fall due for the foreseeable future.

The following tables detail Aoya Farm's contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Aoya Farm can be required to pay. The tables include both interest and principal.

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2008						
Non-interest bearing	—	42,049	—	—	42,049	42,049
Fixed interest rate borrowings	7	102,372	14,821	—	117,193	113,230
Variable interest rate borrowings	7	54,879	231	7,062	62,172	59,400
		199,300	15,052	7,062	221,414	214,679

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 December 2008						
Non-interest bearing	—	73,825	—	—	73,825	73,825
Amount due to a related party	7	15,600	—	—	15,600	15,000
Fixed interest rate borrowings	8	73,341	102,284	—	175,625	168,870
Variable interest rate borrowings	8	20,648	6,864	—	27,512	26,200
		183,414	109,148	—	292,562	283,895

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Pre-acquisition Financial Information approximate their fair values at the end of respective reporting periods.

26. RELATED PARTY TRANSACTIONS

(a) Name and relationship with a related party is as follows:

Name	Relationship
AustDairy Limited	Owner of Aoya Farm
Etheridge Group Limited	Subsidiary of SEAF
Meng Niu Fang Ding Assets Management Co., Ltd.	Owner of Aoya Farm
SEAF	Parent of AustDairy Limited

(b) At the end of each reporting period, Aoya Farm had the following balances with the related parties:

Amounts due from/to related parties

	30 June 2008	30 December 2008
	RMB'000	RMB'000
Other receivable		
AustDairy Limited (note i)	330	—
Other payables		
Etheridge Group Limited (note ii)	1,883	1,538
SEAF (note ii)	124	124
Meng Niu Fang Ding Assets Management Co., Ltd. (note iii)	—	15,000
	2,007	16,662

Notes:

(i) The amount due from AustDairy Limited was unsecured, interest-free and repayable on demand.

(ii) The amounts due to Etheridge Group Limited and SEAF were unsecured, interest-free and repayable on demand.

(iii) The amount due to Meng Niu Fang Ding Assets Management Co., Ltd. was unsecured, interest bearing of 6.57% and repayable within one year.

(c) Compensation of key management personnel

The emoluments of key management during the Relevant Periods were as follows:

	1 July 2007 to 30 June 2008	1 July 2008 to 30 December 2008
	RMB'000	RMB'000
Short-term employees benefits	841	383
Post-employment benefits	55	66
	896	449

C. SUBSEQUENT EVENTS

Subsequent to 30 December 2008, owners of Aoya Farm entered into an agreement with Modern Farming (Group) Co., Ltd. ("Modern Farm") to transfer all the businesses, assets and liabilities of Aoya Farm to Modern Farm at a consideration of RMB96,100,000. The transaction was completed on 31 December 2008 and Aoya Farm became a subsidiary of Modern Farm.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following unaudited pro forma financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is for illustrative purpose only, and is set out herein to provide the prospective investors with further financial information about how the Onshore Acquisition, the Offshore Subscription and the proposed listing might have affected the net tangible assets of the Group after the completion of the Onshore Acquisition, the Offshore Subscription and the Global Offering as if the Onshore Acquisition, the Offshore Subscription and the Global Offering had taken place on 30 June 2010.

The accompanying unaudited pro forma financial information of the Group is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Group does not purport to predict the Group's future financial position.

Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial position.

(A) Unaudited Pro Forma Adjusted Net Tangible Assets

The unaudited pro forma adjusted net tangible assets of the Group has been prepared, on the basis set forth in the notes below, for the purpose of illustrating the effect of the Onshore Acquisition, the Offshore Subscription and the Global Offering as if they had taken place on 30 June 2010. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of the Group.

	Audited consolidated net tangible assets attributable to the owners of the Company as at 30 June 2010	Estimated net proceeds from the Share Offer	Add: Net tangible assets of 47.63% equity interest in Modern Farm acquired by the Group upon the completion of the Onshore Acquisition and the Offshore Subscription	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000	RMB (Note 4)	HK$ (Note 5)
Based on an Offer Price of HK$2.89 per Share . . .	1,135,380	1,901,365	1,079,122	4,115,867	0.8575	0.9941
Based on an Offer Price of HK$3.69 per Share . . .	1,135,380	2,436,868	1,079,122	4,651,370	0.9690	1.1234

Notes:

(1) The audited consolidated net tangible assets attributable to the owners of the Company as at 30 June 2010 are based on audited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2010 of approximately RMB1,436,734,000 as set out in Appendix IC to this prospectus after deducting goodwill of approximately RMB301,354,000.

(2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK$2.89 and HK$3.69, after deduction of the underwriting fees and related expenses payable by the Company and takes no account of any Share which may be issued upon exercise of the options granted pursuant to the Management Options. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at the PBOC rate of HK$1.00 to RMB0.8626 prevailing on 29 October 2010.

(3) Pursuant to the Pre-Listing Reorganization as set out in this prospectus, the Group acquired 47.63% equity interest in Modern Farm from PRC Selling Shareholders in November 2010 at a consideration of RMB903,116,860. The increase of net tangible assets attributable to the owners of the Company in respect of acquiring 47.63% equity interest in Modern Farm was approximately RMB1,079,122,000. In addition, the PRC Shareholders Holdcos agreed to subscribe for 4,876,000 new Shares of the Company at a total subscription price of RMB903,116,860.

(4) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 4,800,000,000 shares in issue immediately following the completion of the Onshore Acquisition, the Offshore Subscription and the Global Offering without taking into account any Shares which may be issued upon exercise of the Management Option.

(5) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.8626 prevailing on 29 October 2010.

(6) By comparing the valuation of our property interest as set out in Appendix IV to this prospectus the net valuation surplus is approximately RMB73.5 million as compared to the carrying amounts of the Group's property interest as at 30 September 2010, which has not been included in the above consolidated net tangible assets attributable to the owners of the Company. The valuation surplus of our property interests will not be incorporated in our consolidated financial statements in the future. If the valuation surplus were to be included in our consolidated financial statements, an additional depreciation charge of approximately RMB2.4 million per annum would be incurred.

(B) Unaudited Pro Forma Forecast Earnings per Share

The following unaudited pro forma forecast earnings per Share for the year ending 30 June 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of Global Offering as if it had taken place on 1 July 2010. The unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering.

For the year ending 30 June 2011

Forecast consolidated profit attributable to the owners of the Company(1)	not less than RMB188.0 million (HK$217.9 million)
Unaudited pro forma forecast earnings per Share(1)	
(a) Weighted average(2)	RMB0.0405 (HK$0.0470)
(b) Fully diluted(3)	RMB0.0400 (HK$0.0463)
Forecast consolidated profit for the year(1)	not less than RMB210.4 million (HK$243.9 million)

Notes:

(1) Solely for convenience, forecast consolidated net profit and forecast earning per Share are converted into Hong Kong dollars at the PBOC Rate of HK$1.00 to RMB0.8626 prevailing on 29 October 2010. This should not construe as a representation that the Renminbi amounts could actually be converted into Hong Kong dollar amounts at the rate indicated or at all.

(2) The calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis is calculated by dividing the forecast consolidated profit attributable to the owners of the Company for the year ending 30 June 2011 by a weighted average of 4,645,036,712 Shares assumed to be issued and outstanding during the year ending 30 June 2011. The weighted average of 4,645,036,712 Shares is calculated based on 2,049,600,000 Shares issued and outstanding at 1 July 2010 (taking into account of the effect of replacement of US$ shares on 30 July 2010), the weighted average of 1,795,436,712 Shares issued in aggregate on 30 July 2010 and 800,000,000 Shares to be issued pursuant to the Global Offering on the assumption that the Global Offering and the Capitalization Issue had been completed on 1 July 2010. The number of Shares does not take into account the number of Shares to be issued upon exercise of the Management Options.

(3) The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis is calculated by dividing the forecast consolidated profit attributable to the owners of the Company for the year ending 30 June 2011 by an adjusted weighted average of 4,706,437,193 Shares which comprise the weighted average of 4,645,036,712 Shares applied for the calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis as set out in note (2) and the effect of 61,400,481 diluted potential shares arising from the Management Options which assuming had been granted to replace the MF Options on 1 July 2010 and outstanding for the year ending 30 June 2011, which is calculated based on the estimated average market price of the Shares at HK$2.89, the lower Offer Price.

(C) Accountants' Report on the Unaudited Pro Forma Financial Information

The following is the text of a report, received from the independent reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for inclusion in this prospectus, in respect of the Group's unaudited pro forma financial information.

Deloitte.
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ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA MODERN DAIRY HOLDINGS LTD.

We report on the unaudited pro forma adjusted net tangible assets and unaudited pro forma forecast earnings per share (the "Unaudited Pro Forma Financial Information") of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Onshore Acquisition, Offshore Subscription and the Global Offering (all defined in the prospectus) might have affected the relevant financial information of the Group presented, for inclusion in sections A and B of Appendix II, respectively, to the prospectus dated 15 November 2010 (the "Prospectus") issued by the Company. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in sections A and B of Appendix II to the Prospectus.

Respective Responsibilities of the Directors of the Company and the Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 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" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely 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 Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2010 or any future date; or the earnings per share of the Group for the year ending 30 June 2011 or any future period.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

You may find our forecast profits attributable to equity holders of our Company for the year ending 30 June 2011 in the section headed "Financial Information — Profit Forecast" in this prospectus.

BASES AND ASSUMPTIONS

We have prepared our forecast of the consolidated profit of China Modern Dairy Holdings Ltd., (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 30 June 2011 and consolidated profits of the Group attributable to owners of our Company for the years ending 30 June 2011 on the basis of our unaudited management accounts for the three months ended 30 September 2010 and a forecast of our results for the remaining nine months ending 30 June 2011. Our profit forecast has been presented on a basis consistent in all material respects with the accounting policies normally adopted by us as summarized in the Accountants' Reports in Appendix I to this prospectus.

The forecast fair value of the Group's dairy cows assets as at 31 October 2010 and at 30 June 2011 is valued by Sallmanns (including the underlying assumptions).

Assumptions with respect to change in fair value of dairy cows

Under International Accounting Standard 41, we are required to reassess the fair value of our dairy cows less costs to sell at the end of each reporting period. As there is limited active market for milkable cows, we determine their fair value using a net present value approach based on the projected cash flows derived from the assets in the future. Fair value of heifers and calves are valued at their market determined price adjusted to reflect differences in conditions and utility. The aggregate gain or loss arising from changes in the fair value of such assets, less costs to sell, is recognized in profit or loss.

Changes in fair value of our dairy cows less costs to sell are dependent on market conditions and other factors that are beyond our control. While we have considered for the purpose of the Profit Forecast, what we believe is the best estimate of the fair value of our dairy cows less costs to sell as at 31 October 2010 and 30 June 2011, and our independent valuer is of the view that the assumptions upon which the forecast is based are reasonable, the fair value of our dairy cows less costs to sell as at 31 October 2010 and 30 June 2011 may differ materially from our estimate.

The forecast profit for the Group of RMB210.4 million and forecast profit attributable to the owners of the Company of RMB188.0 million for the year ending 30 June 2011 includes an unrealized gain due to changes in fair value of dairy cows less costs to sell estimated at RMB25.7 million. In arriving at this estimated unrealized gain, we in conjunction with our independent qualified professional valuer used a basis of valuation which is, so far as practicable, consistent with the basis of valuation which has been adopted by our independent qualified professional valuer in valuing our dairy cows for the purposes of our audited consolidated financial statements for the year ended 30 June 2010.

We expect the fair value of our dairy cows less costs to sell as at 31 October 2010 and 30 June 2011, and in turn any revaluation gain or loss on biological assets, to continue to be dependent on market conditions and other factors that are beyond our control, and to be based on the valuation performed by our independent qualified professional valuer involving the use of assumptions are, by their nature, subjective and uncertain, including those described in "Financial information —Description of selected line items of our consolidated statements of comprehensive income — Gain arising from changes in fair values less costs to sell dairy cows".

The following table illustrates the sensitivity of the net profit attributable to the owners of our Company to levels of fair value of the Group's dairy cows for the year ending 30 June 2011:

Changes in the estimated fair value of dairy cows less costs to sell as of 30 June 2011 compared to the relevant estimated fair value of dairy cows of RMB2,730.5 million	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Increase/(decrease) in profit attributable to owners of the Company								
Amount (RMB'000)	136,992	85,620	34,248	17,124	(17,124)	(34,248)	(85,620)	(136,992)
Percentage	73%	46%	18%	9%	-9%	-18%	-46%	-73%

The following table illustrates the sensitivity of the estimate fair value of dairy cows of RMB2,730.5 million as of 30 June 2011 to changes in the key assumptions.

Change	8%	5%	2%	1%	-1%	-2%	-5%	-8%
Milk prices (RMB'000)	339,109	211,943	84,777	42,389	(42,389)	(84,777)	(211,943)	(339,109)
Feed costs (RMB'000)	(252,155)	(157,597)	(63,038)	(31,520)	31,520	63,038	157,597	252,155
Prices of heifers and calves (RMB'000)	174,620	109,137	43,654	21,828	(21,828)	(43,654)	(109,137)	(174,620)
Change		1.5%	1.0%	0.5%	-0.5%	-1.0%	-1.5%	
Discount rate (RMB'000)		(41,518)	(27,913)	(14,075)	14,319	28,887	43,710	

This sensitivity illustration is intended for reference only, and any variation could exceed the amounts indicated. Investors should note in particular that (i) this sensitivity illustration is not intended to be exhaustive and is limited to the impact of changes in the fair value of our dairy cows less costs to sell and (ii) the profit forecast is subject to further and additional uncertainties generally. While we have considered for the purposes of the profit forecast what we believe is the best estimate of the gain arising from changes in fair value less costs to sell of dairy cows for the year ending 30 June 2011, our actual revaluation gain or loss for the year ending 30 June 2011 may differ materially from our estimate and is dependent on market conditions and other factors that are beyond our control. See "Risks Factors — Risks Relating to the Global Offering — Our forecast consolidated net profit attributable to owners of our Company for the year ending 30 June 2011 will involve gains or losses that may arise on revaluation of our dairy cows, which are subject to certain estimates and assumptions."

General assumptions

Our directors have made the following further assumptions in the preparation of the profit forecast:

1. There will be no material changes in the existing government policies or political, legal, fiscal, market or economic conditions in the PRC, Hong Kong and other countries in which the Group operates (collectively refer to as "operating regions").
2. There will be no material changes in legislation or regulations or rules in the operating regions which will adversely affect the business of the Group.
3. There will be no material changes in the bases or rates of taxation in the PRC, Hong Kong and any countries applicable to the activities of the Group.
4. There will be no material change in interest rates and exchange rates from those prevailing on 30 June 2010.
5. The Group is not materially and adversely affected by any of the risk factors set out in the section headed "Risk Factors" of our Prospectus.
6. The Group's operations will not be materially and adversely affected by interruptions to the supplies of feeds, heifers, other materials and labour disputes, for reasons that are beyond the control of the Directors.
7. The Directors expect that the Group will not experience significant change in seasonal fluctuations in respect of market demand and production of its products during the Forecast Period.
8. The Group can substantially maintain its business relationships with all the major customers and suppliers during the Forecast Period.
9. After the listing of the Group, there will be no material changes in the bank facilities (including loans, bills and collaterals) obtained before listing and the Group can still utilize such facilities.
10. There will be no change in the existing environmental, waste discharge and food safety requirements to the Group.
11. There will be no changes in the existing accounting policies from those adopted in the preparation of the Group's financial statements for the period from 30 July 2008 (date of incorporation) to 30 June 2009 and the year ended 30 June 2010 which are included in the prospectus.
12. The Directors do not intend to recommend dividend before listing or for the 18-month period ending 31 December 2011.
13. There will be no material change in the key parameters which have been used by independent qualified professional valuer in determining the fair value of the Group's dairy cows as at 30 June 2010.

LETTER FROM OUR AUDITORS AND REPORTING ACCOUNTANTS

The following is the text of the letters received by the Directors from the Company's auditors and reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus in connection with the profit forecast.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

15 November 2010

The Directors
China Modern Dairy Holdings Ltd.
Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 30 June 2011 and consolidated profit of the Group attributable to the owners of the Company for the year ending 30 June 2011 (the "Forecast"), for which the directors of the Company (the "Directors") are solely responsible, as set out in the prospectus dated 15 November 2010 issued by the Company (the "Prospectus"). The Forecast is prepared based on the results shown in the unaudited management accounts of the Group for the three months ended 30 September 2010 and a forecast of the results for the remaining nine months of the financial year ending 30 June 2011.

In our opinion the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the Directors as set out in the section headed "Profit Forecast" of Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report of the financial information on the Group for the period from 30 July 2008 (date of incorporation) to 30 June 2009 and the year ended 30 June 2010 as set out in Appendix IC to the Prospectus.

Without qualifying our opinion above, we draw to your attention to the section headed "Profit Forecast" in Appendix III to the Prospectus which sets out the assumptions adopted by the Directors regarding the fair values of the Group's dairy cows as at 30 June 2011.

In preparing the Forecast, the Directors have estimated that there will be a credit to the consolidated statement of comprehensive income of the Group in respect of the fair value increase on dairy cows amounting to RMB25.7 million, which is based on projected valuation on 30 June 2011 according to a basis of valuation which is, as far as practicable, in the opinion of the Directors, consistent with the basis of valuation which has been adopted by their independent qualified professional valuer in valuing the dairy cows for the purposes of the audited consolidated financial statements of the Group for the year ended 30 June 2010. While the Directors believe that this is the best estimate of the fair value increase on the dairy cows for the year ending 30 June 2011, and the independent qualified professional valuer is of the view that the assumptions upon which the estimate of fair value of the dairy cows is based are reasonable and any fair value increase or decrease on dairy cows as at the relevant time may differ materially from their estimate. Should the actual increase or decrease in fair value of the dairy cows differ from the amount estimated by the Directors, such difference would have the effect of increasing or decreasing the forecast profit of the Group and attributable to the owners of the Company for the year ending 30 June 2011.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

LETTER FROM THE JOINT SPONSORS

The following is the text of a letter, prepared for inclusion in this prospectus by the Joint Sponsors in connection with the profit forecast of the Group for the year ending 30 June 2011.

15 November 2010

The Directors
China Modern Dairy Holdings Ltd.

Dear Sirs,

We refer to the forecast consolidated net profit attributable to the owners of China Modern Dairy Holdings Ltd. (the "**Company**") and its subsidiaries for the year ending 30 June 2011 (the "**Forecast**") as set out in the prospectus issued by the Company dated 15 November 2010 (the "**Prospectus**").

The Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the unaudited management accounts of the Company and its subsidiaries (collectively the "**Group**") for the three months ended 30 September 2010 and a forecast of the results of the Group for the remaining nine months of the financial year ending 30 June 2011.

We have discussed with you the bases made by the Directors of the Company as set out in Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated 15 November 2010 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis and assumptions of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Citigroup Global Markets Asia Limited

Eugene Qian
Managing Director

UBS AG, Hong Kong Branch

Nick Hassall
Managing Director

Mo Yee Lam
Executive Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 September 2010 of the property interests of the Group.

Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

15 November 2010

The Board of Directors
China Modern Dairy Holdings Ltd.
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 September 2010 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of property interests in Group I, there are unlikely to be relevant market comparable sales readily available, the property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interests in Group II which are currently under construction as at the date of valuation, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisor — Commerce & Finance Law Office, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 30 September 2010 *RMB*
1.	A parcel of land, 23 buildings and various structures located at Shengle Economic Zone Helingeer County Hohhot City Inner Mongolia Autonomous Region The PRC	102,418,000	100%	102,418,000
2.	5 parcels of land, 26 buildings and various structures together with various buildings and structures under construction located at the western side of Shanyu Road Saibei Administration District Zhangjiakou City Hebei Province The PRC	272,263,000	100%	272,263,000

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 30 September 2010 *RMB*
3.	A parcel of land, 15 buildings and various structures together with various structures under construction located at Niu Jia Liang Baita Administration Bureau Chabei Administration District Zhangjiakou City Hebei Province The PRC	158,501,000	100%	158,501,000
4.	2 parcels of land, 13 buildings and various structures together with a structure under construction located at Shagou Village Guocang Township Wenshang County Jining City Shandong Province The PRC	4,437,000	100%	4,437,000
5.	A parcel of land, 20 buildings and various structures together with various structures under construction located at Shangxing Group Dandong Village Danyang Town Dangtu County Maanshan City Anhui Province The PRC	No commercial value	100%	No commercial value

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 30 September 2010 *RMB*
6.	A parcel of land, 8 buildings and various structures together with various structures under construction located at Changwang Village Bailong Town Feidong County Hefei City Anhui Province The PRC	No commercial value	100%	No commercial value
7.	A parcel of land, 10 buildings and various structures located at Qianqiu Village Dongyue Town Hongya County Meishan City Sichuan Province The PRC	No commercial value	100%	No commercial value
8.	A parcel of land, 12 buildings and various structures together with various structures under construction located at Qinghua Township Mei County Baoji City Shaanxi Province The PRC	No commercial value	100%	No commercial value

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 30 September 2010 *RMB*
9.	3 parcels of land, 12 buildings and various structures located at Heping Village Wujimi Township Shangzhi City Heilongjiang Province The PRC	No commercial value	100%	No commercial value
10.	A parcel of land, 10 buildings and various structures located at Hujiaying Tan Baita Administration Bureau Chabei Administration District Zhangjiakou City Hebei Province The PRC	No commercial value	100%	No commercial value
11.	A parcel of land, 7 buildings and various structures located at Guozhuang Village Changning Town Luannan County Tangshan City Hebei Province The PRC	No commercial value	100%	No commercial value
	Sub-total:	**537,619,000**		**537,619,000**

Group II — Property interests held under development by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 30 September 2010 *RMB*
12.	A parcel of land, 3 buildings and various structures under construction located at the eastern side of G106 Highway Chenxu Village Fanzhong Village Jin Gongshan Town Tongshan County Xianning City Hubei Province The PRC	No commercial value	100%	No commercial value
13.	A parcel of land, 10 buildings and various structures under construction located at Xiwulanhua Village Liaohe Town Tongliao Economic and Technological Development Zone Tongliao City Inner Mongolia Autonomous Region The PRC	No commercial value	100%	No commercial value
	Sub-total:	**Nil**		**Nil**

Group III — Property interests rented and occupied by the Group in the PRC

No.	Property	Capital value attributable to the Group as at 30 September 2010 *RMB*
14.	3 units on Level 2 of a building, Block 5, No. 123 South Hongqi Road Maanshan Economic and Technological Development Zone Maanshan City Anhui Province The PRC	No commercial value
15.	A unit on Level 1 of No. 6, Tower 3 Dongda Plaza North Dizhiju Street Saihan District Hohhot City Inner Mongolia Autonomous Region The PRC	No commercial value
16.	A unit on Level 4 of a building No. 3, Changcheng Road Taian High-Tech Industrial Development Zone Taian City Shandong Province The PRC	No commercial value
17.	A unit on Level 1 of a building No. 18, Group 12 Fanzhong Village Tongshan County Xianning City Hubei Province The PRC	No commercial value

No.	Property	Capital value attributable to the Group as at 30 September 2010 *RMB*
18.	A unit on Level 3 of Block A, Ruifeng Agriculture Market located at the eastern side of Dalian Road Tongliao Economic and Technological Development Zone Tongliao City Inner Mongolia Autonomous Region The PRC	No commercial value
	Sub-total:	**Nil**

	Capital value in existing state as at 30 September 2010 *RMB*	Capital value attributable to the Group as at 30 September 2010 *RMB*
Grand total:	537,619,000	537,619,000

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
1.	A parcel of land, 23 buildings and various structures located at Shengle Economic Zone Helingeer County Hohhot City Inner Mongolia Autonomous Region The PRC	The property includes a parcel of land with a site area of approximately 565,840 sq.m., 23 buildings and various structures erected thereon which were completed in various stages between 2004 and 2009. The buildings have a total gross floor area of approximately 146,187.31 sq.m. The buildings mainly include office buildings, cowsheds, milking parlors and horizontal silos, etc. The structures mainly include disinfection pools, septic tanks, roads and boundary walls, etc. The land use rights of the property have been granted for a term expiring on 15 August 2055 for farm use.	The property is currently occupied by the Group for dairy farm purpose.	102,418,000 100% interest attributable to the Group: RMB102,418,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract entered into between the People's Government of Helin County, Hohhot City, Inner Mongolia Autonomous Region and Helingeer Modern Farm Co., Ltd. ("Helingeer Modern Farm", an indirect wholly-owned subsidiary of the Company), the land use rights of a parcel of land with a site area of approximately 565,840 sq.m. were contracted to be granted to Helingeer Modern Farm for a term of 50 years for farm use. The land premium was RMB9,619,300.

2. Pursuant to a State-owned Land Use Rights Certificate — Helingeer Xian Guo Yong (2009) Zi Di No. 0000340 issued by the State-owned Land Resources Bureau of Helingeer County, the land use rights of the property with a site area of approximately 565,840 sq.m. were granted to Helingeer Modern Farm for a term expiring on 15 August 2055 for farm use.

3. Pursuant to 5 Building Ownership Certificates — Fang Quan Zheng Meng Zi Di Nos. 183020900655, 183020900656, 183020900657, 183020900658 and 183020900659, issued by the Housing Administration Bureau of Helin County, 23 buildings of the property with a total gross floor area of approximately 146,187.31 sq.m. are owned by Helingeer Modern Farm.

4. Pursuant to a Mortgage Contract — 2009 Nian Hua Si Di Zi No. 02 dated 22 December 2009 entered into between Bank of China Co., Ltd., Xinhua Sub Branch, Hohhot City and Helingeer Modern Farm, the land use rights of the property as described in note 2 and the building ownership rights of the property as described in note 3 are subject to a mortgage in favor of Bank of China Co., Ltd., Xinhua Sub Branch, Hohhot City, as a security for a loan of a total amount of RMB50,000,000 for a term of one year commencing from 30 December 2009.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The land premium of the land use rights of the property has been fully settled;

   b. Helingeer Modern Farm has obtained the land use rights of the property by way of granting and has rights to transfer, lease and mortgage the land use rights of the property or use the land use rights for operation;

   c. Helingeer Modern Farm has obtained the building ownership rights of the property stated in note 3. Helingeer Modern Farm is entitle to use, transfer, lease and mortgage or otherwise dispose of the buildings of the property; and

   d. It is not observed that the property is subject to sequestration, mortgage and other forms of other rights or any third party interests (except those parts which have been mortgage) that may restrict the land use rights and the building ownership rights of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
2.	5 parcels of land, 26 buildings and various structures together with various buildings and structures under construction located at the western side of Shanyu Road Saibei Administration District Zhangjiakou City Hebei Province The PRC	The property includes 5 parcels of land with a total site area of approximately 25,241,705.50 sq.m., 26 buildings and various structures erected thereon which were completed in various stages between 2005 and 2009 (the "Completed Properties"). The buildings have a total gross floor area of approximately 12,708.44 sq.m. The buildings mainly include office buildings, dormitories and canteens, etc. The structures mainly include cowsheds, milking parlors, horizontal silos, wells, roads and boundary walls, etc. The property also includes various cowsheds, milking parlors and boiler rooms, etc (the "CIPs"), which are currently under construction. As advised by the Group, the CIPs are scheduled to be completed December 2010. The land use rights of 4 parcels of land of the property with a total site area of approximately 3,908,265.50 sq.m. have been granted for various terms with the expiry dates between 18 May 2056 and 30 November 2059 for industrial and pastural uses (refer to notes 1, 2 and 3) The land contractual operation rights of the remaining parcel of land with a site area of approximately 21,333,440 sq.m. have been obtained for a term expiring on 30 May 2058 for tame pasture use (refer to note 4).	The property is currently occupied by the Group for dairy farm purpose except for the CIPs which are under construction.	272,263,000 100% interest attributable to the Group: RMB272,263,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — (2006) Di No. 001 entered into between the State-owned Land Resources Bureau of Saibei Administration District, Zhangjiakou City and Zhangjiakou Saibei Modern Farm Co. Ltd. ("Saibei Modern Farm", an indirect wholly-owned subsidiary of the Company), the land use rights of a parcel of land with a site area of approximately 53,760 sq.m. were contracted to be granted to Saibei Modern Farm for a term of 50 years commencing from 16 May 2006 for industrial use. The land premium was RMB1,030,000.

   Pursuant to a State-owned Land Use Rights Certificate — Zhang Shi Sai Guo Yong (2006) Di No. 001 issued by the State-owned Land Resources Bureau of Saibei Administration District, Zhangjiakou City, the land use rights of a parcel of land with a site area of approximately 53,760 sq.m. were granted to Saibei Modern Farm for a term expiring on 18 May 2056 for industrial use.

2. Pursuant to 2 State-owned Land Use Rights Grant Contracts — Chu Nos. 2008-01 and 2008-02 entered into between the State-owned Land Resources Bureau of Saibei Administration District, Zhangjiakou City and Saibei Modern Farm, the land use rights of 2 parcels of land with a total site area of approximately 3,846,505.5 sq.m. were contracted to be granted to Saibei Modern Farm for a term of 50 years commencing from 20 July 2008 for pastural use. The land premium was RMB12,308,800.

   Pursuant to 2 State-owned Land Use Rights Certificates — Sai Guo Yong (2008 Chu) Nos. 001 and 002 issued by the State-owned Land Resources Bureau of Saibei Administration District, Zhangjiakou City, the land use rights of 2 parcels of land with a total site area of approximately 3,846,505.5 sq.m. were granted to Saibei Modern Farm for a term expiring on 15 September 2058 for pastural use.

3. Pursuant to a State-owned Construction Land Use Rights Grant Contract — Zhang Chu Rang No. 2009-127 entered into between the State-owned Land Resources Bureau of Saibei Administration District, Zhangjiakou City and Saibei Modern Farm, the land use rights of a parcel of land with a site area of approximately 8,000 sq.m. were contracted to be granted to Saibei Modern Farm for a term of 50 years for industrial use. The land premium was RMB524,600.

   Pursuant to a State-owned Land Use Rights Certificate — Zhang Shi Sai Guo Yong (2010) Di No. 003 issued by the State-owned Land Resources Bureau of Saibei Administration District, Zhangjiakou City, the land use rights of a parcel of land with a site area of approximately 8,000 sq.m. were granted to Saibei Modern Farm for a term expiring on 30 November 2059 for industrial use.

4. Pursuant to a Rural Land Contractual Operation Rights Contract (農村土地承包經營合同) dated 15 July 2008, entered into between the Agricultural Bureau of Saibei Administration District and Saibei Modern Farm, the land contractual operation rights of a parcel of land with a site area of 32,000 Mu (approximately 21,333,440 sq.m.) have been obtained by Saibei Modern Farm for a term of 50 years commencing on 30 May 2008 and expiring on 30 May 2058 for tame pasture use at an annual rent of RMB1 per Mu.

5. Pursuant to a Building Ownership — Zhang Fang Quan Zheng Sai Si Zi Di No. 000145, issued by the Housing Administration Bureau of Zhangjiakou City, 3 buildings of the property with a total gross floor area of approximately 3,164.85 sq.m. are owned by Saibei Modern Farm.

6. For the remaining 23 buildings of the Completed Properties with a total gross floor area of 9,543.59 sq.m., the Group has not provided us with any title certificate.

7. Pursuant to 2 Construction Work Planning Permits — No. 2006004 and Jian Gong Gui Zi [2007] No. 005 in favour of Saibei Modern Farm, the construction work of the buildings and the structures have been approved for construction.

8. Pursuant to 4 Construction Work Commencement Permits — No. 2006003 and Sai Jian Shi [2007] Nos. 007, 008 and 009 in favour of Saibei Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures.

9. As advised by Saibei Modern Farm, the total construction cost of the CIPs is estimated to be approximately RMB219,619,000, of which RMB106,649,000 had been paid up to the date of valuation.

10. In the valuation of this property, we have attributed no commercial value to the parcel of land stated in note 4, the structures and the CIPs erected thereon and the 23 buildings stated in note 6 which have not obtained proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the above buildings, structures and the portion of CIPs (excluding the land) as at the date of valuation would be RMB14,155,000 assuming all relevant title certificates have been obtained and the buildings, structures and the portion of CIPs could be freely transferred.

11. Pursuant to a Mortgage Contract — No. D130724001243561200705 dated 29 June 2007, entered into between Agricultural Development Bank of China, Guyuan County Sub Branch and Saibei Modern Farm, the land use rights of the property as described in note 2 under the State-owned Land Use Rights Certificates— Guo Yong (2008 Chu) Nos. 001 are subject to a mortgage in favor of Agricultural Development Bank of China, Guyuan County Sub Branch, as a security for a loan of an amount of RMB11,300,000 for a term commencing from 29 June 2007 and expiring on 28 June 2011.

12. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

    a. The contract stated in note 4 is legal, valid and enforceable. Saibei Modern Farm has the rights to use the land in accordance with its prescribed terms during the tenures. The rights are protected under the PRC laws;

    b. The land premiums of the land use rights of the parcels of land stated in notes 1 to 3 have been fully settled;

    c. Saibei Modern Farm has obtained the land use rights of the property stated in notes 1 to 3 by way of granting and has rights to transfer, lease and mortgage or use the land use rights of these parcels of land or use the land use rights for operation;

    d. Saibei Modern Farm has obtained the building ownership rights stated in note 5 and is entitled to use, transfer, lease and mortgage or otherwise dispose of the buildings of the property;

    e. It is not observed that the land and the buildings stated in note 5 are subject to sequestration, mortgage and or other forms of other rights or any third party interests (except that stated in note 11 which has been mortgage) that may restrict the land use rights and the building ownership rights;

    f. Saibei Modern Farm has obtained the requisite planning approvals and has legal and complete construction rights of the structures of Completed Properties. Saibei Modern Farm has legal rights to operate and use the structures of the Completed Properties. Saibei Modern Farm will have complete property rights upon having passed the environment acceptance test;

    g. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Saibei Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 6;

    h. Saibei Modern Farm has obtained the requisite planning approvals and has legal and complete construction rights of the CIPs. Saibei Modern Farm will have legal property rights upon having passed the environment acceptance test; and

    i. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Saibei Modern Farm will not apply the registration and obtain the title certificate of the ancillary buildings upon completed.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
3.	A parcel of land, 15 buildings and various structures together with various structures under construction located at Niu Jia Liang Baita Administration Bureau Chabei Administration District Zhangjiakou City Hebei Province The PRC	The property includes a parcel of land with a site area of approximately 6,666,666.67 sq.m., 15 buildings and various structures erected thereon which were completed in various stages between 2009 and 2010 (the "Completed Properties"). The buildings have a total gross floor area of approximately 6,620.8 sq.m. The buildings mainly include office buildings, canteens, gatehouses and disinfection rooms, etc. The structures mainly include cowsheds, milking parlors, horizontal silos, roads and boundary walls, etc. The property also includes milking parlors and drainage ditches (the "CIPs") which were under construction as at the date of valuation. As advised by the Group, the construction work of the structures were completed and put into use in late October 2010. The land use rights of the property have been granted for a term expiring on 9 November 2057 for pastural use.	The property is currently occupied by the Group for dairy farm purpose.	158,501,000 100% interest attributable to the Group: RMB158,501,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 15 April 2010, entered into between the State-owned Land Resources Bureau of Chabei Administration District, Zhangjiakou City and Zhangjiakou Chabei Modern Farm Co. Ltd. ("Chabei Modern Farm", an indirect wholly-owned subsidiary of the Company), the land use rights of a parcel of land with a site area of approximately 6,666,666.67 sq.m. were granted to Chabei Modern Farm for a term of 50 years for pastural use. The land premium was RMB22,667,800.
2. Pursuant to a State-owned Land Use Rights Certificate — Zhang Shi Cha Guo Yong (2010) Di No. 00118 issued by the State-owned Land Resources Bureau of Chabei Administration District, Zhangjiakou City, the land use rights of a parcel of land with a site area of approximately 6,666,666.67 sq.m. were granted to Chabei Modern Farm for a term expiring on 9 November 2057 for pastural use.

3. For the 15 buildings of the Completed Properties with a total gross floor area of 6,620.81 sq.m., the Group has not provided us with any title certificate.

4. Pursuant to a Construction Work Planning Permit — No. 2007043 in favour of Chabei Modern Farm, the construction work of the buildings and structures have been approved for construction.

5. Pursuant to a Construction Work Commencement Permit — No. 2007043 in favour of Chabei Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and structures.

6. In the valuation of this property, we have attributed no commercial value to the buildings stated in note 3 which have not obtained proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 15 buildings as at the date of valuation would be RMB10,459,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The land premiums of the land use rights have been fully settled;

   b. Chabei Modern Farm has obtained the land use rights of the property by way of granting and has rights to transfer, lease and mortgage the land use rights of the property or use the land use rights for operation;

   c. It is not observed that the land of the property are subject to sequestration, mortgage and other forms of other rights or any third party interests that may restrict the land use rights of the property;

   d. Chabei Modern Farm has obtained the requisite planning approvals and has legal and complete construction rights of the structures of Completed Properties. Chabei Modern Farm has legal rights to operate and use the structures of Completed Properties. Chabei Modern Farm will have complete property rights upon having passed the environment acceptable test; and

   e. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Chabei Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 3.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
4.	2 parcels of land, 13 buildings and various structures together with a structure under construction located at Shagou Village Guocang Township Wenshang County Jining City Shandong Province The PRC	The property includes 2 parcels of land with a total site area of approximately 565,624.64 sq.m., 13 buildings and various structures erected thereon which were completed in various stages between 2007 and 2010 (the "Completed Properties"). The buildings have a total gross floor area of approximately 6,561.68 sq.m. The buildings mainly include office buildings, dormitories and canteens, etc. The structures mainly include cowsheds, milking parlors, disinfection pools, roads and boundary walls, etc. The property also includes a water methane boiler room (the "CIP"), which were under construction as at the date of valuation. As advised by the Group, the construction work of the structure is completed and put into use in late October 2010. The land use rights of a parcel of land of the property with a site area of approximately 38,586 sq.m. have been granted for a term expiring on 23 June 2058 for farm, office, dormitory and other farm ancillary uses. The land contractual operation rights of a parcel of land with a site area of approximately 527,038.64 sq.m. have been obtained for a term commencing from 30 May 2006 and expiring on 30 May 2036 for agricultural production use.	The property is currently occupied by the Group for dairy farm purpose.	4,437,000 100% interest attributable to the Group: RMB4,437,000

Notes:

1. Pursuant to a Land Circulation Agreement (土地流轉合同) entered into between the People's Government of Guocang Township, Wenshang County and Wenshang Modern Farming Co., Ltd. ("Wenshang Modern Farm", an indirect wholly-owned subsidiary of the Company), the rural land contractual operation rights of a parcel of land with a site area of 790.559 Mu (approximately 527,042.0 sq.m.) were leased for a term commencing from 30 May 2006 and expiring on 30 May 2036 for agriculture development use.
2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — NO. 030003338201 issued by the People's Government of Wenshang County, the land contractual operation rights of a parcel of land with a site area of approximately 790.554 Mu (approximately 527,038.64 sq.m.) have been obtained by Wenshang Modern Farming, for a term commencing from 2006 and expiring 2036 for agricultural production use.
3. Pursuant to a Large-scale Pastural Land Registration and Record Form (規模化畜牧養殖用地備案表) dated 20 May 2008, approved by the State-owned Land Resources Bureau of Wenshang County, the rural land use rights of a parcel of land with a site area of 790.554 Mu (approximately 527,038.64 sq.m.) were registered and held by Wenshang Modern Farm.
4. Pursuant to a State-owned Land Use Rights Grant Contract entered into between the State-owned Land Resources Bureau of Wenshang County and Wenshang Modern Farm, the land use rights of a parcel of land with a site area of approximately 38,586 sq.m. were contracted to be granted to Wenshang Modern Farm for a term of 50 years commencing from 30 June 2008 for farm, office, dormitory and other farm ancillary uses. The land premium was RMB4,321,600.
5. Pursuant to a State-owned Land Use Rights Certificate — Wen Guo Yong (2008) Di No. 083008000595 issued by the State-owned Land Resources Bureau of Wenshang County, the land use rights of a parcel of land with a site area of approximately 38,586 sq.m. were granted to Wenshang Modern Farm for a term expiring on 23 June 2058 for farm, office, dormitory and other farm ancillary use.
6. Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 370830200890003 in favour of Wenshang Modern Farm, the construction work of the buildings and structures have been approved for construction.
7. Pursuant to a Construction Work Commencement Permit —Wen Jian Xu [2008] No. 015 in favour of Wenshang Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures.
8. For the 13 buildings of the Completed Properties with a total gross floor area of 6,561.68 sq.m., the Group has not provided us with any title certificate.
9. As advised by Wenshang Modern Farm, the total construction cost of the CIP is estimated to be approximately 169,000, of which RMB118,000 had been paid up to the date of valuation.
10. In the valuation of this property, we have attributed no commercial value to the parcel of land as described in note 2, the structures and the CIP erected thereon and the buildings stated in note 8 which have not obtained proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings, structures and the CIP (excluding the land) as at the date of valuation would be RMB85,350,000 assuming all relevant title certificates have been obtained and the buildings, the structures and the CIP could be freely transferred.
11. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:
    a. The principal part, forms and contents of the agreement stated in note 1 are in accordance with the PRC's laws. The agreement is legally enforceable. Wenshang Modern Farm has the rights to use the parcel of land with a site area of 790.554 Mu (approximately 527,038.64 sq.m.). The land use rights have been registered with the relevant government authority in accordance with its prescribed terms during the tenures. The land use rights are protected under the PRC laws;
    b. Wenshang Modern Farm has obtained the land use rights of the property mentioned in notes 4 and 5 and has rights to transfer, lease and mortgage or use the land use rights of the property in operating activities; It is not observed that the land of the property is subject to any mortgage seizure and other rights restriction or third party interest that may restrict the land use rights of the property; and
    c. The structures of the property are not required to go through the title registration with relevant government authority in accordance with the PRC's laws. Non-registration of the structures of the property will not affect legal property rights and use rights of and structures of the property by Wenshang Modern Farm; and
    d. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Wengshang Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 8.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
5.	A parcel of land, 20 buildings and various structures together with various structures under construction located at Shangxing Group Dandong Village Danyang Town Dangtu County Maanshan City Anhui Province The PRC	The property includes a parcel of land with a site area of 903.9453 Mu (approximately 602,633.21 sq.m.), 20 buildings and various structures erected thereon which were completed in various stages between 2006 and 2010 (the "Completed Properties"). The buildings have a total gross floor area of approximately 5,691.92 sq.m. The buildings mainly include office buildings, dormitories, canteens, villas, and disinfection rooms, etc. The structures mainly include cowsheds, milking parlors, disinfection pools, horizontal silos, roads and boundary walls, etc. The property also includes horizontal silos and residue drying sheds (the "CIPs"), which are currently under construction. As advised by the Group, the CIPs are scheduled to be completed in December 2010. The land contractual operation rights of the property have been obtained for a term commencing from 30 October 2005 and expiring on 31 October 2025 for agricultural production use.	The property is currently occupied by the Group for dairy farm purpose except for the CIPs which are under construction.	No commercial value

Notes:

1. Pursuant to various Land Contractual Transfer Agreements (承包土地轉讓協議書) dated 31 October 2005, these agreements were signed between each of 422 villagers or collective organizations of Dandong Village, Shanhe Village of Danyang Town and Maanshan Leading Farming Company Limited (the predecessor holding the major operating subsidiaries of the Company).
2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) dated 3 June 2008 — Dang Tu Xian Zheng Fu Nong Di Cheng Bao Quan (2008) Di No. 3 issued by the Agriculture Committee of Dangtu County, the land contractual operation rights of a parcel of land with a site area of approximately 903.9453 Mu (approximately 602,633.21 sq.m.) have been obtained by Modern Farming (Group) Co.,Ltd. ("Modern Farm", an indirect wholly-owned subsidiary of the Company), for a term commencing from 30 October 2005 and expiring on 31 October 2025 for agricultural production use.

3. Pursuant to a Large-scale Pastural Land Registration and Record Form (規模化畜禽養殖用地備案登記表) — Dang Guo Tu Zi Bei [2009] Di No.1 approved by the State-owned Land Resources Bureau of Dangtu County, the rural land use rights of a parcel of land with a site area of approximately 52.9639 hectares (approximately 529,639 sq.m.) were registered and held by Modern Farm for a term commencing from 31 October 2005 and expiring on 31 October 2025.

4. For the remaining portion of the rural land of the property with a total site area of approximately 109.4868 Mu (approximately 72,994.21 sq.m.), has not registered with relevant government authority.

5. For the 20 buildings of the Completed Properties with a total gross floor area of 5,691.92 sq.m. the Group has not provided us with any title certificate.

6. Pursuant to a Construction Work Planning Permit — Dang Zhen Gong (2005) No. 039, dated 15 December 2005, in favour of Modern Farm, the construction work of the buildings and structures have been approved for construction.

7. Pursuant to a Construction Work Commencement Permit No. 052106020003, dated 14 March 2006 in favour of Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures.

8. As advised by Modern Farm, the total construction cost of the CIPs is estimated to be approximately RMB332,000, of which RMB233,000 had been paid up to the date of valuation.

9. In the valuation of this property, we have attributed no commercial value to the property which has not obtained proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings, structures and the CIPs (excluding the land) as at the date of valuation would be RMB107,664,000 assuming all relevant title certificates have been obtained and the buildings, the structures and the CIPs could be freely transferred.

10. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

    a. The principal part, forms and contents of the agreements stated in note 1 are in accordance with the PRC's laws. The agreements are legally enforceable. Modern Farm has obtained written approvals from relevant government authorities by way of assets and business restructuring and legal operation rights for the parcel of land;

    b. A parcel of land with a site area of approximately 794.46Mu hectares (approximately 529,643 sq.m.) has been registered with relevant government authority, while the remaining parcel of land with a site area of approximately 109.4868 Mu (approximately 72,994.21 sq.m.) has not been registered and is not required to be registered with relevant government authority, all of which are protected by the PRC laws; and

    c. The structures of the property are not required to go through the title registration with relevant government authority in accordance with the PRC's laws. Non-registration of the structures of the property will not affect legal property rights and use rights of and structures of the property by Modern Farm; and

    d. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 5.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
6.	A parcel of land, 8 buildings and various structures together with various structures under construction located at Changwang Village Bailong Town Feidong County Hefei City Anhui Province The PRC	The property includes a parcel of land with a site area of 2,383 Mu (approximately 1,588,674.61 sq.m.), 8 buildings and various structures erected thereon which were completed in various stages between 2009 and 2010 (the "Completed Properties"). The buildings have a total gross floor area of approximately 8,012.10 sq.m. The buildings mainly include office buildings, dormitories, canteens and disinfection rooms, etc. The structures mainly include cowsheds, milking parlors, horizontal silos, roads and boundary walls, etc. The property also includes cowsheds, milking parlors, roads and boundary walls, etc, (the "CIPs"), which are currently under construction. As advised by the Group, the CIPs are scheduled to be completed in December 2010. The land contractual operation rights of the property have been obtained for a term commencing from 1 January 2009 and expiring on 30 September 2025 for agricultural development use.	The property is currently occupied by the Group for dairy farm purpose except for the CIPs which are under construction.	No commercial value

Notes:

1. Pursuant to a Rural Land Contractual Operation Rights Tenancy Agreement (農村土地承包經營權租賃合同) entered into between People's Government of Bailong Town, Feidong County and Maanshan Modern Farming Co. Ltd., Feidong Branch, the land contractual operation rights of a parcel of land with a site area of 2,383 Mu (approximately 1,588,674.61 sq.m.) were contracted to be assigned for a term commencing from 1 January 2009 and expiring on 30 September 2025.

2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — No. 0901 dated 16 March 2009 issued by the People's Government of Feidong County, the land contractual operation rights of a parcel of land with a site area of 2,383 Mu (approximately 1,588,674.61 sq.m.) have been obtained by Modern Farm (Feidong) Co., Ltd. ("Feidong Modern Farm", an indirect wholly-owned subsidiary of the Company), for a term commencing from 1 January 2009 and expiring on 30 September 2025 for agricultural development use.

3. Pursuant to a Large-scale Pastural Land Registration and Record Form (規模化畜禽養殖用地備案登記表) — Dong Guo Tu Bei 2009 Di No. 001 approved by the State-owned Land Resources Bureau of Feidong County, the rural land use rights of a parcel of land with a site area of approximately 1,800 Mu (approximately 1,200,006 sq.m.) were registered and held by Feidong Modern Farm for a term commencing from 1 January 2009 and expiring on 30 September 2025.

4. For the 8 buildings of the Completed Properties with a total gross floor area of 8,012.10 sq.m., the Group has not provided us with any title certificate.

5. Pursuant to two Rural Construction Work Planning Permits — Xiang Zi Nos. 340122201000045 and 340122201000046 in favour of Feidong Modern Farm, the construction work of the buildings and the structures have been approved for construction.

6. Pursuant to a Construction Work Commencement Permit — No. 012210080007 in favour of Feidong Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures.

7. As advised by Feidong Modern Farm, the total construction cost of the CIPs is estimated to be approximately RMB69,782,000 of which RMB51,972,000 had been paid up to the date of valuation.

8. In the valuation of this property, we have attributed no commercial value to the property which has not obtained proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings, structures and the CIPs (excluding the land) as at the date of valuation would be RMB185,848,0000 assuming all relevant title certificates have been obtained and the buildings, the structures and the CIPs could be freely transferred.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The principal part, forms and contents of the agreement stated in note 1 are in accordance with the PRC's laws. The agreement is legally enforceable. Feidong Modern Farm has the rights to use the parcel of rural collectively-owned land with a site area of 2,383 Mu (approximately 1,588,674.61 sq.m.), including a portion of the parcel of land with a site area of 1,800 Mu (approximately 1,200,006 sq.m.). The land use rights have been registered with the relevant government authority in accordance with its prescribed terms during the tenures. The land use rights are protected under the PRC laws; and

   b. Feidong Modern Farm has obtained the requisite planning approvals and has legal and complete construction rights of the structures of Completed Properties. Feidong Modern Farm has legal rights to operate and use the structures of the Completed Properties. Feidong Modern Farm will have complete property rights upon having passed the environment acceptance test; and

   c. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Feidong Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 4.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
7.	A parcel of land, 10 buildings and various structures located at Qianqiu Village Dongyue Town Hongya County Meishan City Sichuan Province The PRC	The property includes a parcel of land with a site area of 1,025.44 Mu (approximately 683,630.08 sq.m.), 10 buildings and various structures erected thereon which were completed in various stages between 2008 and 2010. The buildings have a total gross floor area of approximately 4,878.12 sq.m. The buildings mainly include office buildings, dormitories, canteens and disinfection rooms, etc. The structures mainly include cowsheds, milking parlors, horizontal silos, roads and boundary walls, etc. The land contractual operation rights of the property have been obtained for a term commencing from 1 July 2007 and expiring on 25 June 2037 for dairy farm and agricultural development use.	The property is currently occupied by the Group for dairy farm purpose.	No commercial value

Notes:

1. Pursuant to a Rural Land Contractual Operation Rights Transferred Agreement (農村土地承包經營權轉讓協議) entered into between People's Government of Dongyue Town, Hongya County and Hongya Modern Farm Co. Ltd. ("Hongya Modern Farm", an indirect wholly-owned subsidiary of the Company), the land contractual operation rights of a parcel of land with a site area of 1,027.1 Mu (approximately 684,736.8 sq.m.) were contracted to be assigned for a term commencing from 1 July 2007 and expiring on 25 June 2037.

2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — Hong Fu Tu Di Cheng Bao Quan Zheng (2010) Di No. 0001, issued by the People's Government of Hongya County, the land contractual operation rights of a parcel of land with a site area of 1,025.44 Mu (approximately 683,630.08 sq.m.) have been obtained by Hongya Modern Farm for a term commencing from 1 July 2007 and expiring on 25 June 2037 for dairy farm and agricultural development use.

3. Pursuant to a Reply of Handling the Large-scale Pastural Land Registration and Record Form to Hongya Modern Farm (關於洪雅蒙牛現代牧場有限公司辦理規模化畜禽養殖用地備案的批復) — Hong Fu Han [2008] No. 131 approved by the People's Government of Hongya County, the rural land use rights of a parcel of land with a site area of approximately 65.274 hectares (979.11 Mu, approximately 652,740 sq.m.) have been obtained by Hongya Modern Farm for a term of 30 years.

4. Pursuant to an Application and Registration Form of Pastural Land, Agricultural Facilities Land and Water Area of Agricultural Land (畜禽飼養地和設施農業用地及養殖水面用地申請備案表) — Hong Guo Tu Zi Bei (2008) Di No.1 approved by the State-owned Land Resources Bureau of Hongya County, the rural land use rights of a parcel of land with a site area of 65.274 hectares (approximately 652,740 sq.m.) were registered and held by Hongya Modern Farm for a term commencing from 1 July 2007 and expiring on 25 June 2037.

5. For the 10 buildings of the Completed Properties with a total gross floor area of 4,878.12 sq.m., the Group has not provided us with any title certificate.

6. Pursuant to a Construction Work Planning Permit — 2007 Zi Di No. 038 in favour of Hongya Modern Farm, the construction work of the buildings and the structures have been approved for construction.

7. Pursuant to a Construction Work Commencement Permit —No. 2010-56 in favour of Hongya Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures.

8. In the valuation of this property, we have attributed no commercial value to the property which has not obtained proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building and structures (excluding the land) as at the date of valuation would be RMB100,816,000 assuming all relevant title certificates have been obtained and the buildings and the structures could be freely transferred.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The principal part, forms and contents of the agreement stated in note 1 are in accordance with the PRC's laws. The agreement is legally enforceable Hongya Modern Farm has the rights to use the parcel of rural collectively-owned land with a site area of 1,025.44 Mu (approximately 683,630.08 sq.m.), including a portion of the parcel of land with a site area of 979.11 Mu (approximately 652,743.26 sq.m.). The land use rights have been registered with the relevant government authority in accordance with its prescribed terms during the tenures. The land use rights are protected under the PRC laws; and

   b. Hongya Modern Farm has obtained the requisite planning approvals and has legal and complete construction rights of the structures of Completed Properties. Hongya Modern Farm has legal rights to operate and use the structures of the Completed Properties. Hongya Modern Farm will have complete property rights upon having passed the environment acceptance test; and

   c. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Hongya Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 5.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
8.	A parcel of land, 12 buildings and various structures together with various structures under construction located at Qinghua Township Mei County Baoji City Shaanxi Province The PRC	The property includes a parcel of land with site area of 2,000 Mu (approximately 1,333,340 sq.m.), 12 buildings and various structures erected thereon which were completed in various stages between 2009 and 2010 (the "Completed Properties"). The building has a gross floor area of approximately 9,001.22 sq.m. The buildings mainly include office buildings and canteens, etc. The structures mainly include cowsheds and milking parlors, etc. The property also includes cowsheds and roads, etc. (the "CIPs"), which are currently under construction. As advised by the Group, the CIPs are scheduled to be completed in December 2010. The land contractual operation rights of the property have been obtained for a term commencing from 9 December 2008 and expiring on 9 December 2038 for dairy farm use.	The property is currently occupied by the Group for dairy farm purpose except for the CIPs which are under construction.	No commercial value

Notes:

1. Pursuant to a Rural Land Contractual Operation Contract (農用地承包經營合同) dated 18 August 2009 entered into between the Agricultural Bureau of Mei County and Modern Farming (Baoji) Co., Ltd. ("Baoji Modern Farm", an indirect wholly-owned subsidiary of the Company), the land contractual operation rights of a parcel of land with a site area of 2,000 Mu (approximately 1,333,340 sq.m.) were contracted to be assigned to Baoji Modern Farm for a term of 30 years commencing from 9 December 2008 and expiring on 9 December 2038 for dairy farm use at nil rent.
2. Pursuant to a Large-scale Pastural Land Registration and Record Form (規模化畜禽養殖用地備案登記表) — Mei Guo Tu Bei [2009] Di No.1 approved by the People's Government of Mei County, the Agricultural Bureau of Mei County and the State-owned Land Resources Bureau of Mei County, the rural land use rights of a parcel of land with a site area of approximately 1,965 Mu were registered and held by Baoji Modern Farm for a term commencing from 9 December 2008 and expiring on 9 December 2058.
3. For the 12 buildings of the Completed Properties with a total gross floor area of 9,001.22 sq.m., the Group has not provided us with any title certificate.

4. Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 61016000006 dated 6 January 2010 in favour of Baoji Modern Farm, the construction work of the buildings and the structures have been approved for construction.

5. Pursuant to a Construction Work Commencement Permit — Mei Jian Guan [2009] No.7 dated 15 December 2009 in favour of Baoji Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures

6. As advised by Baoji Modern Farm, the total construction cost of the CIPs is estimated to be approximately RMB93,545,000, of which RMB53,534,000 had been paid up to the date of valuation.

7. In the valuation of this property, we have attributed no commercial value to the property which has not obtained proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings, structures and the CIPs (excluding the land) as at the date of valuation would be RMB187,608,000 assuming all relevant title certificates have been obtained and the buildings, the structures and the CIPs could be freely transferred.

8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The principal part, forms and contents of the agreement stated in note 1 are in accordance with the PRC's laws. The agreement is legally enforceable. Baoji Modern Farm has the rights to use the parcel of stated-owned agricultural land with a site area of 2,000 Mu (approximately 1,333,340 sq.m.), including a portion of the parcel of land with a site area of 1,965 Mu (approximately 1,333,340 sq.m.). The land use rights have been registered with the relevant government authority) in accordance with its prescribed terms during the tenures. The land use rights are protected under the PRC laws; and

   b. The structures of the property are not required to go through the title registration with relevant government authority in accordance with the PRC's laws. Non-registration of the structures of the property will not affect legal property rights and use rights of and structures of the property by Baoji Modern Farm; and

   c. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Baoji Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 3.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
9.	3 parcels of land, 12 buildings and various structures located at Heping Village Wujimi Township Shangzhi City Heilongjiang Province The PRC	The property includes 3 parcels of land with a total site area of 74.8281 hectares (approximately 748,281 sq.m.), 12 buildings and various structures erected thereon which were completed in various stages between 2009 and 2010. The buildings have a total gross floor area of approximately 5,698.30 sq.m. The buildings mainly include offices and canteens, dormitories and disinfection rooms, etc. The structures mainly include cowsheds, milking parlors, horizontal silos, roads and boundary walls, etc. The collectively-owned land use rights of the property were subleased for a term commencing from 14 June 2006 and expiring on 31 December 2027 for pastural use at nil rent.	The property is currently occupied by the Group for dairy farm purpose.	No commercial value

Notes:

1. Pursuant to a Land Lease Agreement (土地租賃協議) entered into among Wu Zhu River Forest Farm of Shangzhi City ("the Lessor"), the People's Government of Wujimi County ("the Leaser") and Shangzhi Modern Farm Co., Ltd. ("Shangzhi Modern Farm" (the User), an indirect wholly-owned subsidiary of the Company), the Lessor agreed to lease and sublease the collectively-owned land use rights of 3 parcels of land with a total site area of 74.9346 hectares (approximately 749,346 sq.m.) to the Leaser and Shangzhi Modern Farm for a term commencing from 14 June 2006 and expiring on 31 December 2027 at nil rent.
2. Pursuant to 3 Approval Agreements of Forestry Land Use (使用林地審核同意書) — Hei Lin Di Xu Zhun [2006] Nos. 052 and 127 and Hei Lin Di Xu Zhun [2008] No. 084, approved by the Forestry Bureau of Heilongjiang Province, the collectively-owned forestry land use rights of 3 parcel of land with a total site area of approximately 74.9345 hectares (approximately 749,345 sq.m.) were leased to Shangzhi Modern Farm.
3. Pursuant to 5 Large-scale Pastural Land Registration and Record Forms (規模化畜禽養殖用地備案登記表) — Shang She Nong (Bei An) (2008) Di Nos. 4, 5, 6, 7 and 8 approved by the Pastural Bureau of Shangzhi City, the Construction Bureau of Shangzhi City, the Environmental Protection Agency of Shangzhi City and the State-owned Land Resources Bureau of Shangzhi City, the rural land use rights of 3 parcels of land with a total site area of approximately 408,003 sq.m. were registered and held by Shangzhi Modern Farm for a term commencing from 25 September 2008 and expiring on 31 December 2027.

4. Pursuant to an Application Approval Form of Pastural Land, Agricultural Facilities Land and Water Area of Agricultural Land (畜禽飼養地和設施農業用地及養殖水面用地申請審批表) — Shang Guo Tu Zi [2006] Di No.11 approved by the State-owned Land Resources Bureau of Shangzhi City, the rural land use rights of 3 parcels of land with a total site area of 34.0278 hectares (approximately 340,278 sq.m.) were registered and held by Shangzhi Modern Farm for a term commencing from 14 June 2006 and expiring on 30 December 2027 for pastural use.

5. For the 12 buildings of the Completed Properties with a total gross floor area of 5,698.30 sq.m., the Group has not provided us with any title Certificate.

6. Pursuant to a Construction Work Planning Permit — Shang Xiang Gui No. 06044 in favour of Shangzhi Modern Farm, the construction work of the buildings and the structures have been approved for construction.

7. Pursuant to a Construction Work Commencement Permit No. 232102200708090101 in favour of Shangzhi Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures.

8. In the valuation of this property, we have attributed no commercial value to the property which has not obtained proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB106,408,000 assuming all relevant title certificates have been obtained and the buildings, the structures could be freely transferred.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The principal part, forms and contents of the agreement stated in note 1 are in accordance with the PRC's laws. The agreement is legally enforceable. Shangzhi Modern Farm has the rights to use the parcel of rural collectively-owned land with a site area of 74.8281 hectares (approximately 748,281 sq.m.). The land use rights have been registered with the relevant government authority in accordance with its prescribed terms during the tenures. The land use rights are protected under the PRC laws; and

   b. The structures of the property are not required to go through the title registration with relevant government authority in accordance with the PRC's laws. Non-registration of the structures of the property will not affect legal property rights and use rights of and structures of the property by Shangzhi Modern Farm; and

   c. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Shangzhi Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 5.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
10.	A parcel of land, 10 buildings and various structures located at Hujiaying Tan Baita Administration Bureau Chabei Administration District Zhangjiakou City Hebei Province The PRC	The property includes a parcel of land with a site area of 398 Mu (approximately 265,334.66 sq.m.), 10 buildings and various structures erected thereon which were completed in 2010. The buildings have a total gross floor area of approximately 3,671.85 sq.m. The buildings mainly include office buildings, dormitories and gatehouses, etc. The structures mainly include cowshed, road and boundary wall, etc. The land contracted management use rights of the property have been obtained for a term of 30 years commencing from 24 June 2009 and expiring on 23 June 2039 for agricultural production use.	The property is currently occupied by the Group for dairy farm purpose.	No commercial value

Notes:

1. Pursuant to a Rural Land Contractual Operation Rights Circulation Agreement (農村土地承包經營權流轉合同) entered into between the Baita Administration Bureau, Chabei Administration District, Zhangjiakou City and Modern Farming (Chabei) Hengsheng Co., Ltd. ("Hengsheng Modern Farm", an indirect wholly-owned subsidiary of the Company), the land contractual operation rights of a parcel of land with a site area of 398 Mu (approximately 265,334.66 sq.m.) were contracted to be assigned for a term commencing from 24 June 2009 and expiring on 23 June 2039 for agricultural production use.
2. Pursuant to a Large-scale Pastural Land Registration and Record Form (規模化畜禽養殖備案登記表) dated 20 May 2009 — Cha Guo Tu Bei [2009] Di No. 1, approved by the State-owned Land Resources Bureau of Chabei Administration District, the rural land use rights of a parcel of land with a site area of 398 Mu (approximately 265,334.66 sq.m.) were registered and held by Hengsheng Modern Farm, for a term of 50 years commencing from 24 June 2009 and expiring on 24 June 2059.
3. For the 10 buildings of the property with a total gross floor area of 3,671.85 sq.m., the Group has not provided us with any title certificate.
4. Pursuant to a Construction Work Planning Permit — No. 130701200911021 in favour of Hengsheng Modern Farm, the construction work of the buildings and the structures have been approved for construction.
5. Pursuant to a Construction Work Commencement Permit — No. 130701200911021 in favour of Hengsheng Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures.

6. In the valuation of this property, we have attributed no commercial value to the property which have not obtained proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB46,052,000 assuming all relevant title certificates have been obtained and the buildings and the structures could be freely transferred.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

    a. The principal part, forms and contents of the agreement stated in note 1 are in accordance with the PRC's laws. The agreement is legally enforceable. Hengsheng Modern Farm has the rights to use the parcel of land with a site area of 398 Mu (approximately 265,334.66 sq.m.). The land use right have been registered with the relevant government authority in accordance with its prescribed terms during the tenures. The land use rights are protected under the PRC laws; and

    b. The structures of the property are not required to go through the title registration with relevant government authority in accordance with the PRC's laws. Non-registration of the structures of the property will not affect legal property rights and use rights of and structures of the property by Hengsheng Modern Farm; and

    c. The pastural land can be changed and registered to construction land as a basic precondition for the buildings erected thereon requirement of going through the title registration with relevant government authority. As the pastural land can't be changed and registered to construction land for no legal basis in accordance with the PRC's laws, Hengsheng Modern Farm can't apply the registration and obtain the title certificate of the ancillary buildings stated in note 3.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
11.	A parcel of land, 7 buildings and various structures located at Guozhuang Village Changning Town Luannan County Tangshan City Hebei Province The PRC	The property includes a parcel of land with a site area of 135 Mu (approximately 90,000 sq.m.), 7 buildings and various structures erected thereon which were completed in 2004. The buildings have a total gross floor area of approximately 1,543.08 sq.m. The buildings mainly include an office building, a dormitory and a dissecting room, etc. The structures mainly include cowsheds, wells, roads and boundary walls, etc. The collectively-owned land use rights of the property were leased to Shandong Trading for a term of 26 years commencing from 15 April 2004 and expiring on 14 April 2030 at an annual rent of RMB480 per Mu.	The property is currently occupied by the Group for quarantine purpose.	No commercial value

Notes:

1. Pursuant to a Land Lease Agreement dated 15 April 2004, entered into between Shandong Mengniu International Trading Co., Ltd. ("Shandong Trading", an indirect wholly-owned subsidiary of the Company) and the local Villagers' Committee of Guozhuang Village, Changning Town, Luannan County, a parcel of land with a site area of approximately 135 Mu (approximately 90,000 sq.m.) was leased to Shandong Trading for a term of 26 years commencing from 15 April 2004 and expiring on 14 April 2030 at the annual rent of RMB480 per Mu.
2. For the 7 buildings of the property with a total gross floor area of 1,543.08 sq.m., the Group has not provided us with any title Certificate.
3. In the valuation of this property, we have attributed no commercial value to the property which has not obtained proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB7,518,000 assuming all relevant title certificates have been obtained and the buildings and the structures could be freely transferred.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:
    a. The Land Lease Agreement is in accordance with the PRC's laws; and
    b. Shandong Trading has legal use rights to the buildings and structures of the property during the tenures. The use rights are protected under the PRC laws.

VALUATION CERTIFICATE

Group II — Property interests held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
12.	A parcel of land, 3 buildings and various structures under construction located at the eastern side of G106 Highway Chenxu Village Fanzhong Village Jiu GongShan Town Tongshan County Xianning City Hubei Province The PRC	The property includes a parcel of land with a site area of approximately 1,000 Mu (approximately 666,670 sq.m.), 3 buildings and various structures which are currently under construction. The property is scheduled to be completed in December 2010. Upon completion, the buildings of the property will have a total gross floor area of approximately 2,958.66 sq.m. The land contractual operation rights of the property have been obtained for a term commencing from 1 May 2010 and expiring on 31 December 2028 for agricultural use.	The property is currently under construction.	No commercial value

Notes:

1. Pursuant to a Rural Land Contractual Operation Rights Circulation Agreement (農村土地承包經營權流轉合同) entered into between the People's Government of Jiu Gongshan Town, Tongshan County and Modern Farming (Tongshan) Co., Ltd. ("Tongshan Modern Farm", an indirect wholly-owned subsidiary of the Company), the land contractual operation rights of a parcel of land with a site area of 1,000 Mu (approximately 666,670 sq.m.) were contracted to be assigned for a term commencing from 1 May 2010 and expiring on 31 December 2028 for agricultural production use.

2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — Tong Shan Xian Nong Di Cheng Bao Quan Di No. 101100000001 issued by the People's Government of Tongshan County, the land contractual operation rights of a parcel of land with a site area of 1,000 Mu (approximately 666,670 sq.m.) have been obtained by Tongshan Modern Farm, for a term commencing from 1 May 2010 and expiring on 31 December 2028 for agricultural use.

3. Pursuant to an Application Approval Form of Pastural Land, Agricultural Facilities Land and Water Area of Agricultural Land (畜禽飼養地和設施農業用地及養殖水面用地申請審批表) — Tong Guo Tu Zi Bei (2010) Di No.1 approved by the State-owned Land Resources Bureau of Tongshan County, the land use rights of a parcel of land with a site area of 66.666 hectares (approximately 666,660 sq.m.) were registered and held by Tongshan Modern Farm for a term commencing from 1 May 2010 and expiring on 30 April 2040.

4. Pursuant to a Construction Work Planning Permit — Tong Gui Gong Chen Xu Zi (Jiu Gong Shan Zhen) Jian Zi Di No. 2010086 in favour of Tongshan Modern Farm, the construction work of the buildings and the structures have been approved for construction.

5. Pursuant to a Construction Work Commencement Permit — No. 422326201009170101 in favour of Tongshan Modern Farm, permission by the relevant local authority was given to commence the construction work of the buildings and the structures.

6. As advised by Tongshan Modern Farm, the total construction cost of the property is estimated to be approximately RMB58,923,000, of which RMB29,174,000 had been paid up to the date of valuation.

7. In the valuation of this property, we have not attributed any commercial value to the property which have not obtained proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and the structures under construction (excluding the land) as at the date of valuation would be RMB29,716,000 assuming all relevant title certificates have been obtained and the buildings and structures could be freely transferred.

8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The principal part, forms and contents of the agreement stated in note 1 are in accordance with the PRC's laws. The agreement is legally enforceable. Tongshan Modern Farm has the rights to use the parcel of land with a site area of 1,000 Mu (approximately 666,670 sq.m.). The land use rights have been registered with the relevant government authority in accordance with its prescribed terms during the tenures. The land use rights are protected under the PRC laws.

   b. Tongshan Modern Farm has legal construction rights of the structures of the property as having obtained the requisite approvals by relevant government authority. Upon completion and having passed the environment acceptance test, Tongshan Modern Farm will have complete legal rights to operate the farm.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
13.	A parcel of land, 10 buildings and various structures under construction located at Xiwulanhua Village Liaohe Town Tongliao Economic and Technological Development Zone Tongliao City Inner Mongolia Autonomous Region The PRC	The property includes a parcel of land with a site area of approximately 1,000 Mu (approximately 666,670 sq.m.), 10 buildings and various structures which are currently under construction. The property is scheduled to be completed in December 2010. Upon completion, the buildings of the property will have a total gross floor area of approximately 6,391.18 sq.m.. The land contractual operation rights of the property have been obtained for a term commencing from 1 June 2010 and expiring on 31 May 2026 for agriculture use.	The property is currently under construction.	No commercial value

Notes:

1. Pursuant to a Land Contractual Management Rights Circulation Agreement (農村土地承包經營權流轉合同) entered into among the local Villager's Committee of Xiwulanhua Village, Liaohe Town ("the Lessor"), the People's Government of Liaohe Town, Tongliao City ("the Leaser") and Tongliao Modern Farm Co., Ltd. ("Tongliao Modern Farm", "the User", an indirect wholly-owned subsidiary of the Company), the Lessor agreed to lease and sublease the collectively owned land use rights of a parcel of land with a total site area of 1,000 Mu (approximately 666,670 sq.m.) to the Leaser and Tongliao Modern Farm for a term commencing from 1 June 2010 and expiring on 31 May 2060 for large-scale cows breeding use or agriculture development.
2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) issued by the People's Government of Tongliao City, the land contractual operation rights of a parcel of land with a site area of 1,000 Mu (approximately 666,670 sq.m.) have been obtained by Tongliao Modern Farm, for a term commencing from 1 May 2010 and expiring on 31 December 2026 for agricultural use.
3. Pursuant to a Large-scale Planting-Pastural Land Registration and Record Form (規模化種植、畜牧養殖用地備案表) — Zi (2010) Di No. 1, approved by the State-owned Land Resources Bureau of Tongliao Economic and Technological Development Area, the rural land use rights of a parcel of land with a site area of 1,000 Mu (approximately 666,670 sq.m.) were registered and held by Tongliao Modern Farm, for a term commencing from 1 June 2010 and expiring on 31 May 2060.
4. As advised by Tongliao Modern Farm, the total construction cost of the property is estimated to be approximately RMB85,646,000, of which RMB9,664,000 had been paid up to the date of valuation.
5. In the valuation of this property, we have attributed no commercial value to the property which have not obtained proper title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and the structures under construction (excluding the land) as at the date of valuation would be RMB9,866,000 assuming all relevant title certificates have been obtained and the buildings and the structures could be freely transferred.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The principal part, forms and contents of the agreement stated in note 1 are in accordance with the PRC's laws. The agreement is legally enforceable. Tongliao Modern Farm has the rights to use the parcel of land with a site area of 1,000 Mu (approximately 666,670 sq.m.). The land use rights have been registered with the relevant government authority in accordance with its prescribed terms during the tenures. The land use rights are protected under the PRC laws.

   b. Tongliao Modern Farm will have legal construction rights of the structures of the property upon having obtained the requisite approvals by relevant government authority. Upon completion and having passed the environment acceptance test, Tongliao Modern Farm will have complete legal rights to operate the farm.

VALUATION CERTIFICATE

Group III — Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
14.	3 units on Level 2 of a building, Block 5, No. 123 South Hongqi Road Maanshan Economic and Technological Development Zone Maanshan City Anhui Province The PRC	The property comprises 3 units on Level 2 of a 2-storey composite building completed in 2005. The property has a total gross floor area of approximately 300 sq.m. The property is leased from a Shareholder of Modern Farm for various terms expiring on 2038 or 2039 for registered office use at nil rent.	The property is currently occupied by the Group for registered office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, a unit with a gross floor area of approximately 100 sq.m. is leased to Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd. ("Anhui Sijibao", an indirect wholly-owned subsidiary of the Company) from Mengniu Dairy (Maanshan) Company Limited ("the Lessor", a Shareholder of Modern Farming (Group) Co., Ltd. ("Modern Farm")) for a term of 30 years commencing from 10 May 2009 and expiring on 9 May 2039 for registered office use at nil rent.
2. Pursuant to a Tenancy Agreement, a unit with a gross floor area of approximately 100 sq.m. is leased to Maanshan Modern Farming Feedstock Co., Ltd. ("Maanshan Feedstock", an indirect wholly-owned subsidiary of the Company) from the Lessor for a term of 30 years commencing from 23 February 2009 and expiring on 22 February 2039 for registered office use at nil rent.
3. Pursuant to a Tenancy Agreement, a unit with a gross floor area of approximately 100 sq.m. is leased to Modern Farming (Group) Co., Ltd. ("Modern Farm", an indirect wholly-owned subsidiary of the Company) from the Lessor for a term of 30 years commencing from 1 July 2008 and expiring on 30 June 2038 for registered office use at nil rent.
4. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisor, which contains, inter alia, the following:
   a. The Lessor has legally obtained the ownership rights of the property. The Tenancy Agreements are legally binding and enforceable on both signing parties;
   b. Anhui Sijibao, Maanshan Feedstock and Modern Farm have the legal rights to use the property in accordance with the Tenancy Agreements. The legal rights are protected by the PRC's laws; and
   c. The Tenancy Agreements have not registered with relevant government authority. The non-registration of the Tenancy Agreements will not affect the validity of the Tenancy Agreements.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
15.	A unit on Level 1 of No. 6, Tower 3 Dongda Plaza North Dizhiju Street Saihan District Hohhot City Inner Mongolia Autonomous Region The PRC	The property comprises a unit on Level 1 of a 13-storey office building completed in 2009. The property has a gross floor area of approximately 138.8 sq.m. The property is leased from a connected person for a term of 3 years commencing from 6 April 2010 and expiring on 6 April 2013 at nil rent.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, a unit with a gross floor area of approximately 138.8 sq.m. is leased to Modern Farming (Inner Mongolia) Dairy Product Sales Co., Ltd. ("Inner Mongolia Dairy Products", a 56% interest-owned subsidiary of the Company) from Mr. Li Xinming ("the Lessor", a connected person of the Company) for a term of 3 years commencing from 6 April 2010 and expiring on 6 April 2013 at nil rent.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisor, which contains, inter alia, the following:

    a. The Lessor has legally obtained the ownership rights of the property. The Tenancy Agreement is legally binding and enforceable on both signing parties;

    b. Inner Mongolia Dairy Products has the legal rights to use the property in accordance with the Tenancy Agreement. The legal rights are protected by the PRC's laws; and

    c. The Tenancy Agreement has not been registered with relevant government authority. The non-registration of the Tenancy Agreement will not affect the validity of the Tenancy Agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
16.	A unit on level 4 of a building, No. 3, Changcheng Road Taian High-Tech Industrial Development Zone Taian City Shandong Province The PRC	The property comprises a unit on Level 4 of a 6-storey office building completed in 2006. The property has a gross floor area of approximately 50 sq.m. The property is leased from an independent third party for a term of 10 years commencing from 5 November 2003 and expiring on 4 November 2013 at nil rent.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, a unit with a gross floor area of approximately 50 sq.m. is leased Shandong Mengniu International Trading Co., Ltd. ("Shandong Trading", an indirect wholly-owned subsidiary of the Company) from the Merchants of New High-Tech Industrial Development Zone, Taian City ("the Lessor", an independent third party) for a term of 10 years commencing from 5 November 2003 and expiring on 4 November 2013 at nil rent.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The Lessor has legally obtained the ownership rights of the property. The Tenancy Agreement is legally binding and enforceable on both signing parties;

   b. Shandong Trading has the legal rights to use the property in accordance with the Tenancy Agreement. The legal rights are protected by the PRC's laws; and

   c. The Tenancy Agreement has not been registered with relevant government authority. The non-registration of the Tenancy Agreement will not affect the validity of the Tenancy Agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
17.	A unit on Level 1 of a building No. 18, Group 12 Fanzhong Village Tongshan County Xianning City Hubei Province The PRC	The property comprises a unit on Level 1 of a 2-storey office building completed in 2008. The property has a gross floor area of approximately 88 sq.m. The property is leased from an independent third party for a term of a year commencing from 15 May 2010 and expiring on 14 May 2011 at nil rent.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, a unit with a gross floor area of approximately 88 sq.m. is leased to Modern Farming (Tongshan) Co., Ltd. ("Tongshan Modern Farm", an indirect wholly-owned subsidiary of the Company) from the Village Committee of Fanzhong Village, Jiu Gongshan Town, Tongshan County ("the Lessor", an independent third party) for a term of a year commencing from 15 May 2010 and expiring on 14 May 2011 at nil rent.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The Lessor has legally obtained the ownership rights of the property. The Tenancy Agreement is legally binding and enforceable on both signing parties;

   b. Tongshan Modern Farm has the legal rights to use the property in accordance with the Tenancy Agreement. The legal rights are protected by the PRC's laws; and

   c. The Tenancy Agreement has not been registered with relevant government authority. The non-registration of the Tenancy Agreement will not affect the validity of the Tenancy Agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
18.	A unit on Level 3 of Block A, Ruifeng Agriculture Market located at the eastern side of Dalian Road Tongliao Economic and Technological Development Zone Tongliao City Inner Mongolia Autonomous Region The PRC	The property comprises a unit on Level 3 of a 3-storey composite building completed in 2004. The property has a gross floor area of approximately 100 sq.m. The property is leased from an independent third party for a term of 30 years commencing from 1 June 2010 and expiring on 31 May 2040 at nil rent.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, a unit with a gross floor area of approximately 100 sq.m. is leased Modern Farming (Tongliao) Co., Ltd. ("Tongliao Modern Farm", an indirect wholly-owned subsidiary of the Company) from the Animal Quarantine Centre of Economic and Technological Development Zone ("the Lessor", an independent third party) for a term of 30 years commencing from 1 June 2010 and expiring on 31 May 2040 at nil rent.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisor, which contains, inter alia, the following:

   a. The Lessor has legally obtained the ownership rights of the property. The Tenancy Agreement is legally binding and enforceable on both signing parties;

   b. Tongliao Modern Farm has the legal rights to use the property in accordance with the Tenancy Agreement. The legal rights are protected by the PRC's laws; and

   c. The Tenancy Agreement has not been registered with relevant government authority. The non-registration of the Tenancy Agreement will not affect the validity of the Tenancy Agreement.

SUMMARY OF THE CONSTITUTION OF OUR COMPANY

1. Memorandum of Association

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 30, 2008 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Memorandum of Association (the "**Memorandum**") and the Articles of Association (the "**Articles**") comprise its constitution.

The Memorandum of Association was adopted on 31 October 2010, effective on the date on which the shares of our Company are listed on the Stock Exchange and states, inter alia, that the liability of members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in "Documents Delivered To The Registrar Of Companies And Available For Inspection" in Appendix VII to this prospectus.

2. Articles of Association

The Articles of Association were adopted on 31 October 2010, effective on the date on which the shares of our Company are listed on the Stock Exchange and include provisions to the following effect:

A. Classes of Shares

The share capital of our Company consists of ordinary shares. The capital of our Company at the date of effectiveness of the Articles of Association is HK$1,000,000 divided into 10,000,000 ordinary shares with a nominal or par value of HK$0.1 each.

B. Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and the Articles of Association, the unissued shares in our Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by our Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of our Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of our Company or any subsidiary

The management of the business of our Company is vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by our Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by our Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by our Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by our Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in our Company or any such subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with our Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with our Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of our Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to our Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by our Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal concerning any other company in which the Director or his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that, the Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

(v) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries including:

   (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or his associates may benefit;

   (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or his associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(vi) any contract or arrangement in which the Director or his associates is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his interest in shares or debentures or other securities of our Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of our Company and shall then be eligible for re-election at that meeting.

Our Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between our Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). Our Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. Our Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of our Company notice in writing by a member of our Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:
(i) if he resigns his office by notice in writing to our Company at its registered office or its principal office in Hong Kong;
(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
(vii) if he shall be removed from office by an ordinary resolution of the members of our Company under the Articles of Association.

At every annual general meeting of our Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

C. Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

D. Variation of rights of existing shares or classes of shares

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

E. Alteration of Capital

Our Company in general meeting may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Our Company may from time to time by ordinary resolution:

(i) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;

(ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

(iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares.

Our Company may by special resolution reduce its share capital or, any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Law.

F. Special resolution - majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of our Company entitled to vote at a general meeting of our Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of our Company aforesaid.

G. Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of our Company.

Where any member of our Company is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of our Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of our Company duly registered and who shall have paid all sums for the time being due from him payable to our Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of our Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

If a recognized clearing house (or its nominee) is a member of our Company it may, by resolution of its directors or other governing body or by power of attorney, authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee) which he represents as that recognized clearing house (or its nominee) could exercise if it were an individual member of our Company holding the number and class of shares specified in such authorization.

H. Annual general meetings

Our Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorize) shall elapse between the date of one annual general meeting of our Company and that of the next.

I. Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of our Company, or any of them, shall be open to the inspection of members of our Company (other than officers of our Company) and no such member shall have any right of inspecting any accounts or books or documents of our Company except as conferred by the Companies Law or any other relevant law or regulation or as authorized by the Directors or by our Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of our Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of our Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of our Company for the period covered by the profit and loss account and the state of our Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of our Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by our Company as provided in the Articles of Association to every member of our Company and every holder of debentures of our Company provided that our Company shall not be required to send copies of those documents to any person of whose address our Company is not aware or to more than one of the joint holders of any shares or debentures.

Our Company shall at any annual general meeting appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by our Company at the annual general meeting at which they are appointed provided that in respect of any particular year our Company in general meeting may delegate the fixing of such remuneration to the Directors.

J. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of our Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from our Company).

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;

(c) the election of Directors in place of those retiring;

(d) the appointment of auditors;

(e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

(f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

(g) the granting of any mandate or authority to the Directors to repurchase securities of our Company.

K. Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange and approved by the Directors.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of our Company in respect thereof. All instruments of transfer shall be retained by our Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which our Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with our Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of share;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favour of our Company; and

(f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to our Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with our Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement on the Stock Exchange's website or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, or by advertisement published in the newspapers be suspended and the register of members of our Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

L. Power of our Company to purchase its own Shares

Our Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of our Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

M. Power of any subsidiary of our Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

N. Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of our Company such interim dividends as appear to the Directors to be justified by the profits of our Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of our Company all sums of money (if any) presently payable by him to our Company on account of calls, installment or otherwise.

No dividend shall carry interest against our Company.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of our Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of our Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. Our Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of our Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of our Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of our Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of our Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of our Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to our Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Our Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, our Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to our Company.

The Directors may, with the sanction of the members of our Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of our Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of our Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

O. Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of our Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of our Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of our Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

P. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of our Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of our Company shall (subject to our Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to our Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installments of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of our Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of our Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to our Company all moneys which at the date of forfeiture were payable by him to our Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

Q. Inspection of register of members

The register of members of our Company shall be kept in such manner as to show at all times the members of our Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of our Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

R. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of our Company present in person or by proxy shall be a quorum provided always that if our Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of our Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

The quorum for a separate general meeting of the holders of a separate class of shares of our Company is described in sub-paragraph D. above.

S. Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

T. Procedure on liquidation

If our Company shall be wound up, and the assets available for distribution amongst the members of our Company as such shall be insufficient to repay the whole of the paidup capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of our Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of our Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If our Company shall be wound up, the liquidator may with the sanction of a special resolution of our Company and any other sanction required by the Companies Law, divide amongst the members of our Company in specie or kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of our Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of our Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of our Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

U. Untraceable members

Our Company shall be entitled to sell any shares of a member of our Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) our Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, our Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

A. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

B. Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 July 2008 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

C. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as our Company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of our Company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of our Company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our Company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of our Company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid our Company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of our Company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of our Company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of our Company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, our Company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of our Company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of our Company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

D. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of our Company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

E. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of our Company to challenge (a) an act which is *ultra vires* our Company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of our Company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

F. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of our Company in issue, appoint an inspector to examine into the affairs of our Company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that our Company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our Company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

G. Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of our Company.

H. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by our Company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by our Company; and

(c) the assets and liabilities of our Company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of our Company's affairs and to explain its transactions.

I. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

J. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's articles of association.

K. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of our Company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of our Company may take effect as special resolutions if this is authorized by the articles of association of our Company.

L. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

M. Mergers

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by either (a) a special resolution of the shareholders of each constituent company voting together as one class if the shares to be issued to each shareholder in the consolidated or surviving company will have the same rights and economic value as the shares held in the relevant constituent company, or (b) a shareholder resolution of each constituent company passed by a majority in number representing 75% in value of the shareholders voting together as one class. The plan must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

N. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

O. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

P. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

Q. Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (i) by a special resolution of its members if our Company is solvent or (ii) by an ordinary resolution of its members if our Company is insolvent. The liquidator's duties are to collect the assets of our Company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge our Company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

R. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

S. Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor in Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations; and

(2) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our Company:

(i) on or in respect of the shares, debentures or other obligations of our Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 5 August 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made to or by our Company.

T. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

U. General

Maples and Calder, our Company's legal advisor on Cayman Islands law, have sent to our Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Documents Delivered To The Registrar Of Companies And Available For Inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 30 July 2008. We have established a principal place of business in Hong Kong at Office B, 24th Floor, Alliance Building, 130-131 Connaught Road Central, Hong Kong and were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 4 November 2010. Ms. Wong Lai Wah of Flat 5, 20/F, Block R, Luk Yeung Sun Chuen, Tsuen Wan, New Territories, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Articles of Association is set out in the section headed "Summary of the Constitution of the Company and Cayman Islands Law" in Appendix V to this prospectus.

2. Changes in the Share Capital of Our Company

As of the date of our incorporation, our initial authorized share capital was US$50,000 divided into 50,000 Shares of a par value of US$1.00 each ("**US$ Share**"). The following sets out the changes in our share capital since the date of our incorporation:

(a) On 30 July 2008, one US$ Share was allotted and issued credited as fully paid to Mapcal Limited as the initial subscriber.

(b) On 18 August 2008, Mapcal Limited transferred one US$ Share to Advanced Dairy I at a consideration of US$1.00 and 39,999 US$ Shares were allotted and issued credited as fully paid to Advanced Dairy I at a consideration of US$39,999.

(c) On 29 July 2010, the authorized capital of our Company was increased from US$50,000 divided into 50,000 shares of a par value of US$1.00 each to the aggregate of US$50,000 and HK$1,000,000 divided into (i) 50,000 shares with a par value of US$1.00 each and (ii) 10,000,000 ordinary shares with a par value of HK$0.1 each by the creation of 10,000,000 ordinary shares with a par value of HK$0.1 each.

(d) On 30 July 2010, 5,124,000 Shares were allotted and issued credited to Advanced Dairy I at par value and then the 40,000 issued US$ Shares held by Advanced Dairy I were repurchased and cancelled by the Company.

(e) On 30 July 2010, all of the 50,000 authorized but unissued US$ Shares were cancelled and the amount of our authorized share capital was diminished by the amount of the US$ Shares so cancelled.

(f) On 30 July 2010, 573,647 Shares, 1,944,632 Shares, 1,869,546 Shares and 488,175 Shares were allotted and issued as nil paid by our Company to Jinmu, Yinmu, Xinmu and Youmu, respectively.

(g) On 1 November 2010, the shares as described in (f) above were paid up by Jinmu, Yinmu, Xinmu and Youmu.

Pursuant to the resolutions in writing of our Shareholders passed on 31 October 2010 referred to below, our authorized share capital was further increased and the Management Options were granted.

Immediately following the completion of the Global Offering and the Capitalization Issue (but not taking into account any Shares which may be allotted and issued pursuant to the exercise of the Management Options), the issued share capital of our Company will be HK$480,000,000 divided into 4,800,000,000 Shares of HK$0.1 each, all fully paid or credited as fully paid and 5,200,000,000 Shares of HK0.1 each will remain unissued.

Save for aforesaid and as mentioned in the section headed "— Resolutions in Writing of the Shareholders of Our Company passed on 31 October 2010" below, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in Writing of the Shareholders of Our Company Passed on 31 October 2010

(i) Pursuant to written resolutions of the Shareholders of our Company passed on 31 October 2010:

(a) the Memorandum and Articles of Association were approved and adopted conditional upon Listing;

(b) the authorized share capital of our Company was increased from HK$1,000,000 divided into 10,000,000 Shares of a par value of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 Shares of HK$0.1 each by the creation of an additional 9,990,000,000 Shares of HK$0.1 each;

(c) the grant of the Management Options to Ms. Gao, Mr. Han Chunlin and Mr. Sun Yugang was approved;

(d) conditional on (1) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Global Offering and the Capitalization Issue and Shares to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Management Options); (2) the entering into of the Price Determination Agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company on the Price Determination Date; and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) the Global Offering was approved and our Directors were authorized to approve the allotment and issue of the Shares, as the case may be, pursuant to the Global Offering on and subject to the terms and conditions thereof as set out in this prospectus and the Application Forms to be published by the Company in accordance with the Listing Rules;

(ii) conditional on the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorized to capitalize HK$399,000,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 3,990,000,000 Shares to be allotted and issued to the Shareholders whose names are on the register of members of our Company at 8:00 a.m. on the Listing Date in proportion to their shareholdings in our Company;

(e) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and Capitalization Issue (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Management Options), 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 by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

(f) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal amount of the share capital of our company in issue immediately following the completion of the Global Offering and the Capitalization Issue (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Management Options), 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 by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first; and

(g) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company.

4. Corporate Reorganization

The companies comprising the Group underwent the Reorganization in preparation for the Listing. Please refer to the section "Our History and Structure" in this prospectus.

5. Changes in the Share Capital of Subsidiaries

Our Company's subsidiaries are referred to in the Accountant's Report, the text of which is set out in Appendix IC to this prospectus. Save for the subsidiaries mentioned in Appendix IC to this prospectus, the Company has no other subsidiaries.

The following alterations in the share capital of our subsidiaries had taken place within the two years immediately preceding the date of this prospectus:

(a) On 8 December 2008, Modern Farm increased its total investment from RMB612,000,000 to RMB1,170,000,000 and increased its registered capital from RMB287,217,097 to RMB390,247,400 and the registered capital was fully paid up.

(b) On 4 March 2009, Modern Farm increased its total investment from RMB1,170,000,000 to RMB1,515,112,781 and increased its registered capital from RMB390,247,400 to RMB505,284,994 and the registered capital was fully paid up.

(c) On 3 July 2009, Modern Farm increased its registered capital from RMB505,284,994 to RMB517,754,488 and the registered capital was fully paid up.

(d) On 17 November 2008, Chabei Modern Farm was established by Modern Farm as a limited liability company with a registered capital of RMB8,000,000 and the registered capital was fully paid up.

(e) On 2 December 2008, Baoji Modern Farm was established by Modern Farm as a limited liability company with a registered capital of RMB10,000,000 and the registered capital was fully paid up.

(f) On 3 December 2008, Lux Co issued 80,000,000 yield free convertible preferred equity certificates with a nominal value of US$1.00 each to our Company for US$80,000,000.

(g) On 23 February 2009, Lux Co issued 90,336,758 yield free convertible preferred equity certificates with a nominal value of US$1.00 each to our Company for US$90,336,758.

(h) On 24 February 2009, Maanshan Feedstock was established by Modern Farm as a limited liability company with a registered capital of RMB1,000,000 and the registered capital was fully paid up.

(i) On 26 June 2009, Lux Co issued 10,000,000 yield free convertible preferred equity certificates with a nominal value of US$1.00 each to our Company for US$10,000,000.

(j) On 16 September 2009, Hongya Sijibao was established by Anhui Sijibao as a limited liability company with a registered capital of RMB1,000,000 and the registered capital was fully paid up.

(k) On 16 September 2009, Shangzhi Sijibao was established by Anhui Sijibao as a limited liability company with a registered capital of RMB1,000,000 and the registered capital was fully paid up.

(l) On 18 September 2009 , Feidong Sijibao was established by Anhui Sijibao as a limited liability company with a registered capital of RMB1,000,000 and the registered capital was fully paid up.

(m) On 18 September 2009, Baoji Sijibao was established by Anhui Sijibao as a limited liability company with a registered capital of RMB1,000,000 and the registered capital was fully paid up.

(n) On 2 December 2009, Feidong Modern Farm was established by Modern Farm as a limited liability company with a registered capital of RMB50,000,000 and the registered capital was fully paid up.

(o) On 19 April 2010, Chabei Sijibao was established by Anhui Sijibao as a limited liability company with a registered capital of RMB1,000,000 and the registered capital was fully paid up.

(p) On 26 April 2010, Saibei Sijibao was established by Anhui Sijibao as a limited liability company with a registered capital of RMB1,000,000 and the registered capital was fully paid up.

(q) On 30 April 2010, Inner Mongolia Dairy Products was established by Modern Farm and Mr. Li Xinming (李新明) as a limited liability company with a registered capital of RMB3,000,000 and the registered capital was fully paid up.

(r) On 15 May 2010, Tongshan Modern Farm was established by Modern Farm as a limited liability company with a registered capital of RMB30,000,000 and the registered capital was fully paid up.

(s) On 12 June 2010, Tongliao Modern Farm was established by Modern Farm as a limited liability company with a registered capital of RMB30,000,000 and the registered capital was fully paid up.

(t) On 2 November 2010, Lux Co issued 135,807,046 yield free convertible preferred equity certificates with a nominal value of US$1.00 each to our Company for US$135,807,046.

(u) On 2 November 2010, Aquitair issued to Lux Co 135,807,046 ordinary shares of US$1.00 each for US$135,807,046.

Save as set out above, there had been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchases of Our Own Securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on 31 October 2010, a general unconditional mandate (the Repurchase Mandate) was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued pursuant to the exercise of the Management Options), such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by the Cayman Companies Law or by our Articles of Association or any other applicable laws of the Cayman Islands to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the applicable laws and regulations of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Any purchase by our Company may be made out of the profits of our Company or out of a fresh issue of Shares made for the purpose of the purchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

(iii) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering and the Capitalization Issue (without taking into account our Shares which may be issued pursuant to the exercise of the Management Options). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. In addition, subject to the then prevailing requirements of the Listing Rules from time to time, repurchases of Shares on the Stock Exchange in any calendar month are limited to a maximum of 25% of the trading volume of Shares on the Stock Exchange in the immediately preceding calendar month. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by our Company to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed. Under Cayman Companies Law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate value of the repurchased shares accordingly although the authorized share capital of the company will not be reduced.

(v) Suspension of repurchase

Pursuant to the Listing Rules, our Company may not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

(vi) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person" (as defined in the Listing Rules) and a connected person shall not knowingly sell its securities to the company on the Stock Exchange.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position as disclosed in this prospectus and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of 4,800,000,000 Shares in issue immediately following the completion of the Global Offering and the Capitalization Issue, could accordingly result in 480,000,000 Shares being repurchased by our Company during the period prior to (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by Cayman Companies Law or the Articles or any applicable laws of the Cayman Islands to be held; or (3) the revocation or variation of the purchase mandate by an ordinary resolution of the Shareholders in general meeting, whichever occurs first (the "**Relevant Period**").

(d) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the Takeovers Code). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares than in issue could only implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

(a) an equity subscription agreement dated 18 November 2008 entered into between Modern Farm, Aquitair, Laoniu Farming, Maanshan Advanced Farming and the Initial Shareholders (as defined therein) pursuant to which Modern Farm agreed to increase its registered capital from RMB287,217,097 to RMB390,247,400 and Aquitair agreed to subscribe for the relevant increased portion of the registered capital, as a result of which Aquitair would own a total equity interest of 33.73% in Modern Farm;

(b) an amended and restated equity joint venture contract for Modern Farm dated 18 November 2008 entered into between the Initial Shareholders (as defined therein), Aquitair, Laoniu Farming and Maanshan Advanced Farming to regulate their rights and obligations in relation to Modern Farm;

(c) an amended and restated deed of undertaking dated 18 November 2008 entered into between the Individual Shareholders (as defined therein), Maanshan Advanced Farming, Aquitair and Laoniu Farming regarding certain performance targets and related valuation adjustments;

(d) a letter agreement dated 18 November 2008 entered into between Aquitair, Laoniu Farming and all other existing shareholders of Modern Farm (as named in the amended and restated equity joint venture contract dated 18 November 2008) regarding the establishment of a long-term incentive option plan for members of the senior management of Modern Farm;

(e) an asset, liabilities and business transfer agreement (資產，負債及業務轉讓協議) dated 29 November 2008 entered into between Leading Farming as vendor and Modern Farm as purchaser pursuant to which Leading Farming agreed to transfer to Modern Farm (i) the business and assets of Leading Farming at a consideration based on the asset value set out in the valuation report issued by Anhui Guoxin Asset Valuation Co., Ltd. (安徽國信資產評估有限責任公司) and (ii) all liabilities outstanding as at the reference date (基準日) related to the business that was being transferred;

(f) an asset, liabilities and business transfer agreement (資產，負債及業務轉讓協議) dated 29 November 2008 entered into between Chabei Cooperative as vendor and Chabei Modern Farm as purchaser pursuant to which Chabei Cooperative agreed to transfer to Chabei Modern Farm (i) the business and assets of Chabei Cooperative at a consideration based on the asset value set out in the valuation report issued by Anhui Guoxin Asset Valuation Co., Ltd. (安徽國信資產評估有限責任公司) and (ii) all liabilities outstanding as at the reference date (基準日) related to the business that was being transferred;

(g) an equity transfer agreement dated 16 December 2008 entered into between Modern Farm as vendor and Qingdao Ever Nature Trading Company Limited (青島恒天然商貿有限公司) as purchaser pursuant to which Modern Farm agreed to sell to Qingdao Ever Nature Trading Company Limited (青島恒天然商貿有限公司) the 100% equity interest in Leading Farming for a consideration of RMB191,153,388.58;

(h) an equity transfer agreement dated 31 December 2008 entered into between Inner Mongolia Mengniu Founding Industry Management Co. Ltd. (內蒙古蒙牛方鼎產業管理有限公司) as vendor and Modern Farm as purchaser pursuant to which Inner Mongolia Mengniu Founding Industry Management Co. Ltd. (內蒙古蒙牛方鼎產業管理有限公司) agreed to sell to Modern Farm the 30% equity interest in Helingeer Modern Farm for a consideration of RMB28,830,000;

(i) an equity transfer agreement dated 31 December 2008 entered into between Austdairy Limited as vendor and Modern Farm as purchaser pursuant to which Austdairy Limited agreed to sell to Modern Farm the 70% equity interest in Helingeer Modern Farm for a consideration of RMB67,270,000;

(j) an equity subscription agreement dated 21 January 2009 entered into between Modern Farm, Aquitair, Laoniu Farming, the Initial Shareholders (as defined therein) and Maanshan Advanced Farming pursuant to which Modern Farm agreed to increase its registered capital from RMB390,247,400 to RMB505,284,994 and Aquitair agreed to subscribe for the relevant increased portion of the registered capital, as a result of which Aquitair would own a total equity interest of 48.82% in Modern Farm;

(k) a second amended and restated equity joint venture contract for Modern Farm dated 21 January 2009 entered into between the Initial Shareholders (as defined therein), Aquitair, Laoniu Farming and Maanshan Advanced Farming to regulate their rights and obligations in relation to Modern Farm;

(l) a second amended and restated deed of undertaking dated 21 January 2009 entered into between the Individual Shareholders (as defined therein), Aquitair, Laoniu Farming and Maanshan Advanced Farming regarding certain performance targets and related valuation adjustments;

(m) a letter agreement dated 21 January 2009 entered into between Aquitair, Laoniu Farming and all other existing shareholders of Modern Farm (as named in the second amended and restated equity joint venture contract dated 21 January 2009) regarding the establishment of a long-term incentive option plan for members of the senior management of Modern Farm;

(n) an equity subscription agreement dated 18 May 2009 entered into between Modern Farm, Aquitair, Laoniu Farming, the Initial Shareholders (as defined therein) and Advanced Farming pursuant to which Modern Farm agreed to increase its registered capital from RMB505,284,994 to RMB517,754,488 and Aquitair agreed to subscribe for increased portion of the registered capital, as a result of which Aquitair would own a total equity interest of 50.05% in Modern Farm;

(o) a third amended and restated equity joint venture contract for Modern Farm dated 18 May 2009 entered into between the Initial Shareholders (as defined therein), Aquitair, Laoniu Farming and Maanshan Advanced Farming to regulate their rights and obligations in relation to Modern Farm;

(p) a third amended and restated deed of undertaking dated 18 May 2009 entered into between the Individual Shareholders (as defined therein), Aquitair, Laoniu Farming and Maanshan Advanced Farming regarding certain performance targets and related valuation adjustments;

(q) a letter agreement dated 18 May 2009 entered into between Aquitair, Laoniu Farming and all other existing shareholders of Modern Farm (as named in the third amended and restated equity joint venture contract dated 18 May 2009) regarding the establishment of a long-term incentive option plan for members of the senior management of Modern Farm;

(r) a term loan agreement dated 30 June 2009 entered into between Modern Farm as borrower and China Construction Bank Corporation Maanshan Branch (中國建設銀行股份有限公司馬鞍山市分行) as lender pursuant to which China Construction Bank Corporation Maanshan Branch agreed to lend RMB48,000,000 to Modern Farm, for a term of five years from 30 June 2009, to be used for acquisition of Helingeer Modern Farm;

(s) an equity pledge agreement dated 30 June 2009 entered into between Modern Farm and China Construction Bank Corporation Maanshan Branch (中國建設銀行股份有限公司馬鞍山市分行) pursuant to which Modern Farm agreed to pledge the 100% equity interest of Saibei Modern Farm held by Modern Farm in favour of China Construction Bank Corporation Maanshan Branch to secure Modern Farm's liabilities under the term loan agreement set out in (r) above;

(t) a fourth amended and restated equity joint venture contract for Modern Farm dated 25 August 2009 entered into between the Initial Shareholders (as defined therein), Aquitair, Laoniu Farming and Maanshan Advanced Farming to regulate their rights and obligations in relation to Modern Farm;

(u) an asset, liabilities and business transfer agreement dated 10 December 2009 entered into between Modern Farm as vendor and Feidong Modern Farm as purchaser pursuant to which Modern Farm agreed to transfer to Feidong Modern Farm (i) the business and assets of Maanshan Modern Farming Co. Ltd. Feidong Branch (馬鞍山現代牧業有限公司肥東分行) for a consideration based on the then book value of Maanshan Modern Farming Co., Ltd. Feidong Branch and (ii) the liabilities as at the reference date (基準日) related to the business that was being transferred;

(v) an equity transfer agreement dated 30 June 2010 entered into between Feng Xiaojian (馮小堅) and Ma Chunrui (馬春瑞) as vendors and Modern Farm as purchaser pursuant to which Feng Xiaojian (馮小堅) and Ma Chunrui (馬春瑞) agreed to transfer to Modern Farm an aggregate of 100% equity interest of Hengsheng Modern Farm for a consideration of RMB5,150,000.

(w) a subscription agreement dated 29 July 2010 entered into between our Company, Jinmu, Yinmu, Xinmu and Youmu pursuant to which our Company will issue an aggregate of 4,876,000 Shares to Jinmu, Yinmu, Xinmu and Youmu at a total subscription price of RMB903,116,860;

(x) a fifth amended and restated equity joint venture contract for Modern Farm dated 17 September 2010 entered into between Aquitair, Mengniu (Inner Mongolia) and Mengniu (Maanshan) to regulate their rights and obligations in relation to Modern Farm;

(y) an equity transfer agreement dated 17 September 2010 entered into between 31 natural persons (including Deng Yuan) and Laoniu Farming as vendors and Aquitair as purchaser pursuant to which Aquitair agreed to, subject to certain pre-conditions, purchase from 31 natural persons (including Deng Yuan) and Laoniu Farming an aggregate of 47.63% equity interests in Modern Farm for a consideration of RMB903,116,860;

(z) a supplemental agreement dated 31 October 2010 entered into between our Company, Jinmu, Yinmu, Xinmu and Youmu to amend certain terms and conditions of the supplemental agreement set out in (w) above;

(aa) the Deed of Indemnity dated 5 November 2010 entered into between Jinmu, Xinmu, Yinmu and the Company (for itself and as trustee for its subsidiaries), details of which are set out in the section headed "D. Other Information - Indemnity" in this Appendix;

(bb) the Deed of Non-Competition dated 5 November 2010 entered into between Jinmu, our executive Directors, Mr. Sun Yugang, Mr. Ren Meicheng, Mr. Li Xinming, Mr. Zhang Fulong, Mr. Li Gang and Mr. Luo Wei (the "Covenantors") in favour of our Company (for itself and as trustee for each of its subsidiaries) regarding non-competition undertakings given by the Covenantors, details of which are set out in the section headed "Relationship with Shareholders - Non-competition Undertaking" in this prospectus;

(cc) a cornerstone investment agreement dated 8 November 2010 entered into between our Company, Government of Singapore Investment Corporation Pte Ltd, Citi and UBS pursuant to which Government of Singapore Investment Corporation Pte Ltd agreed to subscribe for the maximum number of Shares that may be purchased with US$40 million (exclusive of the related brokerage, fee and levy) at the Offer Price (plus the brokerage, fee and levy) as part of the International Offering (as defined therein);

(dd) a cornerstone investment agreement dated 9 November 2010 entered into between our Company, Mengniu, Citi and UBS pursuant to which Mengniu agreed to subscribe for the maximum number of Shares that may be purchased with HK$150 million (exclusive of the related brokerage, fee and levy) at the Offer Price (plus the brokerage, fee and levy) as part of the International Offering (as defined therein);

(ee) a cornerstone investment agreement dated 9 November 2010 entered into between our Company, Ceroilfood Finance Limited, Citi and UBS pursuant to which Ceroilfood Finance Limited agreed to subscribe for the maximum number of Shares that may be purchased with HK$ equivalent of US$30 million (exclusive of the related brokerage, fee and levy) at the Offer Price (plus the brokerage, fee and levy) as part of the International Offering (as defined therein);

(ff) a cornerstone investment agreement dated 9 November 2010 entered into between our Company, Keywise Capital Management (HK) Limited, Citi and UBS pursuant to which Keywise Capital Management (HK) Limited agreed to subscribe for the maximum number of Shares that may be purchased with HK$ equivalent of US$30 million (exclusive of the related brokerage, fee and levy) at the Offer Price (plus the brokerage, fee and levy) as part of the International Offering (as defined therein);

(gg) a cornerstone investment agreement dated 9 November 2010 entered into between our Company, Dong Yin Development (Holdings) Limited, Citi and UBS pursuant to which Dong Yin Development (Holdings) Limited agreed to subscribe for the maximum number of Shares that may be purchased with HK$ equivalent of US$10 million (exclusive of the related brokerage, fee and levy) at the Offer Price (plus the brokerage, fee and levy) as part of the International Offering (as defined therein); and

(hh) the Hong Kong Underwriting Agreement dated 12 November 2010 entered into between, amongst others, our Company, the Covenantors (as defined therein), the Joint Global Coordinators and Joint Bookrunners, the Joint Hong Kong Lead Managers and the Hong Kong Underwriters in relation to the underwriting of the Hong Kong Public Offer by the Hong Kong Underwriters as referred to in the section headed "Underwriting" in this prospectus.

2. Intellectual Property Rights of Our Group

Trademark

As of the Latest Practicable Date, our Group had registered the following trademarks:

Trademark	Place of Registration	Registered Owner	Class	Expiry Date	Registration No.
	PRC	Modern Farm	29	27 June 2020	7023150
卉生卉色	PRC	Anhui Sijibao	1	20 July 2020	6978362
NUTRIGREEN	PRC	Anhui Sijibao	1	20 July 2020	6978366
	PRC	Anhui Sijibao	1	20 July 2020	6978364

As of the Latest Practicable Date, our Group had made an application to register the following trademarks in the PRC:

Trademark	Applicant	Class	Date of application	Application number
MODERN FARMING 现代牧业	Company	16, 35	13 August 2010	301688680
MODERN FARMING	Modern Farm	29	9 December 2008	7103980
NUTRIGREEN 四季宝	Anhui Sijibao	1	16 May 2008	6725179

Domain Name

As of the Latest Practicable Date, our Group had registered the following domain names:

Domain Name	Registered Owner	Expiry Date
Xiandaimuye.com	Modern Farm	12 May 2011
Moderndairyir.com	Modern Farm	20 September 2020
4jibaopeixun.com	Anhui Sijibao	19 January 2011
sijibaonutrigreen.cn	Anhui Sijibao	17 May 2011
sijibaonutrigreen.com.cn	Anhui Sijibao	17 May 2011
sijibaonutrigreen.com	Anhui Sijibao	17 May 2011
4jibao.com	Anhui Sijibao	20 May 2011
四季寶.com	Anhui Sijibao	17 May 2011

Design

As of the Latest Practicable Date, our Group had registered the following designs:

Type	Place of Application	Registration Number	Expiry Date
Milk cup (奶杯)	PRC	ZL 200930188953.5	8 June 2019
Milk cup (奶瓶)	PRC	ZL 200930188954.X	8 June 2019

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Disclosure of Interests

(a) Interests and short positions of the Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations

Immediately following completion of the Global Offering and the Capitalization Issue (without taking into account of any Shares that may be issued under the Management Options), the interests or short positions of Directors 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 Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (Model Code), once the Shares are listed will be as follows:

(i) Interest in Shares or Underlying Shares of our Company

Name of Director	Nature of Interest	Number of Shares or underlying Shares(1)	Approximate percentage of shareholding interest
Ms. Gao(2)	Interest in controlled corporation	218,157,733(L)	4.54
	Beneficial owner	29,276,916(L)(3)	0.61
Mr. Han Chunlin	Beneficial owner	29,276,916(L)(3)	0.61

Notes:

(1) The Letter "L" denotes to the person's long position in the Shares.

(2) Ms. Gao holds approximately 49.10% of the interests in Jinmu. Ms. Gao is deemed to be interested in the 218,157,733 Shares held by Jinmu under the SFO.

(3) These represents interest in underlying Shares of the Management Options granted by the Company. For details of the Management Options, please refer to the section headed "Statutory and General Information — Management Options" in this prospectus.

(b) Interests and short positions of the Substantial Shareholders in the Shares and Underlying Shares of Our Company

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option has not been exercised and without taking into account any Shares that may be issued under the Management Options), the following persons (not being Directors or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/Nature of interest	Number of Shares[1]	Approximate percentage of shareholding interest
Yinmu	Beneficial Interest	739,559,117(L)	15.41%
Xinmu	Beneficial Interest	711,021,025(L)	14.81%
Advanced Dairy	Beneficial Interest	1,152,248,682(L)	24.01%
		135,000,000(S)[4]	2.81%
KKR Asian Fund L.P.[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Associates Asia L.P.[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR SP Limited[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Asia Limited[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Fund Holdings L.P. [2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Fund Holdings GP Limited[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Group Holdings L.P. [2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Group Limited[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR & Co. L.P. [2]	Interest in controlled corporation	1,152,248,682(L)	24.01%
KKR Management LLC[2]	Interest in controlled corporation	1,152,248,682(L)	24.01%

Name	Capacity/Nature of interest	Number of Shares[(1)]	Approximate percentage of shareholding interest
Mr. Henry R. Kravis and Mr. George R. Roberts[(2)]	Interest in controlled corporation	1,152,248,682(L)	24.01%
Crystal Dairy	Beneficial Interest	384,104,918(L)	8.00%
		45,000,000(S)[(4)]	0.94%
CDH Guard Limited[(3)]	Interest in controlled corporation	384,104,918(L)	8.00%
CDH China Fund III, L.P.[(3)]	Interest in controlled corporation	384,104,918(L)	8.00%
CDH III Holdings Company Limited[(3)]	Interest in controlled corporation	384,104,918(L)	8.00%
China Diamond Holdings III, L.P.[(3)]	Interest in controlled corporation	384,104,918(L)	8.00%
China Diamond Holdings Company Limited [(3)]	Interest in controlled corporation	384,104,918(L)	8.00%

Notes:

(1) The letter "L" denotes to the person's long position in the Shares, and the letter "S" denotes the person's short position in such Shares.

(2) Each of KKR Asian Fund L.P. (as the controlling shareholder of Advanced Dairy); KKR Associates Asia L.P. (as the general partner of KKR Asian Fund L.P.); KKR SP Limited (as the voting partner of KKR Associates Asia L.P.); KKR Asia Limited (as the general partner of KKR Associates Asia L.P.); KKR Fund Holdings L.P. (as the sole member of KKR Asia Limited); KKR Fund Holdings GP Limited (as a general partner of KKR Fund Holdings L.P.); KKR Group Holdings L.P. (as a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited); KKR Group Limited (as the general partner of KKR Group Holdings L.P.); KKR & Co. L.P. (as the sole shareholder of KKR Group Limited); KKR Management LLC (as the general partner of KKR & Co. L.P.); and Mr. Henry R. Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) be deemed to be interested in the Shares. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares.

(3) CDH Guard Limited (as the sole shareholder of Crystal Dairy); CDH China Fund III L.P. (as the sole shareholder of CDH Guard Limited), CDH III Holdings Company Limited (as the general partner of CDH China Fund III L.P.); China Diamond Holdings III, L.P. (as the holding company of CDH III Holdings Company Limited); and China Diamond Holdings Company Limited (as the general partner of China Diamond Holdings III, L.P.) is deemed to be interested in the Shares.

(4) These Shares will be subject of the stock borrowing agreement to be entered into between Advanced Dairy, Crystal Dairy and the Stabilizing Manager and the Shares that will be sold upon exercise of the Over-allotment Option.

(c) Interests of the Substantial Shareholders of Any Member of Our Group (Other than Our Company)

So far as the Directors are aware, immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account any Shares that may be issued under the Management Options), the following persons (not being Directors or chief executive of our Company) will, directly or indirectly, be interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group (other than the Company):

Name of the shareholder	Name of members of the Group	Capacity/Nature of interest	Share of capital contribution to registered capital	Approximate percentage of interests
Li Xinming (李新明) . . .	Inner Mongolia Dairy Products	Beneficial owner	RMB1,320,000	44%

2. Particulars of Service Contracts

(a) Executive Directors

Each of the executive Directors has entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from their respective date of appointment, which may be terminated by not less than three months' notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

(b) Non-executive Director and Independent Non-executive Directors

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with our Company for a term of one year with effect from their respective date of appointment. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while the non-executive directors are not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

(c) Others

(i) Save as disclosed above, none of the Directors has entered into any service contract 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).

(ii) During the year ended 30 June 2010, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately RMB1,981,000. Details of the Directors' remuneration are also set out in note 14 of the Accountant's Report set out in Appendix IC to this prospectus. Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the year end 30 June 2010 by our Company to the Directors.

(iii) Under the arrangements currently in force, the aggregate of the remuneration and benefits in kind payable to the Directors for the year ending 30 June 2011 is estimated to be approximately RMB3,000,000.

(iv) None of the Directors or any past Directors of any members of our Group has been paid any sum of money for the three years ended 30 June 2010 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a Director 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.

(v) 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 30 June 2010.

(vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, our Company, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

3. Fees or Commissions Received

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed under the section headed "— Other Information — Consents of Experts" below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

4. Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors or chief executive of our Company has any interest or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is 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 into the register referred to in that section, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our Shares are listed;

(b) none of our Directors nor any of the parties listed in the section headed "— Other Information — Consents of Experts" below 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 nor any of the parties listed in the section headed "— Other Information — Consents of Experts" below, 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) save as disclosed in this prospectus and other than pursuant to the Underwriting Agreements, none of the parties listed in the section headed "— Other Information — Consents of Experts" below:

    (i) is interested legally or beneficially in any of our Shares or any shares of any of our subsidiaries; or

    (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe securities in any member of our Group.

D. OTHER INFORMATION

1. Indemnity

Jinmu, Xinmu and Yinmu (the "**Indemnifers**") have entered into the Deed of Indemnity with and in favor of each member of our Group (being the contract referred to in paragraph (i) of the section headed "— Further Information About Our Business — Summary of Material Contracts" above) to provide the following indemnities in favour of the Company.

Under the deed of indemnity, among others, the Indemnifiers will indemnify each of the Company and our subsidiaries against, among others, (a) any depletion or diminution in the value of the assets of the Company as a direct or indirect consequence of, and in respect of any amount which the Company and our subsidiaries may hereafter become liable to pay, resulting from any taxation under sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) ("**Estate Duty Ordinance**"); or (b) taxation falling on the Company and our subsidiaries resulting from, or relating to or in consequence of, any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the Listing Date.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation where, among others, (a) provision has been made for such taxation in the audited accounts of the Company; (b) the taxation falling on the Company and our subsidiaries in respect of any accounting period commencing on or immediately on or after 30 June 2010 unless liability for such taxation would not have arisen but for some event entered into by the Indemnifiers, the Company, our subsidiaries or any of them otherwise than in the course of normal day to day trading operations on or before the Listing Date; and (c) the taxation arises or is incurred as a result of a retrospective change in law or the interpretation thereof or practice by the relevant tax authority having retrospective effect coming into force after the Listing Date or to the extent that the taxation arises or is increased by an increase in rates of taxation as a result of a change in law or regulation or interpretation thereof or practice by the relevant tax authority after the Listing Date with retrospective effect.

2. Management Options

MF Options

To reward our management for their contribution towards our Group, the then shareholders of Modern Farm granted the MF Options to the MF Grantees over the equity interest in Modern

Farm on 17 June 2009, which can be exercised at any time after the grant. Particulars of the MF Options are set forth below:

Name of the MF Grantee	Position within our Group	Residential Address	Amount payable on the exercise of the MF Options	Percentage of registered share capital of Modern Farm to be subscribed for upon exercise of the MF Options
Ms. Gao	Executive Director and Chief Executive Officer	Room 301, Unit 1 Block 10, Puzhao Village Taishan District Shandong Province PRC	RMB21,703,349	0.70%
Han Chunlin	Executive Director and Chief Operating Officer	No. 2, Unit 1 Block 13, No. 4 Courtyard No. 4 Hulun Beier South Road Saihan District Huhhot City Inner Mongolia PRC	RMB21,703,349	0.70%
Sun Yugang	Chief Financial Officer	No. 208, Unit 5, Block 9 Financial School Dormitory Xingan North Road Xincheng District Huhhot City Inner Mongolia PRC	RMB21,393,302	0.69%

Management Option

As MF Options were granted in around June 2009 with the intention that they will subsequently be swapped to the listing entity's level should an overseas listing be pursued and when nearing listing, the Management Options (on substantially the same terms as described below) were on 31 October 2010 granted to the MF Grantees to replace the MF Options which lapsed and ceased to have effect at the same time.

As the grant of the Management Options is to implement parties' intentions to swap the MF Options to the Company's level, the key principal terms of the Management Options largely mirror that of the MF Options in that (i) the exercise price of the Management Option will be substantially the same as that for the MF Option and (ii) each grantee's resultant effective interest in Modern Farm (whether upon exercise of the Management Option or the MF Option) remains unchanged. The other provisions governing the exercise of the Management Options are set out as below:

(a) the exercise price per Share of the Management Option is HK$0.86, representing a discount of approximately 70.2% to the lower end of the stated Offer Price range of HK$2.89 and a discount of approximately 76.7% to the higher end of the stated Offer Price range of HK$3.69;

(b) the total number of Shares which may be issued upon the exercise of all the Management Options is 87,412,507 Shares, representing approximately 1.82% of the total issued share capital of our Company immediately after the Listing (without taking into account the Shares that may be issued upon exercise of the Management Options);

(c) save for the Management Options which have been granted (details of which are set out below), no further options will be offered or granted as the right to do so will end upon the completion of the Global Offering;

(d) the Management Options are exercisable during the period from the Listing Date until 10 years from the date of offer. The grantees have confirmed to the Company that they would not exercise any of the Management Options if, after such exercise, our Company will cease to maintain the minimum public float under the Listing Rules;

(e) all Management Options shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any such option. Any breach of the foregoing by the grantee shall entitle our Company to cancel any outstanding Management Option or any part thereof to the extent not already exercised.

Particulars of the grantees and the Management Options are set forth below:

Name of the grantee	Position within the Group	Residential address	Number of Shares which the grantee can subscribe upon exercise of the Management Options	Percentage of Shares in issue immediately after Listing (without taking into account Shares that may be issued upon exercise of the Management Options) upon exercise of the Management Options	Percentage of Shares in issue immediately after the Capitalization Issue but before the Global Offering (taking into account the Shares to be issued upon exercise of the Management Options) upon exercise of the Management Options
Ms. Gao	Executive Director and Chief Executive Officer	Room 301, Unit 1, Block 10, Puzhao Village, Taishan District, Shandong Province, PRC	29,276,916	0.61%	0.72%
Han Chunlin	Executive Director and Chief Operating Officer	No.2, Unit 1, Block 13, No.4 Courtyard, No.4 Hulun Beier South Road, Saihan District, Huhhot City, Inner Mongolia, PRC	29,276,916	0.61%	0.72%

Name of the grantee	Position within the Group	Residential address	Number of Shares which the grantee can subscribe upon exercise of the Management Options	Percentage of Shares in issue immediately after Listing (without taking into account Shares that may be issued upon exercise of the Management Options) upon exercise of the Management Options	Percentage of Shares in issue immediately after the Capitalization Issue but before the Global Offering (taking into account the Shares to be issued upon exercise of the Management Options) upon exercise of the Management Options
Sun Yugang	Chief Financial Officer	No.208, Unit 5, Block 9, Financial School Dormitory, Xingan North Road, Xincheng District, Huhhot City, Inner Mongolia, PRC	28,858,675	0.60%	0.70%
Total:			87,412,507	1.82%	2.14%

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the Management Options.

Exercise of the Management Options will have a dilution effect on the earnings/loss per Share for the relevant financial year of our Group. Save as disclosed above, no other options have been granted or will be granted prior to the Listing Date. Assuming full exercise of the Management Options, the earnings per Share on a fully diluted basis will be diluted from approximately RMB2.59 to approximately RMB2.54.

3. Litigation

As of the Latest Practicable Date, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

4. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Management Option).

5. Preliminary Expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately RMB9,947,000 and were paid by us.

6. Promoter

The Company has no promoter for the purpose of the Listing Rules. 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 are 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.

7. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Citigroup Global Markets Asia Limited	Registered institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Commerce & Finance Law Offices	PRC legal advisor
Deloitte Touche Tohmatsu	Certified Public Accountants, Hong Kong
Jones Lang LaSalle Sallmanns Limited	Property valuer
Maples and Calder	Cayman Islands attorneys-at-law
UBS AG, Hong Kong Branch	Registered institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities as defined under the SFO

8. Consents of Experts

Each of Citi, Commerce & Finance Law Offices, Deloitte Touche Tohmatsu, Jones Lang LaSalle Sallmanns Limited, Maples and Calder and UBS has given and has not withdrawn its respective 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 in this prospectus in the form and context in which it is respectively included.

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

10. Particulars of the Selling Shareholders

Advanced Dairy, an exempted company incorporated in the Cayman Islands on 30 July 2008 whose registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Crystal Dairy, an exempted company incorporated in the Cayman Islands on 27 August 2008 whose registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Jinmu, a limited liability company incorporated in the Cayman Islands on 22 July 2010 whose registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Yinmu, a limited liability company incorporated in the Cayman Islands on 22 July 2010 whose registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Xinmu, a limited liability company incorporated in the Cayman Islands on 22 July 2010 whose registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Youmu, a limited liability company incorporated in the Cayman Islands on 22 July 2010 whose registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

11. Reserves Available for Distribution

As at 30 June 2010, our Company has reserves of RMB1,379,201,000 available for distribution to our Shareholders.

12. 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 founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (iv) 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; and
- (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.

(b) Save as disclosed in this prospectus, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.

(c) Our Directors confirm that:

(i) there has been no material adverse change in the financial or trading position or prospects of the Group since 30 June 2010 (being the date to which the latest audited consolidated financial statements of the Group were prepared); and

(ii) there is no arrangement under which future dividends are waived or agreed to be waived; and

(iii) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus.

(d) The principal register of members of our Company will be maintained in the Cayman Islands by Maples Finance Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

(e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.

(f) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(g) The Directors have been advised that, under the Cayman Companies Law, the use of a Chinese name by the Company for identification purposes only does not contravene the Cayman Companies Law.

(h) The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption from Companies and prospectuses from Compliance Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the WHITE, YELLOW and GREEN Application Forms; (ii) copies of each of the material contracts referred to the section headed "Further Information About Our Business" in "Appendix VI — Statutory and General Information" to this prospectus; (iii) the written consents referred to in the section headed "Other Information — Consents of Experts" in Appendix VI to this prospectus; and (iv) a list of the names, addresses and descriptions of the Selling Shareholders.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Norton Rose Hong Kong at 38/F., Jardine House, 1 Connaught Place, 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 Memorandum and Articles of Association of the Company;

(b) the accountant's report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendixes IA-ID to this prospectus;

(c) the audited consolidated financial statements of the Group for the period from 30 July 2008 (date of incorporation) to 30 June 2009 and year ended 30 June 2010;

(d) the report in relation to unaudited pro forma financial information, the text of which is set out in Appendix II;

(e) the letters from Deloitte Touche Tohmatsu and the Joint Sponsors in relation to profit forecast, the texts of which are set out in Appendix III;

(f) the letter, summary of values and valuation certificates relating to our property interests prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this prospectus;

(g) the valuation report considering the fair values of biological assets belonging to Leading Farming as at 30 June 2007, 30 June 2008 and 6 July 2008 and Modern Farm as at 30 June 2009 and 30 June 2010 prepared by Jones Lang LaSalle Sallmanns Limited;

(h) the valuation report considering the fair values of biological assets belonging to Helingeer Modern Farm as at 30 June 2007, 30 June 2008 and 30 December 2008 prepared by Jones Lang LaSalle Sallmanns Limited;

(i) the valuation report considering the forecast fair values of biological assets belonging to Modern Farm as at 31 October 2010 and 30 June 2011 prepared by Jones Lang LaSalle Sallmanns Limited;

(j) the PRC legal opinions issued by Commerce & Finance Law Offices, our legal advisor on PRC law, in respect of our general matters and property interests of the Group;

(k) the material contracts referred to in the section headed "Further Information about our Business — Summary of Material Contracts" in Appendix VI;

(l) the written consents referred to in the section headed "Other Information — Consents of Experts" in Appendix VI;

(m) the service contracts referred to in the section headed "Statutory and General Information — Further Information about our Directors and Substantial Shareholders and Experts — Particulars of service contracts" in Appendix VI to this prospectus;

(n) letter prepared by Maples and Calder summarizing certain aspects of Cayman Islands company law referred to in Appendix V to this prospectus;

(o) Companies Law; and

(p) statement of particulars of the Selling Shareholders.

現代牧業塞北牧場實景圖
Modern Dairy Sai Bei Farm

MODERN FARMING

现代牧业

中國現代牧業控股有限公司

China Modern Dairy Holdings Ltd.