Global Dairy Holdings Limited
環球乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01007

GLOBAL OFFERING

Sole Global Coordinator and Sponsor

MACQUARIE

Joint Bookrunners

MACQUARIE

建银国际 CCB International

Joint Lead Managers

MACQUARIE

建银国际 CCB International

農銀國際 ABC INTERNATIONAL

IMPORTANT

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

Global Dairy Holdings Limited
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GLOBAL OFFERING

Number of Offer Shares under the Global Offering :	**360,880,000 Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares :	**36,088,000 Shares (subject to adjustment)**
Number of International Placing Shares :	**324,792,000 Shares (comprising 108,260,000 Sale Shares to be offered by the Selling Shareholders and 216,532,000 Offer Shares to be offered by the Company, subject to adjustment and the Over-allotment Option)**
Maximum Offer Price :	**HK$5.20 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)**
Nominal Value :	**HK$0.00001 per Share**
Stock Code :	**01007**

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A copy of this prospectus, having attached to it the documents specified in the section headed "Documents delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date. The Price Determination Date is expected to be on or around 21 October 2010 and, in any event, not later than 26 October 2010. The Offer Price will be not more than HK$5.20 and is currently expected to be not less than HK$3.60 unless otherwise announced. Applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$5.20 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined should be lower than HK$3.60.

The Sole Global Coordinator (on behalf of the Underwriters) may, with our consent and the consent of the Selling Shareholders, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK$3.60 to HK$5.20 per Offer Share) at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offer. In such case, notices of the reduction in the number of the Hong Kong Offer Shares and/or the indicative Offer Price range 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 last day for lodging applications under the Hong Kong Public Offer. Such notices will also be available at our website at **www.global-dairy.com.cn** and the website of the Stock Exchange at **www.hkexnews.hk**. If applications for the Hong Kong Offer Shares have been submitted before the day which is the last day for lodging applications under the Hong Kong Public Offer, then even if the number of the Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us, the Global Offering (including the Hong Kong Public Offer) will not proceed. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to procure subscribers for or themselves to subscribe for the Hong Kong Offer Shares are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise before 8:00 a.m. on the day that trading in the Offer Shares is due to commence on the Stock Exchange. These grounds are set out in the section headed "Underwriting — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been, and will not be, registered under the US Securities Act and, subject to certain exceptions, may not be offered or sold in the United States.

15 October 2010

Application lists open (Note 2)	11:45 a.m. on 20 October 2010
Latest time to lodge **white** and **yellow** Application Forms and to give **electronic application instructions** to HKSCC (Note 3)	12:00 noon on 20 October 2010
Latest time to complete electronic applications under the **White Form eIPO** service through the designated website **www.eipo.com.hk** (Note 4)	11:30 a.m. on 20 October 2010
Latest time to complete payment of the **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on 20 October 2010
Application lists close (Note 2)	12:00 noon on 20 October 2010
Expected Price Determination Date (Note 5)	21 October 2010

(1) Announcement of:

- the Offer Price;
- the level of applications in the Hong Kong Public Offer;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Hong Kong Offer Shares,

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before .... 27 October 2010

(2) Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (please refer to the section headed "How to Apply for Hong Kong Offer Shares — Publication of results" in this prospectus) from .... 27 October 2010

(3) A full Announcement of the Hong Kong Public Offer containing of (1) and (2) above to be published on the website of the Stock Exchange at **www.hkexnews.hk** (Note 6) and the Company's website at **www.global-dairy.com.cn** (Note 7) from .... 27 October 2010

Results of allocations in the Hong Kong Public Offer will be available at **www.iporesults.com.hk** with a "search by ID" function	27 October 2010
White Form e-Refund payment instructions in respect of wholly or partially unsuccessful applications to be despatched on or before (Notes 8 and 13)	27 October 2010
Refund cheques in respect of wholly or partially unsuccessful applications to be posted on or before (Notes 9, 10, 11 and 13)	27 October 2010

Share certificates to be posted or deposited into CCASS on or before (Notes 9 to 12)	27 October 2010
Dealings in Shares on the Stock Exchange expected to commence	at 9:30 a.m. on 28 October 2010

Notes:

(1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus. We will publish an announcement in case there is any change in the expected timetable of the Hong Kong Public Offer shown above.

(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 20 October 2010, the application lists will not open on that day. Please refer to the section headed "How to Apply for Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists" in this prospectus.

(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 Hong Kong Offer Shares — Applying 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, at which time the application lists will close.

(5) The Price Determination Date is expected to be on or around 21 October 2010 and in any event not later than 26 October 2010. If, for any reason, we, the Selling Shareholders and the Sole Global Coordinator (on behalf of the Underwriters) are unable to reach an agreement on the Offer Price, the Hong Kong Public Offer and the International Placing will not become unconditional and will lapse immediately.

(6) The announcement will be available for viewing on the "New Listings — Main Board — Allotment Results" page on the Stock Exchange's website at **www.hkexnews.hk**.

(7) None of the website or any of the information contained on the website forms part of this prospectus.

(8) Applicants who apply through the **White Form eIPO** service by paying the application monies through a single bank account may have e-Refund payment instructions (if any) despatched to their application payment bank account on or around 27 October 2010. Applicants who apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions to the designated White Form eIPO Service Provider on or around 27 October 2010, by ordinary post and at their own risk.

(9) Applicants who apply on **white** Application Forms for 1,000,000 Hong Kong Offer Shares or more and have indicated in their Application Forms that they wish to collect refund cheques (where applicable) and Share certificates (where applicable) in person from the Hong Kong Share Registrar may collect refund cheques (where applicable) and Share certificates (where applicable) in person from the 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 27 October 2010. Applicants being individuals who opt for personal collection must not authorise any other persons to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporation's chop. Identification documents and (where applicable) authorisation documents acceptable to the Hong Kong Share Registrar must be produced at the time of collection. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares — Despatch/collection of Share certificates and refund of application monies" in this prospectus. Part of your Hong Kong Identity Card number/passport number, or, if you are a joint applicant, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

(10) Applicants who apply on **yellow** Application Forms for 1,000,000 Hong Kong Offer Shares or more and have indicated in their Application Forms that they wish to collect refund cheques in person may collect their refund cheque (if any) but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participant stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques (if any) for applicants who apply on **yellow** Application Forms are the same as those for applicants who apply on **white** Application Forms.

(11) Uncollected Share certificates and/or refund cheques (if any) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares — Despatch/collection of Share certificates and refund of application monies" in this prospectus.

(12) Share certificates for the Hong Kong Offer Shares applied by **yellow** Application Forms and giving electronic application instructions to HKSCC are expected to be deposited into CCASS on 27 October 2010 for credit to the respective CCASS Participant's stock accounts.

(13) Refunds will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applicants in the event that the Offer Price as finally determined is less than the price payable on application.

Share certificates will only become valid if the Global Offering becomes unconditional and neither of the Underwriting Agreements is terminated in accordance with its terms before 8:00 a.m. on the Listing Date, which is expected to be 28 October 2010. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before the Share certificates become valid do so entirely at their own risk.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Global Dairy Holdings Limited solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares, and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any securities other than the Hong Kong Offer Shares. 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. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any securities in any other jurisdiction or in any other circumstances.

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

We have not authorised anyone to provide you with information that is different with 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 authorised by us, the Selling Shareholders, the Sole Global Coordinator, the Sponsor, any of the Underwriters, any of their directors, or any other persons or parties involved in the Global Offering.

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are one of the top ten local brand milk powder companies in the PRC market [Note 1]. We are principally engaged in the production, marketing, and sale of medium-to-high and premium-priced milk formula products in China. Our dairy products are classified into the following two main categories:

- milk formula products; and
- whole milk powder products.

Our milk formula products and whole milk powder products include a full range for infants and children. Our infant and paediatric milk formula products aim to supply the balanced nutrition that an infant or a child needs in his or her first few months and throughout the various stages of childhood growth and development. In addition, we have milk formula products fortified with various vitamins and essential minerals that aim to provide supplements in meeting special nutritional requirements for older children, adults, the elderly, pregnant and lactating women. Our Directors believe that our broad range of products enables us to better target consumers across different income groups with different product value propositions, thereby satisfying their particular needs.

Our main product category, milk formula products, comprises the Shi Jia Series 仕加配方奶粉系列, the Emilon Series 愛美樂配方奶粉系列 and the Daqing Series 大慶牌配方奶粉系列. The products in our Shi Jia Series are designed for consumers of premium-priced milk formula products which are suitable for infants and children at different growth stages as well as post-natal women. We aim to target our Shi Jia Series at consumers in second- and third-tier municipalities, particularly eastern coastal cities of the PRC. The products in our Emilon Series are designed for consumers of medium-to-high priced milk formula products catering for the changing nutritional needs of growing infants and children. We aim to target our Emilon Series at consumers in second- and third-tier municipalities. The products in our Daqing Milk Formula Series are designed for consumers of low-to-medium priced milk formula products suitable for children, adults and the elderly. We aim to

Note:

(1) According to the Euromonitor International Report, we ranked ninth among the local brand owners in the Milk Powder market in China with a 1.5% of market share and 15th among the brand owners in the Milk Powder market in China (which comprised both foreign and local brand owners) with a 1.5% of market share in terms of sales value in 2009. We have commissioned Euromonitor International, an Independent Third Party, to prepare the Euromonitor International Report.

target our Daqing Milk Formula Series at consumers in villages and counties near second- and third-tier municipalities. Our whole milk powder products are sold under the brand 大慶牌 "Daqing". In addition, we produce a variety of ice cream products under our own brand 慶乳 "Qingru" with over 10 flavours.

We mainly sell our milk formula products and whole milk powder products through an extensive network of 120 distributors in China which are Independent Third Parties. Our distributors sell our milk formula products and whole milk powder products to their sub-distributors or directly to retail outlets, such as department stores, shopping malls, supermarkets, and children's and parenting specialty stores, in 21 provinces and Chongqing municipality. We have non-exclusive agreements with all of our current distributors. These agreements are generally for a term of one year. Our Directors have confirmed that a majority of our current distributors with whom we have entered into the distribution agreements are privately-owned entities. In general, we require our distributors to pay the full purchase price before we deliver our products to them. Our distributors are only permitted to sell our milk formula products and whole milk powder products in their designated distribution areas under the distribution agreements. We monitor and ensure, through our district sales managers for each geographical region, that our distributors do not compete in the same designated distribution areas. If any of our distributors is in breach of the above term of the distribution agreements, we have the right to terminate the relevant distribution agreement. We sell our milk formula products and Daqing sweetened whole milk powder directly to supermarkets, and other retail chain stores in Daqing municipality and other customers who purchase from us on an ad hoc basis, and our whole milk powder (packaged in 25 kg bags) directly to our customers such as food processing enterprises. We intend to continue selling our milk formula products and whole milk powder products in Heilongjiang province through our distributors and by way of direct sale, and in areas outside Heilongjiang province through our distributors. For each of the financial years ended 31 December 2008 and 31 December 2009, and the six months ended 30 June 2010, approximately 71.7%, 69.1% and 85.3% of our sales, respectively, were made to our distributors. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, approximately 59.4% and 77.3% of the sales of the Daqing Dairy Group, respectively, were made to our distributors. We sell our ice cream products directly to retail outlets in Daqing municipality and the areas which are in close proximity to Daqing municipality.

According to the Euromonitor International Report, we ranked ninth among the local brand owners in the Milk Powder market in China with a 1.5% of market share and 15th among the brand owners in the Milk Powder market in China (which comprised both foreign and local brand owners) with a 1.5% of market share in terms of sales value in 2009.

The table below sets out our revenue by product segment for the periods indicated:

	Daqing Dairy Group (Note 1)												The Group (Notes 1 and 5)									
	Year ended 31 December 2007 (Note 2)		Period from 1 January 2008 to 24 July 2008		Year ended 31 December 2008		Year ended 31 December 2009		Six months ended 30 June 2009		Six months ended 30 June 2010		Period from 8 October 2007 to 31 December 2007		Year ended 31 December 2008		Year ended 31 December 2009		Six months ended 30 June 2009		Six months ended 30 June 2010	
	Revenue		Revenue		Revenue		Revenue		Revenue		Revenue		Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue
Milk formula products	221,859	72.6	207,258	87.8	366,482	84.6	431,605	84.6	173,022	81.6	333,508	89.7	–	–	159,224	80.7	431,605	84.6	173,022	81.6	335,508	89.7
Shi Jia Series 仕加配方奶粉系列	–	–	–	–	–	–	–	–	–	–	28,703	7.7	–	–	–	–	–	–	–	–	28,703	7.7
Emilon Series 愛美樂配方奶粉系列	157,525	51.5	158,204	67.0	277,234	64.0	308,669	60.5	113,658	53.6	246,404	65.9	–	–	119,030	60.3	308,669	60.5	113,658	53.6	246,404	65.9
Daqing Series 大慶牌配方奶粉系列	64,078	21.0	49,054	20.8	89,248	20.6	122,936	24.1	59,364	28.0	60,401	16.1	–	–	40,194	20.4	122,936	24.1	59,364	28.0	60,401	16.1
Others (Note 3)	256	0.1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Whole milk powder products	83,604	27.4	28,689	12.2	65,034	15.0	61,671	12.1	32,063	15.1	26,100	7.0	–	–	36,345	18.4	61,671	12.1	32,063	15.1	26,100	7.0
Others (Note 4)	–	–	–	–	1,800	0.4	16,759	3.3	7,107	3.3	12,259	3.3	–	–	1,800	0.9	16,759	3.3	7,107	3.3	12,259	3.3
Total	**305,463**	**100.0**	**235,947**	**100.0**	**433,316**	**100.0**	**510,035**	**100.0**	**212,192**	**100.0**	**373,867**	**100.0**	**–**	**–**	**197,369**	**100.0**	**510,035**	**100.0**	**212,192**	**100.0**	**373,867**	**100.0**

Notes:

(1) Global Milk Singapore acquired the entire equity interest in Daqing Dairy on 25 July 2008 pursuant to an equity transfer agreement dated 26 December 2007 entered into between Mr Pan, Mr Xu, Mr Du and Global Milk Singapore. The operating results of the Daqing Dairy Group before the completion of the acquisition and of our Group after the completion of the acquisition are not directly comparable as they are two separate entities from an accounting perspective. The table above contains financial information from the accountants' report of our Group and the accountants' report of the Daqing Dairy Group, which are included as Appendix IA and Appendix IB to this prospectus, respectively.

(2) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

(3) Revenue from the sale of other products in 2007 includes the sale of the remaining inventory, such as our Mei Er Si Te Series 美爾斯特 and our Qiao Fu Series 巧芙, which were discontinued in 2007. We undertook a strategic review of our existing brands of "Daqing", Mei Er Si Te Series and Qiao Fu Series in early 2007. Pursuant to the review, we decided that having two milk formula product brands without a clearly defined market segment was inefficient in terms of brand promotion and development. As such, our management decided to discontinue the brands under Mei Er Si Te Series and Qiao Fu Series and instead developed the new brand of 愛美樂 "Emilon" to replace the brands of Mei Er Si Te Series and Qiao Fu Series. The "Daqing" brand was retained to focus on consumers of low-to-medium priced milk formula products while the "Emilon" brand was then positioned to target consumers of medium-to-high priced milk formula products.

(4) Revenue from the sale of other products in 2008, 2009, and the six months ended 30 June 2009 and 2010 represents the sale of our ice cream products. We produce a variety of ice cream products under our own brand 慶乳 "Qingru" with over 10 flavours. Our ice cream products are sold in different forms, such as ice cream cups, ice cream bars, ice cream cones and tubs of packaged ice cream, ranging from 75 g to 5 kg per pack. The shelf life of our ice cream products is normally 18 months. We sell our ice cream products directly to retail outlets in Daqing municipality and the areas in close proximity to Daqing municipality. We collect sales payments in cash when the ice cream products are delivered.

(5) Although Global Milk Singapore was incorporated on 15 September 2006, the financial information of the Group has only presented the financial information of the Group from 8 October 2007, which was the date Global Milk Singapore was acquired by the Controlling Shareholder. However, Global Milk Singapore did not commence its business operations until its acquisition of the entire equity interest of Daqing Dairy on 25 July 2008. As a result, the financial information of the Group relating to the period from 8 October 2007 to 31 December 2007 is not comparable to the financial years ended 31 December 2008 and 2009. Furthermore, the Group only had substantial business operations from 25 July 2008 which has a material effect on the comparability of the financial information of the Group for the financial year ended 31 December 2008 with the financial year ended 31 December 2009, which had business operations for the full year.

Since the establishment of our production facility in Daqing in 1970, we have received various awards and certifications which have helped increase the brand recognition of our products. Some of our key awards and certifications include the following:

Awards/certifications	Year of award/ certification	Key issuing institution/authority
"Green" Food Product Certification	2007	China Green Food Development Centre (中國綠色食品發展中心)
National Quality Assurance Food Products (國家質量達標食品)	1999	China Food Industry Association (中國食品工業協會)
Provincial Advanced Enterprise on Quality Control Management (全省質量管理先進企業)	1999	Quality Control Management Association of Heilongjiang Province (黑龍江省質量管理協會)
Famous Trademark in Heilongjiang Province (黑龍江省著名商標)	1999	Heilongjiang Provincial Administration for Industry & Commerce (黑龍江省工商行政管理局)
Famous Brand in Heilongjiang Province for the Year 1996 (Daqing Milk Powder) (1996年黑龍江知名品牌產品 (大慶牌奶粉))	1996	Heilongjiang Quality Supervision and Inspection Association (黑龍江省質量監督檢驗協會), Heilongjiang Quality Control Management Association (黑龍江省質量管理協會) and the Consumers' Association of Heilongjiang Province (黑龍江省消費者協會)
National Advanced Enterprise (Quality and Efficiency Type in food industry) (全國食品行業質量效益型先進企業)	1995	China Food Industry Association (中國食品工業協會)
Advanced Enterprise on Technical Supervision for the Year 1990 (1990年度技術監督先進單位)	1991	People's Government of Daqing Municipality (大慶市人民政府)

We are strategically located in Daqing municipality in the west of Heilongjiang province in the PRC. Daqing is in the central part of the Songnen Plain (松嫩平原) in Heilongjiang province. Heilongjiang province is located along the world's dairy belt region with a latitude of approximately 43 to 53 degrees, along with the Netherlands, Denmark and Hokkaido in Japan, which is a region known for unique geographic conditions including vast grasslands and a cool climate.

We source raw milk, the primary raw material for the production of our products, from selected milk collection centres which, in turn, collect raw milk from dairy farms and individual dairy farmers in proximity to Daqing municipality. We have non-exclusive raw milk supply agreements with over 10 milk collection centres, which provide us with sufficient and stable supply of high quality raw milk. We have non-exclusive raw milk supply agreements which are generally for a term of one year. Both parties to the relevant non-exclusive raw milk supply agreement have the right to terminate the agreement if the agreement cannot be implemented due to the occurrence of any unforeseeable circumstances that prevent any of the parties to the agreement from performing the agreement. We also have the right to terminate the agreement if the raw milk supplied contains contaminants.

The table below sets out the revenue attributed to the sales of the milk formula products and whole milk powder products to the Daqing Dairy Group's customers for each of the financial years ended 31 December 2007 and 2008, and the Group's customers for the financial year ended 31 December 2009, and the six months ended 30 June 2010:

	Daqing Dairy Group				**The Group**			
	Year ended 31 December 2007		**Year ended 31 December 2008**		**Year ended 31 December 2009**		**Six months ended 30 June 2010**	
	Revenue		**Revenue**		**Revenue**		**Revenue**	
	RMB (thousand)	**% of total revenue**	**RMB (thousand)**	**% of total revenue**	**RMB (thousand)**	**% of total revenue**	**RMB (thousand)**	**% of total revenue**
Distributors	181,512	59.4	323,846	74.7	352,324	69.1	318,732	85.3
- Top five distributors	116,018	38.0	124,946	28.8	60,974	12.0	34,200	9.1
Other customers (Note 1)	123,951	40.6	107,670	24.9	140,952	27.6	42,876	11.5

Note:

(1) These include supermarkets, retail chain stores, food processing enterprises, and customers who purchased milk formula products and whole milk powder products from us directly on an ad hoc basis.

For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, we generated revenue of RMB197.4 million, RMB510.0 million and RMB373.9 million, respectively [Note 1]. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the Daqing Dairy Group generated revenue of RMB305.5 million and RMB235.9 million, respectively. Our profit and total comprehensive income for each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010 was RMB54.1 million, RMB133.5 million and RMB108.4 million, respectively. The profit and total comprehensive income of the Daqing Dairy Group for each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008 was RMB84.7 million and RMB56.1 million, respectively.

We have two production facilities in Daqing municipality and Wuchang municipality. Our current design annual milk powder production capacity of our milk formula products and whole milk powder products is approximately 31,011 tonnes.

We have adopted a strict quality control system over our production, from the sourcing of raw milk to production, and have adopted stringent quality standards which comply with the applicable PRC government standards. This was evidenced by the various awards and certifications we received, including the GMP certification in respect of the phase one production lines at our Daqing production facilities, which we obtained in 2007. For further details, please refer to the section headed "Business — Awards, permits and certifications" in this prospectus. In 2010, we obtained ISO9001:2008 certification for the design, production and sale of dairy products (milk powder and liquid milk), infant milk formula and cold beverages. We ensure that all raw milk supplied to us is tested and analysed on-site for its content before we use them in our production. We conduct periodical inspection on our finished products to ensure compliance with the applicable quality standards in the PRC. As far as our Directors are aware, our products have not been cited for quality issues by either government entities or the media in the PRC.

As at 30 June 2010, we had approximately 29 employees engaged in quality control, of whom 27 were degree holders or had received tertiary education in disciplines mainly related to food science and technology or biotechnology. We have appointed Ms Wang Li Ying (王麗穎) as the manager of our quality control and product development department with responsibility for our overall quality control. Ms Wang, aged 31, is a graduate of 東北農業大學 (Northeast Agricultural University) with a Bachelor of Science degree in Food Science and Engineering. Before joining us in 2008, she had over six years of experience in the food industry. In 2003, Ms Wang was appointed as a Food Sensory Evaluation Expert (食品感官品評專家) by 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd.*). In 2006, Ms Wang received her Qualification Certificate for Professional Post Holding in Heilongjiang Province (黑龍江省專業技術職務任職資格證書) as a food engineer issued by the Heilongjiang Province Human Resources Department (黑龍江省人事廳).

Note:

(1) Our revenue of RMB197.4 million generated in the financial year ended 31 December 2008 reflected the revenue we generated from 25 July 2008 to 31 December 2008 as we did not have any substantial business operations until our acquisition of Daqing Dairy on 25 July 2008. As such, our revenue for the financial year ended 31 December 2008 is not comparable to that of the financial year ended 31 December 2009, which had business operations for the full year.

Our quality control team closely monitors the implementation of our quality control system, which involves the following quality control measures:

(a) as raw materials we purchase may contain contaminants which are harmful to human health, we test the content and quality of all raw milk delivered to us, which include the level of protein, fat, antibiotics and impurities, and acidity to ensure compliance with the National Quality Standard for Raw Milk (中華人民共和國國家標準生鮮牛乳收購標準) and also test the level of melamine in the raw milk to ensure compliance with the applicable quality standards in the PRC. We also carry out sampling tests on other raw materials we purchase for use in our production process such as sucrose, whey powder, vegetable oil, mineral supplements, lactose, maltose, whey protein concentrate and various flavourings for bacteria content and both physical and chemical properties before we accept and store them for use at a later stage in our production process. As these raw materials generally have product expiry dates, we check the raw materials and their product expiry dates before we use them in our production;

(b) we test our semi-finished products for the water content and the level of fat and impurities in accordance with our internal quality standards. We also carry out tests on the content and quality of our finished products, which include the level of protein, fat, sucrose, impurities, bacteria and antibiotics to ensure compliance with the applicable quality standards in the PRC; and

(c) we provide our quality control staff members with compliance training to ensure proper implementation of our quality control procedures.

During the Track Record Period, none of our products was found unfit for consumption and we did not experience any product dispute, product recall or return of products which may have had a material adverse effect on our financial condition or operating results. Our Directors have further confirmed that during the Track Record Period, none of our products had been subject to any government sanctions relating to quality.

COMPETITIVE STRENGTHS

Our Directors believe that our historical success and future prospects are underpinned by a combination of competitive strengths including:

- Access and proximity to strategic production location, quality raw milk source and ideal dairy farming climate.

- Wide range of milk formula products and whole milk powder products, and effective product positioning capabilities.

- Stringent quality control standards and high quality products.

- Strong brand recognition and extensive network.

- Experienced senior management team.

BUSINESS STRATEGIES

Our overall business objective is to become a leading vertically integrated producer of dairy products in China with a broad range of product offerings and a strong focus on medium-to-premium priced milk formula products. To achieve this objective, we have formulated the following major business objectives:

- Expand our product offerings.

- Enhance our brand recognition nationwide.

- Reinforce and expand our distribution network in the PRC.

- Evaluate integration opportunities to expand our business upstream into raw milk production.

We intend to pursue a two-stage strategy to realise our vertical integration plan. The first stage of our vertical integration plan involves our plan to construct a cattle farm designed to raise dairy cows. Based on our preliminary plan and estimate, we expect that the total capital expenditures we require for the implementation of the first stage of our vertical integration plan will be approximately RMB350.0 million, comprising RMB150.0 million for the purchase of mature and productive female dairy cows, RMB 180.0 million for the construction of cattle sheds, milking stations and ancillary facilities, and RMB20.0 million as working capital for the first year operations of the first stage of the above plan. We intend to allocate approximately 34.7% (or approximately HK$350.9 million) of the net proceeds from the Global Offering for implementing the above first stage of our integration strategy and use our internal cash flows to fund the remaining portion of the required capital expenditures. We will review and evaluate the results of the implementation of the first stage of our vertical integration plan before determining the timing and scale of the second stage of our vertical integration plan.

In the second stage of our vertical integration plan, we intend to provide capital, management expertise and implement new technologies to develop the following facilities:

- cattle ranches, including heating in winter and cooling in summer to allow the cattle to be kept in optimal temperatures of nine to 17 degrees;

- sanitation and waste treatment facilities;

- veterinary services;

- milk collection and delivery services; and
- centralised import of brood stock and purchase of cattle feed and other materials to achieve economies of scale.

While we intend to implement the first stage of our vertical integration plan by ourselves, we plan to involve the People's Government of Daqing Municipality (大慶市人民政府) and existing farmers in the vicinity of Daqing municipality as part of the second stage of the above vertical integration plan. Pursuant to a letter of intent of 19 August 2010 between Daqing Dairy and the People's Government of Daqing Municipality (大慶市人民政府), the People's Government of Daqing Municipality (大慶市人民政府) has indicated in principle that it will (i) provide us with lands (including grasslands) in the vicinity of Daqing municipality and other facilities to assist us in the construction of a cattle farm, (ii) lease or procure the leasing of cattle farms to us to the exclusion of other dairy product enterprises, and (iii) provide loan guarantees to dairy farmers so that they are able to secure bank loans for the purchase of high quality cattle brood stocks. Furthermore, the involvement of dairy farmers enables them to tend cattle herd within our centralised facilities and increase their yield and efficiency through the use of modern cattle husbandry techniques and technologies. This will allow us to have access to suitable pasture lands while enable us to shift risks associated with ownership of cattle brood stocks to dairy farmers.

The Daqing Development Area Committee views our continued growth as an impetus to the development of the local agriculture and animal husbandry product processing industry in Daqing municipality and has confirmed that it will introduce with various policies which will support our future growth.

Furthermore, the People's Government of Wuchang Municipality (黑龍江省五常市人民政府) has, on 5 August 2010, also indicated in principle that it will support our future plan to undertake the vertical integration strategy.

Given the importance of raw milk in our production chain, the melamine incident in 2008 and the recent incident relating to hormone-tainted milk formula products in China, our Directors believe that our ability to control the reliability and safety of the source of raw milk will increasingly become a critical success factor in the dairy product market in the PRC. Our Directors further believe that while this vertical integration strategy is currently not expected to create a stand-alone business segment within our Group, it is expected that this should enable us to produce raw milk we require for our production internally and eliminate our need to rely on external sources for raw milk in the future. This, in turn, provides an opportunity for us to better control over the quality of the raw milk we use, the stability and sufficiency of the supply of raw milk and the price of raw milk, so as to enhance our competitiveness in terms of pricing and costs of sale and ensure our continued success in the PRC dairy industry.

As at the Latest Practicable Date, we had not identified any potential cattle farms for acquisition and had not entered into any legally binding agreement or arrangement in respect of any investment in cattle farms. We plan to pursue this vertical integration strategy and seek suitable upstream investment opportunities after the Listing.

RISK FACTORS

There are certain risks involved in our operations. A detailed discussion of the risk factors that our Directors believe are particularly relevant to our Group is set out in the section headed "Risk Factors" in this prospectus. We have categorised these risks as (a) risks relating to our business; (b) risks relating to our industry; (c) risks relating to conducting business in the PRC; and (d) risks relating to the Global Offering and our Shares. The following is a list of the risk factors discussed in that section:

Risks relating to our business

- We depend on third party suppliers of raw milk and other raw materials, and we may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable terms.

- We rely on our distributors to distribute and market our products, and their failure to perform to our expectations may have a material adverse effect on our business, financial condition and operating results.

- We rely on milk formula products and whole milk powder products as our primary type of products. If we fail to improve or maintain our market position or to diversify our product range and expand our product offerings, our business, financial condition and operating results may be materially and adversely affected.

- Our success depends on our ability to gain market acceptance and market share for our products and our growth strategy to achieve this may not prove successful.

- We intend to evaluate integration opportunities to expand our business upstream into raw milk production, which may fail to yield benefits and could negatively impact our existing business.

- We may be unable to obtain financing on favourable terms, or at all, to fund our continuing business operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements.

- Our gross profit margins decreased during the Track Record Period.

- Our operations at manufacturing facilities may be disrupted.

- Substantial increases in the cost of purchases of coal may have a material adverse effect on our business, financial condition and operating results.

- We may not be successful in maintaining an effective quality control system at our manufacturing facilities.

- Failure to fully utilise the production capacity of, or to operate, our new production facilities as anticipated may materially and adversely affect our business, financial condition and operating results.

- We do not have an integrated, comprehensive and enterprise-wide management information system. As a consequence, we may not be able to manage our expansion and operations effectively, and our ability to operate our business efficiently may be hindered.

- We did not comply with PRC regulations relating to the housing provident fund.

- We may experience a shortage of labour and our labour costs may increase.

- We rely on our key personnel and our ability to attract and retain qualified personnel. If we are unable to attract, motivate or retain such qualified personnel, our business may be materially and adversely affected.

- The financial information of the Daqing Dairy Group is not directly comparable with that of our Group.

- Our operating results are subject to seasonal fluctuation and other variations.

- We are exposed to payment delays or defaults by our customers.

- Our internal control policies and procedures may be inadequate or ineffective.

- We face possible infringement of our trademarks and other intellectual property rights and possible counterfeiting of our products, and may inadvertently infringe third party intellectual property rights.

- We may be subject to product liability claims if our products are found to be unfit for consumption or cause illness.

- We may not have insurance coverage that is adequate to cover potential liabilities or losses.

- Delivery delays or poor handling by distributors and transport operators may have a material adverse effect on our business, financial condition and operating results.

- There may be a dilutive effect on the earnings per Share associated with the Share Option Scheme and an impact on future earnings.

- The interests of our Controlling Shareholder may not always coincide with the best interests of our Company and our other Shareholders, and we have a limited operating history under our Controlling Shareholder.

Risks relating to our industry

- We operate in a highly competitive market.

- Adverse publicity concerning milk formula and other dairy products may affect our business performance or damage our reputation, and their societal impact may lead to additional government regulations.

- The PRC Milk Powder industry, including the Baby Milk Powder industry, may face slower growth.

- The PRC Government food safety and food production laws and regulations may become more onerous, and our related certificates may be revoked, or may not be renewed or extended, which may materially and adversely affect our business, financial condition and operating results.

- We may be subject to higher compliance costs if PRC environmental protection laws and regulations become more onerous, which may materially and adversely affect our business, financial condition and operating results.

- Global market fluctuations and economic downturn may materially and adversely affect our business, financial condition and operating results.

Risks relating to conducting business in the PRC

- Any adverse change in the political and economic policies of the PRC Government may materially and adversely affect our business, financial condition and operating results and may result in our inability to sustain our growth and expansion strategies.

- Inflation in China may have a material adverse effect on our business, financial condition and operating results.

- There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

- PRC regulations relating to acquisitions of PRC companies by offshore holding companies may limit our ability to acquire PRC companies and may materially and adversely affect the implementation of our acquisition strategies as well as our business and prospects.

- Implementation of the PRC Labour Contract Law and other labour-related regulations in China may materially and adversely affect our business, financial condition and operating results.

- Failure to comply with the SAFE regulations relating to the establishment of special purpose vehicles by our beneficial owners may materially and adversely affect our business operations, limit our ability to inject capital into our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute profits to us or subject us to fines.

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

- Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.

- Our Company is a holding company that relies on payments from our subsidiaries for funding.

- We may be deemed to be a PRC tax resident under the EIT Law and be subject to PRC taxation on our worldwide income.

- Fluctuations in foreign exchange rates and changes in foreign exchange regulations may materially and adversely affect our business, financial condition, operating results and our ability to remit payments.

- Income in respect of our Shares or dividends from PRC subsidiaries may become subject to PRC taxes.

- It may be difficult to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgements obtained from non-PRC courts against, us or our management who reside in the PRC.

- Acts of God, acts of war, epidemics, such as severe acute respiratory syndrome (SARS), H5N1 avian flu or H1N1 influenza, and other disasters may affect our business.

Risks relating to the Global Offering and our Shares

- As there has been no prior public market for our Shares before the Listing, the liquidity and market price of our Shares following the Listing may be volatile.

- Purchasers of the Offer Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

- Any actual or perceived sale of Shares in the future by our existing Shareholders may have a material adverse effect on our Share price.

- You may face difficulties in protecting your interests because we are incorporated under Cayman Islands laws, and the laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or other jurisdictions.

- Facts and statistics in this prospectus relating to the PRC, the PRC economy and the dairy industry in the PRC may not be fully reliable.

- You may not place undue reliance on information derived from the research report contained in this prospectus.

THE MELAMINE INCIDENT

In July 2008, several infants in Gansu province in the PRC were diagnosed with kidney stones after consuming milk powder products produced by a milk formula producer in the PRC that were contaminated with melamine. This led to a nationwide investigation into dairy products, particularly milk formula, for traces of melamine. According to the investigation carried out by the AQSIQ in 2008 on the products of 109 milk formula product producers in the PRC, the products of 22 milk formula product producers in the PRC (which did not include us) were found to have been contaminated with melamine. The AQSIQ has subsequently also carried out random sampling tests on the content of melamine in the products of various dairy product producers in the PRC, including us, which revealed that (i) our Daqing Hi-Calcium and Hi-Iron Milk Formula for women (400 g per box) and Daqing Multi-Vitamin Hi-Calcium Milk Formula (for the elderly and the middle-aged) (400 g per box) under our Daqing Milk Formula Series, and (ii) our Follow-up Milk Formula (Stage 2) under our Emilon Series (400 g per box), which were subject to the tests, passed the melamine tests. The incident caused the death of a few infants in the PRC and left thousands of infants in the PRC hospitalised due to the development of kidney stones and kidney failure caused by the consumption of the milk formula products that were contaminated with melamine. The PRC Government has subsequently taken stringent measures to ensure safety of dairy products such as recalling, taking off from retail shelves and destroying the milk formula products that were contaminated with melamine. The AQSIQ has also sent officers to quality control departments of the milk formula product producers in the PRC to monitor their production processes and inspect the quality and safety of the finished products.

The melamine scandal in 2008 undermined consumers' confidence in paediatric milk formula produced by milk powder sourced domestically, which was reflected in the significant drop in such purchases and resulted in a decrease in production volume and led to more consumers in the PRC shifting their purchase of infant milk formula from domestically sourced infant milk formula to internationally sourced infant milk formula. According to the Euromonitor International Report, the retail sales volume of the Milk Powder market in China dropped by 3.2% in 2008 from 678,580 tonnes in 2007 to 656,600 tonnes in 2008.

Our Directors believe that the common ways in which our products may be contaminated with melamine are (i) the use of melamine-contaminated cattle feed to feed the dairy cows which form the source of the raw milk supplied to us, and (ii) the addition of melamine by third parties into raw milk at the milk collection centres or prior to the delivery of raw milk to us, or the addition of melamine during the production process of our products. Our Directors have confirmed that during the Track Record Period, (i) we did not add any melamine into our products (ii) none of our products contains any melamine, and (iii) we did not experience any product dispute, product recall or return of products which may have had a material adverse effect on our financial condition or operating results. Our Directors have further confirmed that during the Track Record Period, none of our products had been subject to any government sanctions relating to quality.

Our Emilon Series of milk formula products, which are targeted at consumers of the middle-to-high income group in the second- and third-tier municipalities in China, has been negatively affected by the melamine incident. This led some consumers within this target customer group, which generally have stronger purchasing power, to switch to imported brands of milk formula. While this slowed the rate of our revenue growth of the Emilon Series, sales of our Emilon Series still increased despite the difficult market conditions. On the other hand, our Daqing Milk Formula Series recorded faster revenue growth as a result of the melamine incident. The melamine incident led certain players in China that were affected by the melamine incident to exit the market. As consumers in the counties and villages in rural areas in China generally have a lower purchasing power, they were not able to switch to imported brands which are generally higher-priced products. As a result, the consumers in these areas switched to other local brand products such as our Daqing Milk Formula Series, which are targeted at consumers in villages and counties near second- and third-tier municipalities in the PRC.

The gross profit margin of the Daqing Dairy Group decreased from 49.9% for the financial year ended 31 December 2008 to 46.9% for the financial year ended 31 December 2009, primarily due to a decrease in the gross profit margin of the Daqing Dairy Group for our milk formula products, which was partially offset by an increase in the gross profit margin of the Daqing Dairy Group for our whole milk powder products. The gross profit margin of the Daqing Dairy Group for our milk formula products declined 3.8% from 57.3% for the financial year ended 31 December 2008 to 53.5% for the financial year ended 31 December 2009. The decline in the gross profit margin of the Daqing Dairy Group for our milk formula products was primarily due to the decline in the gross profit margin of the Emilon Series milk formula by 3.7%, as a result of changes in the sales mix of the Emilon Series product offerings with more of the lower margin Emilon Bei Cong Series being sold compared to the higher margin Emilon Shuang Neng Series as target consumers in the higher priced market segment were more affected by the melamine incident.

The gross profit margin of the Daqing Dairy Group increased to 51.2% for the six months ended 30 June 2010 primarily due to the introduction of our Shi Jia Series with relatively higher gross profit margin of 71.4% and the shift in product mix in favour of the higher gross profit margin milk formula products from 84.6% of revenue in the year ended 31 December 2009 to 89.7% of revenue in the six months ended 30 June 2010.

The tests conducted by an external testing centre on some of our milk formula products and whole milk powder products in 2008 and 2009 on a sampling basis, and the tests conducted by two external testing centres on all of our milk formula products and whole milk powder products in 2010, confirmed that these products did not contain melamine. These external testing centres are Independent Third Parties. Furthermore, the various internal melamine tests carried out by us on the raw milk supplied to us and some of our finished products in 2008 and 2009 confirmed that these raw milk and finished products did not contain any melamine.

THE HORMONE-TAINTED MILK FORMULA INCIDENT

In August 2010, three infants in Hubei province in the PRC were reported to have experienced pubescent development, which was allegedly caused by the content of estrogen hormones found in a particular local brand milk formula products they consumed. This resulted in the Ministry of Health of the PRC launching an investigation into the above alleged claims. The clinical investigation conducted by the Ministry of Health of the PRC on the residue of milk powder consumed by these infants revealed that the milk formula products involved did not contain estrogen hormones such as diethylstilbesterol (乙烯雌酚), medroxy progesterone acetate (醋酸甲孕酮), estradiol (雌二醇) and progesterone (孕酮) that caused these infants' pubescent development.

Our enquiries with the National Dairy Product Testing Centre of the PRC (國家乳品檢測中心), the Ministry of Agriculture of the PRC, various external testing centres in Heilongjiang province and a testing centre in Guangzhou, a PRC government agency operated by the PRC municipal government, confirm that presently, there are no requirements and applicable standards on testing of the content of estrogen hormones in dairy products in the PRC. To the best of the knowledge of the Directors, our discussions with the testing centre in Guangzhou have also confirmed that as the PRC Government has not adopted any formal applicable standards for testing the content of estrogen hormones, the testing centre in Guangzhou will not issue any appraised report on its testing results with legal force. In view of this, any report that the testing centre in Guangzhou may issue on the testing results will indicate only the existence of hormones in the products tested and such report is for reference only. An external testing centre outside the PRC, which is an Independent Third Party, was appointed to carry out a sampling test on the content of various hormones, including the above estrogen hormones, in some of our products. The external testing centre confirmed that based on the minimum detectable limits of the testing equipment used to carry out the tests, the tests did not detect any of the above estrogen hormones in the sample products that were tested. Our Directors consider that the test results from the above testing centre outside the PRC on the content of estrogen hormones in some of our products are sufficient indications that our milk formula products do not contain estrogen hormones. If the PRC Government imposes any requirements and applicable standards on testing of the content of estrogen hormones in dairy products, we will carry out such tests on our products in compliance with the applicable requirements and standards.

We carry out tests on the content and quality of raw milk delivered to us and our finished products in accordance with the applicable quality standards in the PRC. Our Directors have confirmed that as there are no requirements and applicable standards in the PRC on the testing of the content of estrogen hormones in dairy products, including raw milk, we do not put in place a quality control measure to test the content of estrogen hormones in raw milk delivered to us and our products. Our Directors have further confirmed that we do not add any estrogen hormones into our products.

While our Directors believe that the above alleged hormone-tainted milk formula incident does not have a material adverse effect on our sales of milk formula products since the incident, the incident may undermine consumers' confidence in domestic milk formula products, in particular, paediatric milk formula products and consumers may avoid their purchase of local brand milk formula products in the PRC. This may, in turn, have an impact of the sales of local brand milk formula products in the PRC. Please refer to the section headed "Risk Factors — Adverse publicity concerning milk formula and other dairy products may affect our business performance or damage our reputation, and their societal impact may lead to additional government regulations" in this prospectus for further information.

PRE-IPO INVESTMENTS IN THE COMPANY PRIOR TO THE GLOBAL OFFERING

Since our Company's incorporation until immediately prior to the Global Offering, the Pre-IPO Investors and our Controlling Shareholder have made various investments in our Company in the following manners:

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
1 November 2009	Share transfer agreement in respect of the transfer of 10.3% of the entire issued share capital in our Company from Mr Zhao to Kenmoore ("**Kenmoore Transfer Agreement**").	(1) Mr Zhao (2) Kenmoore	Approximately US$6.01 million	• Consideration determined on the basis of 4 times price earnings ratio of the Group's NPAT for the financial year ended 31 December 2009 and assuming a NPAT of RMB100 million. • The purchase price per Share (on a sub-divided basis) would be approximately HK$0.82 each which represents a discount of approximately 77.2% and 84.2% to the minimum Offer Price of HK$3.6 and maximum Offer Price of HK$5.2, respectively. • Completion took place on 18 November 2009 whereby the full consideration was paid by Kenmoore and 57 ordinary shares of HK$0.01 each in the capital of our Company, representing 10.3% of our then issued share capital, was transferred by Mr Zhao to Kenmoore.
20 November 2009	Investment agreement ("**Investment Agreement**") consisting of: (i) a bridging finance portion ("**Bridging Loan**"); and	(1) Company (2) The Pre-IPO Investors in the following proportions: a. Kenmoore (approximately 17.8%) b. Venstar Investments (approximately 11.9%) c. 2G Capital (approximately 14.3%) d. NF Capital (approximately 14.3%) e. Magic Carpet (approximately 14.3%) f. Providence SOGF (approximately 3.6%)	**Bridging Loan Amount:** S$21 million (approximately RMB102.3 million)	• Under the terms of the Investment Agreement, the Bridging Loan and the proceeds of the Share subscription may only be utilised for the purpose of funding the acquisition of Daqing Dairy by Global Milk Singapore. • The maturity date of the Bridging Loan was three months to 28 February 2010. Upon maturity, the full Bridging Loan Amount together with a one-time processing fee of 2% of the Bridging Loan Amount was repayable. • The total amount repayable had been fully repaid immediately prior to the maturity date of the Bridging Loan by Kenmoore (S$11.55 million, approximately RMB56.11 million) and Mr Zhao (S$9.87 million, approximately RMB47.95 million) for and on behalf of our Company. • As a result of the above repayment, our Company became indebted to Mr Zhao and Kenmoore in the aggregate amount of S$21.42 million (approximately RMB104.32 million).

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
		g. Blooming Global (approximately 2.4%) h. Broad Idea (approximately 6.0%) i. Mr Lee (approximately 11.9%) j. Mr Chua (approximately 3.6%)		• (i) We settled the amount due to Mr Zhao by paying him a sum of S$7.8 million (approximately RMB 37.73 million) in cash on 11 March 2010 and by applying the balance of S$2.07 million (approximately RMB10.14 million) on 28 February 2010 towards the outstanding sum due from him to our Company under the Subscription Agreement (see below), and (ii) we settled the amount due to Kenmoore by applying the entire sum of S$11.55 million (approximately RMB56.11 million) on 28 February 2010 towards the investment agreed to be paid by the Pre-IPO Investors under the SSFA (see below).
		(3) Mr Zhao CW and Mr Zhao, as warrantors		• The S$9.87 million (approximately RMB47.95 million) required by Mr Zhao to partially settle the Bridging Loan Amount was borrowed by Mr Zhao from Kenmoore on 30 January 2010 (the "**January 2010 Loan**"). This amount (together with the December 2009 Loan (see below)) was repaid in two tranches (in June 2010 and July 2010) on behalf of Mr Zhao by Mr Zhao CW through his controlled company, namely Dazheng Real Estate to Mr Chua Beng Huat, a director and controlling shareholder of Kenmoore. Payments were made in cash in RMB in China.
	(ii) a subscription of Shares portion whereby the Pre-IPO Investors agreed to subscribe for 127,829 Shares ("**Share Subscription**")		**Share Subscription amount:** S$21 million (approximately RMB102.3 million) The Bridging Loan Amount and the Share Subscription amount were paid by 2 December 2009.	• Consideration for the Share Subscription was determined on the basis of 6 times price earnings ratios of our Group's NPAT for the financial year ended 31 December 2009 and assuming a NPAT of RMB100 million. • The purchase price per Share (on a sub-divided basis) would be approximately HK$0.91 each which represents a discount of approximately 74.7% and 82.5% to the minimum Offer Price of HK$3.60 and maximum Offer Price of HK$5.20, respectively. • The Pre-IPO Investors warranted that each of them would remain the beneficial holder of the Shares subscribed until our Company is listed on the Stock Exchange or any other official stock exchange acceptable to the Pre-IPO Investors, and would not enter into any agreement with any person or company to part with the ownership thereof at any time before the Company's listing on the Stock Exchange or any other official stock exchange acceptable to the Pre-IPO Investors.

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
20 November 2009	Subscription agreement in respect of 63,171 Shares by Mr Zhao ("**Subscription Agreement**")	(1) Company (2) Mr Zhao	RMB125 million In December 2009, Mr Zhao paid the US$ equivalent of RMB114.86 million to our Company as part settlement of the consideration. The balance was settled on 28 February 2010.	• Under the Subscription Agreement, the proceeds of the Shares subscription shall only be utilised for the purpose of funding the acquisition of Daqing Dairy by Global Milk Singapore. • In order to fund the subscription of the Shares under the Subscription Agreement, Mr Zhao borrowed approximately US$16.63 million from Kenmoore in early December 2009 (the "**December 2009 Loan**"). This amount (together with the January 2010 Loan (see above)) was repaid in two tranches (in June 2010 and July 2010) on behalf of Mr Zhao by Mr Zhao CW through his controlled company, namely Dazheng Real Estate to Mr Chua Beng Huat, a director and controlling shareholder of Kenmoore. Payments were made in cash in RMB in China.
28 January 2010	Second series funding agreement (the "**SSFA**"), as supplemented by a supplementary agreement dated 10 May 2010, consisting of: (i) a loan portion ("**Second Loan**"); and	(1) Company (2) The Pre-IPO Investors in the following proportions: a. Kenmoore (approximately 17.8%) b. Venstar Investments (approximately 11.9%) c. 2G Capital (approximately 14.3%) d. NF Capital (approximately 14.3%) e. Magic Carpet (approximately 14.3%) f. Providence SOGF (approximately 3.6%)	**Second Loan amount:** S$15.75 million (approximately RMB76.51 million)	• Under the SSFA, the Second Loan amount and SSFA Subscription amount may only be utilised for the purpose of funding an advertising campaign in the first half of 2010 on China Central Television and as working capital (the "**2010H1 Advertising Campaign**"). • The Second Loan amount of S$15.75 million (approximately RMB 76.51 million) was fully drawn down by 1 March 2010. The maturity date of the Second Loan was 18-months from 1 March 2010, whereupon the full amount of the Second Loan amount shall be repaid. Our company will use approximately 9.2% of the net proceeds from the Global Offering (or approximately HK$93.4 million) to repay the Second Loan amount and the interests accrued thereon. • Our Company shall pay an interest of 10% per annum (or at such other rates as the Pre-IPO Investors may in their absolute discretion determine) on the principal amount of the Second Loan on the SSFA Maturity Date or the Listing Date, whichever is earlier, calculated on the basis of the actual number of days elapsed in a 365-day year.

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
	(ii) a subscription of Shares portion whereby the Pre-IPO Investors agreed to subscribe for 15,879 Shares (the "**SSFA Subscription**")	g. Blooming Global (approximately 2.4%) h. Broad Idea (approximately 6.0%) i. Mr Lee (approximately 11.9%) j. Mr Chua (approximately 3.6%) (3) Mr Zhao CW and Mr Zhao, as warrantors	**SSFA Subscription amount:** S$5.25 million (approximately RMB25.5 million) Portion of Second Loan amount being S$9.24 million (approximately RMB44.9 million) (after deducting a portion of the 2% processing fee due to the Pre-IPO Investors in connection with the Second Loan) was paid by Kenmoore for itself and on behalf of the other Pre-IPO Investors on 1 February 2010. The remaining portion of the Second Loan and the SSFA Subscription amount were paid on 28 February 2010 when Kenmoore issued a repayment notice pursuant to the assumption of debt agreement dated 28 February 2010 made with our Company, Kenmoore and Mr Zhao under which Kenmoore acknowledged that the sum of S$11.55 million (approximately RMB56.11 million) due to it has been settled on 28 February 2010 by applying the above S$11.55 million (approximately RMB56.11 million) towards the payment of the remaining portion of the Second Loan and the SSFA Subscription amount.	• Under the SSFA Subscription, the consideration is determined on the basis of 10 times price earnings ratios of our Group's NPAT for the financial year ended 31 December 2009 and assuming a NPAT of RMB120 million. • The purchase price per Share (on a sub-divided basis) would be approximately HK$1.83 each which represents a discount of approximately 49.2% and 64.8% to the minimum Offer Price of HK$3.60 and maximum Offer Price of HK$5.20, respectively. • Approximately 50% of the proceeds from the SSFA was applied for 2010H1 Advertising Campaign and the balance was retained as our working capital.

Each of the Pre-IPO Investors has irrevocably and unconditionally waived, and each of them has confirmed that none of the special rights granted to each of them pursuant to the Investment Agreement and the SSFA will continue after the Listing. Furthermore, each of the Pre-IPO Investors has undertaken not to dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares (excluding the Shares that each of them will sell as Selling Shareholders) that each of them beneficially owns as at the date of the Listing for a period of six months commencing on the Listing Date and for the subsequent six months, not to take any of the above actions such that the Controlling Shareholder will cease to be a controlling shareholder.

The shareholding interest of the Pre-IPO Investors in our Company (on a sub-divided basis) (a) immediately prior to the Capitalisation Issue, the Global Offering and the sale of the Sale Shares ("**Shareholding Interest Prior to Capitalisation Issue**"); (b) immediately following the Capitalisation Issue but prior to the Global Offering and the sale of the Sale Shares ("**Shareholding Interest Following Capitalisation Issue**"); and (c) immediately following completion of the Capitalisation Issue, the Global Offering and the sale of the Sale Shares (assuming that the Over-allotment Option has not been exercised and none of the options which may be granted under the Share Option Scheme is exercised) ("**Shareholding Interest upon Listing**") are as follows:

Name of Pre-IPO Investors	Shareholding Interest Prior to Capitalisation Issue					Shareholding Interest Following Capitalisation Issue					Shareholding Interest upon Listing	
	Number of Shares acquired under the Kenmoore Transfer Agreement	Number of Shares acquired under the Investment Agreement	Number of Shares acquired under the SSFA	Total number of Shares (Note 1)	% Interest	Total number of Shares (Note 1)	% Interest	Approximate cost of acquisition per Share (Note 2)	Approximate discount to the minimum Offer Price of HK$3.60	Approximate discount to the maximum Offer Price of HK$5.20	Total number of Shares (Note 1)	% Interest
Kenmoore	57,000	22,827	2,838	82,665	10.9%	82,665,000	10.9%	HK$0.87	75.8%	83.3%	38,079,000	3.8%
Venstar Investments	—	15,218	1,890	17,108	2.3%	17,108,000	2.3%	HK$1.01	71.9%	80.6%	7,880,000	0.8%
2G Capital	—	18,261	2,268	20,529	2.7%	20,529,000	2.7%	HK$1.01	71.9%	80.6%	9,455,000	0.9%
NF Capital	—	18,261	2,268	20,529	2.7%	20,529,000	2.7%	HK$1.01	71.9%	80.6%	9,455,000	0.9%
Magic Carpet	—	18,261	2,268	20,529	2.7%	20,529,000	2.7%	HK$1.01	71.9%	80.6%	9,455,000	0.9%
Providence SOGF	—	4,565	567	5,132	0.7%	5,132,000	0.7%	HK$1.01	71.9%	80.6%	2,364,000	0.2%
Blooming Global	—	3,044	945	3,989	0.5%	3,989,000	0.5%	HK$1.01	71.9%	80.6%	1,837,000	0.2%
Broad Idea	—	7,609	378	7,987	1.1%	7,987,000	1.1%	HK$1.01	71.9%	80.6%	3,679,000	0.4%
Mr Lee	—	15,218	1,890	17,108	2.3%	17,108,000	2.3%	HK$1.01	71.9%	80.6%	7,880,000	0.8%
Mr Chua	—	4,565	567	5,132	0.7%	5,132,000	0.7%	HK$1.01	71.9%	80.6%	2,364,000	0.2%

Notes:

(1) The difference between the total number of Shares held by the Pre-IPO Investors following the Capitalisation Issue and upon Listing represents the aggregate number of Sale Shares offered for sale by the Pre-IPO Investors in connection with the Global Offering.

(2) The approximate cost of acquisition per Share in HK$ was computed using exchange rates of US$1:HK$7.7842 and S$1:HK$5.5423.

SELECTED FINANCIAL INFORMATION

The selected financial information for each of the Group and the Daqing Dairy Group set out below is derived from the Accountants' Report of the Group and the Accountants' Report of the Daqing Dairy Group included in Appendix IA and Appendix IB to this prospectus, respectively, and has been prepared in accordance with IFRS and is qualified in its entirety by reference to such Accountants' Reports, including the notes thereto, and should be read in conjunction with them and with "Financial Information — Review of Historical Operating Results" included in this prospectus. Financial information for the foregoing periods may not be comparable to financial information for subsequent periods.

Selected Comprehensive Income Statement Information

The Group

The table below sets out the consolidated comprehensive income statement information of the Group for the period from 8 October 2007 to 31 December 2007, the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2009 and 2010:

	Period from 8 October 2007 to 31 December 2007 (Note 1)	Year ended 31 December 2008 (Notes 1 and 2)	Year ended 31 December 2009 (Note 1)	Six months ended 30 June 2009	Six months ended 30 June 2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Revenue	—	197,369	510,035	212,192	373,867
Cost of sales	—	(110,357)	(274,137)	(117,684)	(183,494)
Gross profit	—	87,012	235,898	94,508	190,373
Other gains and losses	—	7,039	6,797	4,147	62
Selling and distribution expenses	—	(5,627)	(18,934)	(6,268)	(20,297)
Administrative expenses	—	(9,000)	(19,134)	(9,077)	(12,943)
Finance costs	—	(1,423)	(9,258)	(3,772)	(7,856)
Profit before taxation	—	78,001	195,369	79,538	149,339
Income tax expenses	—	(23,866)	(61,900)	(25,098)	(40,964)
Profit and total comprehensive income for the period/year	—	54,135	133,469	54,440	108,375

Notes:

(1) Although Global Milk Singapore was incorporated on 15 September 2006, the financial information of the Group has only presented the financial information of the Group from 8 October 2007, which was the date Global Milk Singapore was acquired by the Controlling Shareholder. However, Global Milk Singapore did not commence its business operations until its acquisition of the entire equity interest of Daqing Dairy on 25 July 2008. As a result, the financial information of the Group relating to the period from 8 October 2007 to 31 December 2007 is not comparable to the financial years ended 31 December 2008 and 2009. Furthermore, the Group only had substantial business operations from 25 July 2008 which has a material effect on the comparability of the financial information of the Group for the financial year ended 31 December 2008 with the financial year ended 31 December 2009, which had business operations for the full year.

(2) The financial results for the financial year ended 31 December 2008 comprised mainly the results of the Daqing Dairy Group from 25 July 2008, being the effective date of acquisition of Daqing Dairy.

Daqing Dairy Group

The table below sets out the consolidated comprehensive income statement information of the Daqing Dairy Group for the financial year ended 31 December 2007, the period from 1 January 2008 to 24 July 2008, the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2009 and 2010:

	Year ended 31 December 2007 (Note 1)	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Revenue	305,463	235,947	433,316	510,035	212,192	373,867
Cost of sales	(148,336)	(114,366)	(217,284)	(270,631)	(115,933)	(182,626)
Gross profit	157,127	121,581	216,032	239,404	96,259	191,241
Other gains and losses	207	(18,700)	(16,929)	5,601	4,145	71
Selling and distribution expenses	(14,937)	(12,916)	(18,543)	(18,934)	(6,268)	(20,297)
Administrative expenses	(10,466)	(8,775)	(16,890)	(17,047)	(8,067)	(10,921)
Finance costs	(142)	(410)	(1,833)	(9,025)	(3,772)	(3,115)
Profit before taxation	131,789	80,780	161,837	199,999	82,297	156,979
Income tax expenses	(47,085)	(24,729)	(48,736)	(56,849)	(22,919)	(41,441)
Profit and total comprehensive income for the year/period	84,704	56,051	113,101	143,150	59,378	115,538

Note:

(1) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

Selected Statement of Financial Position

The Group

The table below sets out the statement of the consolidated financial position of the Group as at 31 December 2007, 2008 and 2009, and as at 30 June 2010:

	As at 31 December			As at
	2007 (Note 1)	**2008** (Note 1)	**2009** (Note 1)	**30 June 2010**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**
Non-current assets	—	401,803	596,738	586,717
Current assets	23	129,152	233,473	353,465
Current liabilities	23	457,973	503,841	191,488
Net current assets (liabilities)	—	(328,821)	(270,368)	161,977
Total assets less current liabilities	—	72,982	326,370	748,694
Total equity	—	54,135	302,472	548,759
Non-current liabilities	—	18,847	23,898	199,935
Total equity and non-current liabilities	—	72,982	326,370	748,694

Note:

(1) Although Global Milk Singapore was incorporated on 15 September 2006, the financial information of the Group has only presented the financial information of the Group from 8 October 2007, which was the date Global Milk Singapore was acquired by the Controlling Shareholder. However, Global Milk Singapore did not commence its business operations until its acquisition of the entire equity interest of Daqing Dairy on 25 July 2008. As a result, the financial information of the Group as at 31 December 2007 is not comparable to the financial information of the Group as at 31 December 2008 and 2009.

Daqing Dairy Group

The table below sets out the statement of the consolidated financial position of the Daqing Dairy Group as at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and as at 30 June 2010:

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Non-current assets	146,400	186,101	347,297	547,875	539,764
Current assets	120,327	158,362	128,611	230,989	344,588
Current liabilities	43,052	64,737	139,132	298,938	188,888
Net current assets (liabilities)	77,275	93,625	(10,521)	(67,949)	155,700
Total assets less current liabilities	223,675	279,726	336,776	479,926	695,464
Total equity	223,675	279,726	336,776	479,926	595,464
Non-current liabilities	—	—	—	—	100,000
Total equity and non-current liabilities	223,675	279,726	336,776	479,926	695,464

Selected Cash Flow Information

The Group

The table below sets out the statement of the consolidated cash flow information of the Group for the period from 8 October 2007 to 31 December 2007, the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2009 and 2010:

	Period from 8 October 2007 to 31 December 2007 (Note 1)	Year ended 31 December 2008 (Notes 1 and 2)	Year ended 31 December 2009 (Note 1)	Six months ended 30 June 2009	Six months ended 30 June 2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Cash and cash equivalents at beginning of the period/year	—	23	68,520	68,520	183,972
Net cash from operating activities	23	81,477	187,783	24,519	179,399
Net cash used in investing activities	—	(72,160)	(463,057)	(91,270)	(5,083)
Net cash from financing activities	—	59,180	390,726	70,000	(42,928)
Net increase in cash and cash equivalents	23	68,497	115,452	3,249	131,388
Cash and cash equivalents at end of the period/year	23	68,520	183,972	71,769	315,360

Notes:

(1) Although Global Milk Singapore was incorporated on 15 September 2006, the financial information of the Group has only presented the financial information of the Group from 8 October 2007, which was the date Global Milk Singapore was acquired by the Controlling Shareholder. However, Global Milk Singapore did not commence its business operations until its acquisition of the entire equity interest of Daqing Dairy on 25 July 2008. As a result, the financial information of the Group relating to the period from 8 October 2007 to 31 December 2007 is not comparable to the financial years ended 31 December 2008 and 2009. Furthermore, the Group only had substantial business operations from 25 July 2008 which has a material effect on the comparability of the financial information of the Group for the financial year ended 31 December 2008 with the financial year ended 31 December 2009, which had business operations for the full year.

(2) The cash flow for the financial year ended 31 December 2008 comprised mainly the cashflow of the Daqing Dairy Group from 25 July 2008, being the effective date of acquisition of Daqing Dairy.

Daqing Dairy Group

The table below sets out the statement of the consolidated cash flow information of the Daqing Dairy Group for the financial year ended 31 December 2007, for the period from 1 January 2008 to 24 July 2008, the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2009 and 2010:

	Year ended 31 December 2007	Period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Cash and cash equivalents at beginning of the year/period	1,941	49,867	49,867	68,499	68,499	182,008
Net cash from operating activities	82,683	73,525	155,004	187,794	24,517	185,123
Net cash used in investing activities	(61,084)	(59,135)	(224,445)	(144,285)	(91,270)	(5,084)
Net cash from financing activities	26,327	28,893	88,073	70,000	70,000	(50,000)
Net increase in cash and cash equivalents	47,926	43,283	18,632	113,509	3,247	130,039
Cash and cash equivalents at end of the year/period	49,867	93,150	68,499	182,008	71,746	312,047

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

Forecast consolidated profit after taxation (Notes 1 and 2) . . . . .not less than RMB215 million

Unaudited pro forma forecast earnings per Share (Note 3) . . . . .not less than RMB21.3 cents (approximately HK$0.244)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

(2) The forecast consolidated profit after taxation for the financial year ending 31 December 2010 prepared by our Directors is based on the audited consolidated results of the Group for the six months ended 30 June 2010, the unaudited consolidated management accounts of the Group for the two months ended 31 August 2010 and a forecast of the consolidated results of the Group for the remaining four months ending 31 December 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Company as summarised in the Accountants' Report of the Group as set out in Appendix IA to this prospectus.

(3) The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated results of the Group for the financial year ending 31 December 2010, assuming the Global Offering had been completed on 1 January 2010 and a total of 1,010,500,000 Shares in issue during the entire period, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option.

SHARE OPTION SCHEME

We conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix VI to this prospectus.

OFFER STATISTICS (Note 1)

	Based on an Offer Price of HK$3.60	Based on an Offer Price of HK$5.20
Market capitalisation of our Shares (Note 2)	HK$3,637.8 million	HK$5,254.6 million
Prospective price/earnings multiple (Note 3)	14.8 times	21.3 times
Unaudited pro forma adjusted consolidated net tangible asset value per Share (Note 4)	HK$1.42	HK$1.80

Notes:

(1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

(2) The calculation of market capitalisation is based on 1,010,500,000 Shares expected to be issued and outstanding immediately following completion of the Global Offering.

(3) The calculation of the basic prospective price/earnings multiple is based on the pro forma forecast earnings per Share for the financial year ending 31 December 2010 at the respective Offer Prices of HK$3.60 and HK$5.20.

(4) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and based on 1,010,500,000 Shares expected to be issued and outstanding immediately following completion of the Global Offering.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. No dividend has been paid during the Track Record Period.

PRC laws, rules and regulations require that dividends be paid only out of the accumulated profit calculated according to PRC accounting standards, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws, rules and regulations also require PRC-incorporated enterprises such as our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as dividends. Please refer to the section headed "Regulatory Overview" in this prospectus for further information.

Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable.

FUTURE PLANS AND USE OF PROCEEDS

Please refer to the section headed "Business — Business strategies" in this prospectus for a detailed description of our future plans.

We estimate that the net proceeds to our Company from the Global Offering, after deducting the underwriting commissions and estimated expenses in relation to the Global Offering payable by us, will be approximately HK$1,012.1 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK$4.40 per Share, being the midpoint of the Offer Price range set out in this prospectus. We intend to use the net proceeds for the following purposes:

(i) approximately 34.7% (or approximately HK$350.9 million) will be used for implementing our expansion plans on investments upstream in cattle farms and acquisitions of related production equipment and facilities;

(ii) approximately 25.5% (or approximately HK$258.1 million) will be used for reinforcing and expanding our distribution network;

(iii) approximately 20.4% (or approximately HK$206.5 million) will be used for advertising, marketing and promotion of existing and new products;

(iv) approximately 9.2% will be used for paying down the S$15.75 million loan (or approximately HK$93.4 million) extended by the Pre-IPO Investors to our Company (which is referred to as the Second Loan in the sub-section headed "Investment in the Company prior to the Global Offering" in the section headed "History, Reorganisation and Group Structure" in this prospectus) and the interests accrued thereon; and

(v) approximately 10.2% (or approximately HK$103.2 million) will be used for working capital and other general corporate purposes.

If the Over-allotment Option is exercised in full, we estimate that we would receive additional net proceeds of approximately HK$157.7 million, assuming an Offer Price of HK$4.40 per Share, being the midpoint of the Offer Price range stated in this prospectus. The additional net proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the above mentioned purposes (other than the repayment of the borrowings and the interests accrued thereon referred to in paragraph (iv) above). If the Over-allotment Option is exercised at the higher or lower end of the Offer Price range stated in this prospectus, we will adjust our allocation of the net proceeds for the above mentioned purposes on a pro rata basis (other than the repayment of the borrowings and the interests accrued thereon referred to in paragraph (iv) above). In such event, we will announce the net proceeds received from the exercise of the Over-allotment Option.

Although from time to time we identify certain potential strategic investments and acquisition targets for preliminary evaluation and assessment, as at the Latest Practicable Date, we did not have any finalised understanding, commitments or agreements, and we had not engaged in any related negotiations or entered into any letter of intent (whether legally binding or not) with respect to any acquisitions, alliances, joint ventures or strategic investments. We may or may not proceed with any or all of these investment and/or acquisition projects.

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

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholders in the Global Offering. The Selling Shareholders estimate that they will receive, in aggregate, net proceeds from the Global Offering of approximately HK$457.3 million, after deducting the estimated underwriting commissions and expenses payable by them in the Global Offering and assuming an Offer Price of HK$4.40 per Share, being the midpoint of the Offer Price range set out in this prospectus.

If the Offer Price is finally determined at the lower end of the indicative Offer Price range, being HK$3.60 per Offer Share, the net proceeds from the issue of new Shares will decrease by approximately HK$191.1 million to approximately HK$821.0 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range). In such case, our Directors intend to reduce correspondingly the amount to be applied for working capital and other general corporate purposes. Save for such change, our Directors intend to apply the reduced net proceeds in the same proportions as set out above (other than the repayment of the borrowings and the interests accrued thereon referred to in paragraph (iv) above).

If the Office Price is finally determined at the higher end of the indicative Offer Price range, being HK$5.20 per Offer Share, the net proceeds of the issue of new Shares will increase by approximately HK$191.1 million to approximately HK$1,203.2 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range). Our Directors intend to apply such additional net proceeds in the same proportions as set out above (other than the repayment of the borrowings and the interests accrued thereon referred to in paragraph (iv) above).

We will issue an announcement in Hong Kong if there is any material change in the use of proceeds described above.

In this prospectus, unless the context otherwise requires, the following terms have the following meanings.

"ABCI"	ABCI Securities Company Limited, a licensed corporation licensed 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
"Application Forms"	**white**, **yellow** and **green** application forms or, where the context so requires, any of them
"AQSIQ"	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局)
"Articles of Association"	the articles of association of our Company, conditionally adopted on 10 October 2010 (as amended or supplemented from time to time)
"Audit Committee"	the audit committee of our Board
"Baby Milk Powder"	the following milk powders: (i) standard milk formula: standard infant milk formula in powder form, which is for babies usually between birth and six months; (ii) follow-on milk formula: standard infant formula in powder form, which is for babies aged between seven and 12 months; (iii) toddler milk formula: standard infant formula in powder form, which is for babies/toddlers from 13 months onwards; and (iv) special baby milk formula: milk formula which is for babies who are allergic to standard milk formula
"Blooming Global"	Blooming Global Holdings Limited (長榮環球控股有限公司), a company incorporated in the BVI, one of the Pre-IPO Investors and an Independent Third Party
"Board"	our board of Directors
"Broad Idea"	Broad Idea Investments Limited, a company incorporated in the BVI, one of the Pre-IPO Investors and an Independent Third Party

"business day"	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the issue of Shares to be made on the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the section headed "Further information about the Group — Written resolutions of our Shareholders passed on 10 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 general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, CCASS Custodian Participant or CCASS Investor Participant
"CCBIC"	CCB International Capital Limited, a licensed corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
"Changqing Dairy"	黑龍江常慶乳業有限責任公司 (Heilongjiang Chang Qing Dairy Products Co., Ltd.*), a company incorporated in the PRC with limited liability on 7 August 2008 and an indirect wholly-owned subsidiary of our Company
"Changqing production facility"	Changqing Dairy's production facility in Wuchang municipality for the production of our milk formula products and whole milk powder products

"China" or "PRC"	the People's Republic of China, for the purpose of this prospectus and except where the context requires, references in this prospectus to the PRC or China do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"China Dairy Statistical Report"	the China Dairy Statistical Report 2010 prepared by the Department of China Dairy Yearbook of the Dairy Association of China (中國奶業協會)
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
"Company"	Global Dairy Holdings Limited 環球乳業控股有限公司, an exempted company incorporated in the Cayman Islands under the Cayman Companies Law with limited liability on 15 October 2009. The expression "we", "us" and "our Company" may be used to refer to our Company or our Group as the context may require
"Controlling Shareholder" or "Mr Zhao"	趙宇 Mr Zhao Yu, our Executive Director and Chief Executive Officer
"Daqing Dairy"	大慶乳品廠有限責任公司 (Da Qing Dairy Ltd), a company incorporated in the PRC with limited liability on 29 October 1997 and an indirect wholly-owned subsidiary of our Company. Its predecessor is 大慶市牧工商聯合公司乳品廠 (Daqing City Animal Husbandry Trade Joint Company's dairy factory*) which was established on 1 December 1970
"Daqing Dairy Group"	Daqing Dairy and its subsidiary, Changqing Dairy, or where the context so requires, in respect of the period or years before Changqing Dairy became a subsidiary, only Daqing Dairy
"Daqing Development Area Committee"	the Management Committee of Daqing High-Tech Industrial Development Zone (大慶高新技術產業開發區管理委員會)
"Daqing production facilities"	Daqing Dairy's production facilities in Daqing municipality for the production of our milk formula products, whole milk powder products and ice cream products
"Daqing Sanhuan"	大慶市三環企業(集團)總公司 (Daqing Sanhuan (Group) Corporation*), a State-owned enterprise established in the PRC on 24 June 1991

"Deed of Non-competition"	the deed of non-competition undertaking from the Controlling Shareholder to us dated 14 October 2010
"Director(s)"	the director(s) of our Company
"EIT"	the PRC Enterprise Income Tax
"EIT Law"	the PRC Enterprise Income Tax Law《中華人民共和國企業所得稅法》issued on 16 March 2007, including the EIT Rules, effective 1 January 2008
"EIT Rules"	the Implementing Rules of the PRC Enterprise Income Tax Law《中華人民共和國企業所得稅法實施條例》issued on 6 December 2007, effective 1 January 2008
"Euromonitor International"	Euromonitor International Limited, a company established in England in 1972 that provides business intelligence on industries, countries and consumers
"Euromonitor International Report"	the report dated 7 October 2010 prepared by Euromonitor International in relation to the Milk Powder market in the PRC
"Executive Directors"	Mr Zhao CW, Mr Zhao, Mr Xia, Mr Fu and Mr Daniel Fong
"g"	gramme, a unit of mass, equal to one thousandth of a kilogramme
"GDP"	gross domestic product
"Global Dairy Canada"	Global Dairy Products (Canada) Inc., a company incorporated in Canada on 28 July 2009
"Global Milk Singapore"	Global Milk Products Pte. Ltd., a company incorporated in Singapore with limited liability on 15 September 2006 and a direct wholly-owned subsidiary of our Company
"Global Offering"	the Hong Kong Public Offer and the International Placing
"GMP"	Good Manufacturing Practice, a system for ensuring that products, such as pharmaceuticals, food and medical devices, are consistently produced and controlled according to quality standards
"**Green** application form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider designated by our Company

"Group"	our Company and its subsidiaries, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by its present subsidiaries or (as the case may be) their predecessors
"high-priced milk formula products"	milk formula products with a retail price for end consumers generally between RMB160 and RMB245 per kg
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong Offer Shares"	the 36,088,000 new Shares (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) being offered by us for subscription under the Hong Kong Public Offer
"Hong Kong Public Offer"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%), on the terms and subject to the conditions described in this prospectus and the Application Forms
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offer listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 14 October 2010 relating to the Hong Kong Public Offer entered into by the Controlling Shareholder, the Selling Shareholders, the Executive Directors, the Sole Global Coordinator, the Joint Bookrunners, the Hong Kong Underwriters and us

"IFRS"	International Financial Reporting Standards, which are standards and interpretations adopted by the International Accounting Standards Board. They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; and (c) Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee
"Independent Third Party/Parties"	a person or persons which is or are independent of, and not connected with, any directors, chief executive or substantial shareholders (within the meaning under the Listing Rules) of our Company or any of its subsidiaries or any of their respective associate(s)
"International Placing"	the conditional placing of the International Placing Shares to institutional, professional and other investors
"International Placing Agreement"	the underwriting agreement relating to the International Placing which is expected to be entered into by the Selling Shareholders, the Controlling Shareholder, the Executive Directors, the Sole Global Coordinator, the Joint Bookrunners, the International Underwriters and us on or around 21 October 2010
"International Placing Shares"	the 324,792,000 Shares (subject to adjustment and the Over-allotment Option as described in the section headed "Structure of the Global Offering" in this prospectus), of which 216,532,000 Shares are to be issued by us and 108,260,000 Shares are to be offered for sale by the Selling Shareholders under the International Placing
"International Underwriters"	the underwriters of the International Placing
"ISO"	International Organisation for Standardisation
"Issue Mandate"	the general unconditional mandate given to our Directors relating to the issue of new Shares, further details of which are set out in the section headed "Further information about the Group — Written resolutions of our Shareholders passed on 10 October 2010" in Appendix VI to this prospectus
"Jintianran Dairy"	黑龍江金天然乳業有限責任公司 (Heilongjiang Jintianran Dairy Co., Ltd.*) (formerly known as 黑龍江星球乳業有限責任公司 (Heilongjiang Xingqiu Dairy Co., Ltd.*)), a company incorporated in the PRC with limited liability on 28 October 2005
"Joint Bookrunners"	Macquarie and CCBIC

"Joint Lead Managers"	Macquarie, CCBIC and ABCI
"Kenmoore"	Kenmoore Mezza9 Ltd, a company incorporated in the BVI, one of the Pre-IPO Investors and an Independent Third Party
"kg"	kilogramme, a unit of mass, equal to 1,000 grammes
"Latest Practicable Date"	7 October 2010, being the latest practicable date before the printing of this prospectus for ascertaining certain information in this prospectus
"Listing"	the listing of our Shares on the Main Board
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about 28 October 2010, on which our Offer Shares are listed on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"low-priced milk formula products"	milk formula products with a retail price for end consumers generally lower than RMB80 per kg
"Macquarie", "Sole Global Coordinator" or "Sponsor"	Macquarie Capital Securities Limited, a licensed corporation licensed 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
"Magic Carpet"	Magic Carpet Fund III, a company incorporated in the Cayman Islands, one of the Pre-IPO Investors and an Independent Third Party
"Main Board"	the stock market operated by the Stock Exchange before the establishment of the Growth Enterprise Market of the Stock Exchange (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange
"M&A Provisions"	the Provisions on the 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》issued by six PRC ministries and commissions, effective 8 September 2006 and revised on 22 June 2009 (as amended, supplemented or otherwise modified from time to time)

"medium-priced milk formula products"	milk formula products with a retail price for end consumers generally between RMB80 and RMB160 per kg
"melamine"	an industrial chemical used for the production of melamine resins which, when added to milk, causes a false increase in the measurement of protein content of dairy products made from adulterated milk
"Memorandum of Association"	the amended and restated memorandum of association of our Company
"Milk Powder"	Baby Milk Powder and Other Milk Powder
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部), as appropriate to the context
"Mr Alexander Cheung"	張學鋒 Mr Cheung Hok Fung Alexander, one of our independent non-executive Directors
"Mr Cao"	曹學儉 Mr Cao Xue Jian, one of the Seven Original Shareholders
"Mr Chua"	蔡慶恩 Mr Chua Keng Woon, a Singapore citizen, one of the Pre-IPO Investors and an Independent Third Party
"Mr Daniel Fong"	方秉權 Mr Fong Pin Jan, our Executive Director and Chief Financial Officer
"Mr Du"	杜偉 Mr Du Wei, a member of the senior management of our Group
"Mr Fu"	付翀 Mr Fu Chong, our Executive Director and Chief Operations Officer
"Mr Hu"	胡明 Mr Hu Ming, one of the Seven Original Shareholders
"Mr Lee"	李勇綿 Mr Lee Yong Miang, a Singapore citizen, one of the Pre-IPO Investors and an Independent Third Party
"Mr Li"	李雪峰 Mr Li Xue Feng, one of the Seven Original Shareholders
"Mr Ma"	馬占軍 Mr Ma Zhan Jun, a member of the senior management of our Group
"Mr Pan"	潘曉峰 Mr Pan Xiao Feng, one of the Seven Original Shareholders

"Mr Shi"	石繼瑜 Mr Shi Ji Yu, a member of the senior management of our Group
"Mr Wang"	王君 Mr Wang Jun, one of the Seven Original Shareholders
"Mr Xia"	夏元軍 Mr Xia Yuan Jun, our Executive Director and Deputy Chief Executive Officer
"Mr Xu"	徐忠傑 Mr Xu Zhong Jie, one of the Seven Original Shareholders
"Mr Zhang"	張舟 Mr Zhang Zhou, one of our independent non-executive Directors
"Mr Zhao CW"	趙傳文 Mr Zhao Chuan Wen, our Executive Director and Chairman and the father of Mr Zhao
"Mr Zhao JX"	趙金祥 Mr Zhao Jin Xiang, a member of the senior management of our Group
"Ms Carman Chan"	陳華敏 Ms Chan Wah Man Carman, one of our independent non-executive Directors
"Ms Queenie Ho"	何詠欣 Ms Ho Wing Yan, our company secretary
"National Bureau of Statistics"	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"NF Capital"	NF Capital Partners Limited, a company incorporated in the Cayman Islands, one of the Pre-IPO Investors and an Independent Third Party
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"Nomination Committee"	the nomination committee of our Board
"Offer Price"	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Offer Shares are to be subscribed under the Hong Kong Public Offer and the International Placing Shares are to be offered under the International Placing, to be determined in the manner further described in the section headed "Structure of the Global Offering — Pricing and allocation" in this prospectus

"Offer Shares"	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares issued and sold under the exercise of the Over-allotment Option
"Other Milk Powder"	dehydrated milk used in place of fresh or long life milk or goat milk, including all milk powders for pregnant and nursing women but excluding Baby Milk Powder
"Over-allotment Option"	the option expected to be granted by us and the Selling Shareholders to the International Underwriters exercisable by the Stabilising Manager on behalf of the International Underwriters under the International Placing Agreement under which we may be required to issue up to 37,893,000 additional new Shares and the Selling Shareholders may be required to sell up to an aggregate of 16,239,000 additional Shares, representing in aggregate 15% of the initial number of Offer Shares offered under the Global Offering, both at the final Offer Price, to cover over-allocations in the International Placing
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC Government" or "State"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them
"PRC Legal Advisers"	Jingtian & Gongcheng, our PRC legal advisers
"Predecessor Track Record Period in 2008"	the period from 1 January 2008 to 24 July 2008
"Predecessor Track Record Periods"	the period from 1 January 2007 to 24 July 2008
"Pre-IPO Investor(s)"	(a) Kenmoore, (b) Venstar Investments, (c) 2G Capital, (d) NF Capital, (e) Magic Carpet, (f) Providence SOGF, (g) Blooming Global, (h) Broad Idea, (i) Mr Lee, and (j) Mr Chua, all being Shareholders and Independent Third Parties
"premium-priced milk formula products"	milk formula products with a retail price for end consumers generally higher than RMB245 per kg
"Price Determination Date"	the date on which the Offer Price is fixed for the purpose of the Global Offering
"Property Valuers"	Jones Lang LaSalle Sallmanns Limited

"Providence SOGF"	Providence SOGF Limited, a company incorporated in Singapore, one of the Pre-IPO Investors and an Independent Third Party
"QIBs"	qualified institutional buyers within the meaning of Rule 144A
"Regulation S"	Regulation S under the US Securities Act
"Remuneration Committee"	the remuneration committee of our Board
"Reorganisation"	the reorganisation of our group of companies now comprising our Group conducted in preparation for the Listing, details of which are set out in the section headed "History, Reorganisation and Group Structure — Reorganisation" in this prospectus
"Repurchase Mandate"	the general unconditional mandate relating to the repurchase of the Shares granted to our Directors, further details of which are set out in the sections headed "Further Information about the Group — Written resolutions of our Shareholders passed on 10 October 2010" and "Repurchase of our Shares" in Appendix VI to this prospectus
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the US Securities Act
"S$"	Singapore dollars, the lawful currency of Singapore
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外滙管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"Sale Shares"	the 108,260,000 Shares (subject to adjustment and the Over-allotment Option as described in the section headed "Structure of the Global Offering" in this prospectus) offered for sale by the Selling Shareholders under the International Placing and, where relevant, any additional Shares which may be sold pursuant to the exercise of the Over-allotment Option
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"Selling Shareholders"	the persons whose names and particulars are set out in the section headed "Other Information — Particulars of the Selling Shareholders" in Appendix VI to this prospectus

"Seven Original Shareholders"	Mr Cao, Mr Wang, Mr Hu, Mr Li, Mr Pan, Mr Xu and Mr Du
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
"Shareholder(s)"	holder(s) of Shares
"Share Option Scheme"	the share option scheme conditionally adopted by us on 10 October 2010, the principal terms of which are summarised in the section headed "Share Option Scheme" in Appendix VI to this prospectus
"Share(s)"	ordinary share(s) with a nominal value of HK$0.00001 each in our share capital
"Singapore"	the Republic of Singapore
"Sino Construction"	Sino Construction Limited, a company incorporated in Singapore on 11 September 2006 and listed on the official list of the Singapore Exchange Securities Trading Limited on 12 June 2008 (stock code: F3V)
"sq.m."	square metres
"Stabilising Manager"	Macquarie Capital Securities Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Borrowing Agreement"	a stock borrowing agreement to be entered into on or about 21 October 2010 between the Stabilising Manager and the Controlling Shareholder
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Codes on Takeovers and Mergers and Share Repurchases
"Three Individual Shareholders"	李志富 Mr Li Zhi Fu, 張濱華 Mr Zhang Bin Hua and 徐井文 Mr Xu Jing Wen
"tonne"	a unit of mass, equal to 1,000 kilogrammes
"Track Record Period"	the three financial years ended 31 December 2009 and the six months ended 30 June 2010
"2G Capital"	2G Capital Pte Ltd, a company incorporated in Singapore, one of the Pre-IPO Investors and an Independent Third Party

"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Placing Agreement
"United States" or "US"	the United States of America
"US dollars" or "US$"	United States dollars, the lawful currency of the United States
"US Securities Act"	the US Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated under it
"VAT"	value-added tax
"Venstar Investments"	Venstar Investments Pte. Ltd., a company incorporated in Singapore, one of the Pre-IPO Investors and an Independent Third Party
"WFOE"	wholly foreign-owned enterprise established in the PRC
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in applicant's own name by submitting applications online through the designated website of White Form eIPO **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"%"	per cent

The terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" have the meanings given to such terms under the Listing Rules, unless the context otherwise requires.

This prospectus contains explanations and definitions of certain terms used in connection with our business. The terms and their meanings used in this prospectus may not correspond to standard industry meaning or usage of these terms. As there is no official industry classification, the classification of our products is determined based on our Directors' knowledge and experience.

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

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

- our business and operating strategies and our various measures and initiatives to implement them;
- our capital expenditure plans;
- our operations and business prospects, including development plans for our existing and new businesses and products;
- our financial condition;
- availability of bank loans and other forms of financing;
- estimates of operating costs;
- our dividend policy;
- the future developments and competitive environment in our industry;
- the regulatory environment for our industry in general; and
- the general economic trends and conditions.

The words "aim", "anticipate", "believe", "consider", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", 'predict", "project", "propose", "seek", "should", "will", "would", "with a view to" and similar expressions and the negative of these words, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of our Directors with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in the section headed "Risk Factors" in this prospectus, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us or our Directors that its plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, our financial condition may be materially and adversely affected and actual outcomes may differ materially from those described in this prospectus as anticipated, believed, estimated or expected.

Subject to the requirements of the Listing Rules, we do not intend to publicly 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 in this prospectus are qualified by reference to this cautionary statement.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in the Offer Shares. Our operations involve certain risks, many of which are beyond our control. You should pay particular attention to the fact that a substantial part of our business is located in the PRC and we are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition and operating results may be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. Additional risks and uncertainties that are not presently known to us, or not expressed or implied below, or that we currently deem to be immaterial, may also have a material adverse effect on our business, financial condition and operating results.

RISKS RELATING TO OUR BUSINESS

We depend on third party suppliers of raw milk and other raw materials, and we may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable terms.

The success of our business depends on our ability to obtain sufficient quantities of quality raw materials, such as raw milk, sucrose, whey powder, vegetable oil, mineral supplements, lactose, maltose, whey protein concentrate and various flavourings, on commercially acceptable terms and in a timely manner. For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, our total cost of purchases from our five largest suppliers, in aggregate, amounted to approximately 27.7%, 46.3% and 42.6% of our total cost of purchases, respectively. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the total cost of purchases from the five largest suppliers of the Daqing Dairy Group, in aggregate, amounted to approximately 42.1% and 36.2% of the total cost of purchases of the Daqing Dairy Group, respectively.

Raw milk is the primary raw material for the production of our products. Our raw milk is sourced from selected milk collection centres which, in turn, collect raw milk from dairy farms and individual dairy farmers in proximity to Daqing municipality. For each of the financial years ended 31 December 2008 and 31 December 2009, and the six months ended 30 June 2010, the cost of purchases of raw milk represented approximately 64.0%, 33.9% and 43.7% of our total cost of purchases, respectively. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the cost of purchases of raw milk of the Daqing Dairy Group represented approximately 53.0% and 58.2% of the total cost of purchases of the Daqing Dairy Group, respectively.

We have non-exclusive raw milk supply agreements and framework supply agreements in respect of other raw materials which are generally for a term of one year. Both parties to the relevant non-exclusive raw milk supply agreement have the right to terminate the agreement if the agreement cannot be implemented due to the occurrence of any unforeseeable circumstances that prevent any of the parties to the agreement from performing the agreement. We also have the right to terminate the agreement if the raw milk supplied contains contaminants. The non-exclusive raw milk supply agreements specify the annual volume of raw milk that must be available to us and that we must purchase (subject to an upward or downward adjustment of 10%). Due to the suspension of our production and sales operations during the first quarter of 2007, we did not purchase any raw milk from our raw milk suppliers during this period. As a result, there was a shortfall of approximately 1,080 tonnes (approximately 2.0%) in our total cost of purchases of raw milk in 2007 compared to the aggregate annual volume of raw milk which we had contracted to purchase from our raw milk suppliers in 2007. The shortfall was within the specified range of downward adjustment under the raw milk supply agreements. Our supply of raw milk depends on the ability of the milk collection centres to obtain a sufficient and steady supply of raw milk from the dairy farms and individual dairy farmers. The supply, in turn, depends on their dairy cows producing sufficient milk. The supply and the price of raw milk depend on various factors which are beyond our control, such as seasonal factors which may affect the volume and quality of milk that dairy cows produce, environmental factors that may affect the quality and quantity of cattle feed which in turn affects the volume and quality of milk that dairy cows produce, and the overall demand for raw milk.

If the quantity of our raw material supplies substantially decreases or if the price of our raw material supplies substantially increases, we may incur additional costs to acquire sufficient quantity of these materials to meet our production needs. We may not be able to pass on these additional costs to our customers. In addition, if we cannot identify alternative sources of quality raw materials when needed, at acceptable prices or with the required quantity and quality, or at all, the resulting loss of production volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all, and may materially and adversely affect our business, financial condition and operating results.

We rely on our distributors to distribute and market our products, and their failure to perform to our expectations may have a material adverse effect on our business, financial condition and operating results.

A substantial portion of our products are sold to consumers through our distributors. For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, sales to our customers which are our distributors, in aggregate, accounted for 71.7%, 69.1% and 85.3% of our total revenue, respectively. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, sales to the customers of the Daqing Dairy Group which are the distributors of the Daqing Dairy Group, in aggregate, accounted for 59.4% and 77.3% of the total revenue of the Daqing Dairy Group, respectively.

Although we have entered into distribution agreements with our distributors, the distribution agreements are non-exclusive and are generally for a term of one year. The termination or non-renewal of such distribution agreements, the failure of a distributor to distribute our products in a timely manner or according to the terms of such distribution agreements, or at all, or our failure to further expand our distribution network may have a material adverse effect on our business, financial condition and operating results.

We provide suggested wholesale and retail selling prices of our products to our distributors. However, we do not have any direct control over their sub-distributors and retail outlets. If our distributors do not strictly adhere to our pricing and distribution policies or the sub-distributors and retail outlets fail to adhere to the policies set by our distributors, our sales of products and our development and expansion of our distribution network may be materially and adversely affected.

We rely on milk formula products and whole milk powder products as our primary type of products. If we fail to improve or maintain our market position or to diversify our product range and expand our product offerings, our business, financial condition and operating results may be materially and adversely affected.

Our products are classified into the following two main categories: milk formula products and whole milk powder products. For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, our revenue attributable to the sale of our milk formula products and whole milk powder products, in aggregate, accounted for approximately 99.1%, 96.7% and 96.7% of our total revenue, respectively. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the revenue attributable to the sale of the milk formula products and whole milk powder products of the Daqing Dairy Group, in aggregate, accounted for approximately 100.0% and 100.0% of the total revenue of the Daqing Dairy Group, respectively. As a result, if we fail to improve or maintain our market position or to diversify our product range and expand our product offerings, our business, financial condition and operating results may be materially and adversely affected.

Our success depends on our ability to gain market acceptance and market share for our products and our growth strategy to achieve this may not prove successful.

Our success depends on our ability to offer products that satisfy consumer preferences and needs. In particular, consumer preferences and needs for milk formula products and whole milk powder products are constantly changing, and there can be no assurance that our current line of milk formula products and whole milk powder products will be able to satisfy changes in consumer preferences and needs or that we will be able to promptly and commercially develop and produce new products that satisfy such preferences and needs.

Our Directors intend to continue expanding our product offerings. However, we may not be able to obtain the regulatory approvals for new products required for us to market and sell such products. In addition, the development of new products may require more time, cost more and be less successful than we anticipate. Our Directors also intend to enhance our brand recognition nationwide by conducting various marketing campaigns, expand our distribution network in China by increasing the number of our distributors, increase the headcount of our sales and marketing team, and recruit additional product development experts in food technology. If the development or launch of our new products and/or our growth strategy of enhancing our brand recognition is not successful, we may not be able to recover expenses related to the above activities, and as a result, our business, financial condition and operating results may be materially and adversely affected.

Our growth plan relies on favourable demographic, consumer and economic trends in the PRC market, including the increasing acceptance of infant milk formula as a substitute for breast milk for their infants. We cannot assure you that there will be no adverse change in our consumer demographics, including acceptance in the PRC of using infant milk formula as a substitute for breast milk.

We may also fail to anticipate, identify or react to changes in consumer preferences and needs, and we cannot assure you that we will be able to gain market acceptance and market share for our products. Furthermore, our competitors may be able to introduce products that appeal to consumer preferences and needs more effectively or efficiently than us. While the relevant government authorities have indicated that they will support our growth strategy (including the provision of lands and raw milk supply guarantee), we cannot assure you that the above government authorities will not change their policies or we can successfully enforce such indications against the above government authorities. As a result, our business, financial condition and operating results may be materially and adversely affected.

We intend to evaluate integration opportunities to expand our business upstream into raw milk production, which may fail to yield benefits and could negatively impact our existing business.

We intend to evaluate integration opportunities to expand our business upstream into raw milk production by investing in cattle farms. Such investments carry various risks which may have a material adverse effect on our business, financial condition and operating results. The risks include:

- failure to identify suitable investment opportunities and incorrect assessment of the likely benefits, risks, commercial viability and technical feasibility of such investment opportunities;
- diversion of our management's time and effort and our resources from our existing business to explore and assess investment opportunities;
- lack of our experience in managing and operating such upstream business and inability to recruit management and technical personnel to manage such upstream business;
- a lack of the involvement of the relevant municipal government authorities in identifying and making available pasture lands to us with a sufficient tenure at competitive rates; and
- outbreak of infectious animal diseases in cows such as mad cow disease (*bovine spongiform encephalopathy*).

If our intended investment upstream in raw milk production is realised, we believe that to a certain extent, our cost of sales may be reduced as we will no longer require to purchase raw milk from external sources. However, our profit margin and/or return on equity is/are affected by the then various prevailing factors such as the scale of our operations, our cost of production as compared to our cost of purchases of raw milk if we were to source the raw milk supply externally, and the above risks associated with this vertical integration strategy. In view of this, our profit margin and/or return on equity may not necessarily increase. As such, there can be no assurance that such investment may achieve the intended commercial benefits or the level of economic returns that we expect, or at all.

We may be unable to obtain financing on favourable terms, or at all, to fund our continuing business operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements.

To fund our continuing business operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements, we need sufficient internal sources of liquidity or access to additional financing from external sources. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- obtaining the necessary regulatory approvals to raise financing in the domestic or international markets;

- our future financial condition, operating results and cash flow;
- the condition of the global and domestic financial markets; and
- changes in the monetary policy of the PRC Government with respect to bank interest rates and lending practices and conditions.

If adequate funding is not available to us on favourable terms, or at all, it may materially and adversely affect our ability to fund our operations, or develop or expand our business. In addition, future capital raised through issue of our Shares or other securities may result in a substantial dilution of the interests of our Shareholders.

Our gross profit margins decreased during the Track Record Period.

For each of the financial years ended 31 December 2007, 2008 and 2009, and the six months ended 30 June 2010, the gross profit margin of the Daqing Dairy Group for our milk formula products was 61.3%, 57.3%, 53.5% and 55.3%, respectively. The decrease in the gross profit margin of the Daqing Dairy Group for our milk formula products in the financial year ended 31 December 2008 as compared to that in the financial year ended 31 December 2007 was primarily due to: (i) an increase in raw milk prices from an average purchase cost from RMB1,720 per tonne for the financial year ended 31 December 2007 to RMB2,150 per tonne for the financial year ended 31 December 2008, and (ii) the implementation of annual sales rebates for our distributors that meet the specified annual targets on top of the usual sales rebates in each quarter. The decrease in the gross profit margin of the Daqing Dairy Group for our milk formula products in the financial year ended 31 December 2009 as compared to that in the financial year ended 31 December 2008 was primarily due to the decline in the gross profit margin of the Emilon Series milk formula products by 3.7% as a result of changes in the sales mix of the Emilon Series product offerings with more of the lower margin Emilon Bei Cong Series being sold compared to the higher margin Emilon Shuang Neng Series as target consumers in the higher priced market segment were more affected by the melamine incident. The increase in the gross profit margin of the Daqing Dairy Group for our milk formula products for the six months ended 30 June 2010 as compared to the corresponding period in 2009 was primarily due to the introduction of our Shi Jia Series with relatively higher gross profit margin of 71.4%. Our Directors consider that if there is any increase in raw milk prices and/or sales rebates for our distributors, which cannot be passed on to customers, and/or if the proportion of low-margin products in our product sales mix increases as a result of changing consumer preferences and need, we may experience a decline in our profit gross margins which may have a material adverse effect on our business, financial condition and operating results.

Our operations at manufacturing facilities may be disrupted.

Our revenue is dependent on the continued operations of our manufacturing facilities in Daqing and Wuchang municipalities, Heilongjiang province, the PRC. Our manufacturing operations are subject to risks including, among other things, the breakdown, failure or sub-standard performance of machinery and equipment, natural disasters, and the need to comply with all applicable PRC laws, regulations and standards such as environmental law and workplace safety law. The occurrence of any material operational problems at our manufacturing facilities in the future may have a material adverse effect on our business, financial condition and operating results.

Substantial increases in the cost of purchases of coal may have a material adverse effect on our business, financial condition and operating results.

We consume coal for generating heat to dry milk during the production process of milk formula products and whole milk powder products. For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, the cost of purchases of coal amounted to approximately RMB2.9 million, RMB8.2 million and RMB6.2 million, respectively, representing approximately 3.3%, 3.3% and 3.8% of our total cost of purchases, respectively, over the same periods. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the cost of purchases of coal of the Daqing Dairy Group amounted to approximately RMB3.8 million and RMB0.9 million, respectively, representing approximately 2.2% and 0.9% of the total cost of purchases of the Daqing Dairy Group, respectively, over the same periods.

If the PRC Government imposes restrictions on the use of coal, thereby disrupting our energy supply, or if we are otherwise unable to obtain adequate supplies of coal to meet our production requirements, our operations may be disrupted and our production and delivery schedules may be materially and adversely affected. Any significant price increase of coal in the future may have an adverse effect on our profitability and operations. In addition, our ability to pass increased energy costs along to our customers may be limited by competitive pressure and customer resistance. We cannot assure you that we will be able to raise the prices of our products sufficiently to cover the increased costs resulting from interruptions to our operations or increases in the cost of coal.

We do not maintain business interruption insurance. Please refer to the section headed "Risk Factors — We may not have insurance coverage that is adequate to cover potential liabilities or losses" in this prospectus for further information.

We may not be successful in maintaining an effective quality control system at our manufacturing facilities.

The quality of our products is crucial to the success of our business. Our product quality depends significantly on the effectiveness of our quality control system, which, in turn, depends on a number of factors, including the design and implementation of our quality control policies and guidelines. Any significant failure or deterioration of our quality control system may seriously damage our product quality and have a material adverse effect on our reputation in the market among current or prospective customers, which may, in turn, lead to fewer orders in the future, harming our business, financial condition and operating results.

Failure to fully utilise the production capacity of, or to operate, our new production facilities as anticipated may materially and adversely affect our business, financial condition and operating results.

We have recently constructed the phase two production line at our Daqing production facilities and the new production line at our Changqing production facility, which we anticipate will increase our milk powder production capacity from 35 tonnes per day to 106 tonnes per day. For further information on our production capacity, please refer to the section headed "Business — Production capacity" in this prospectus. We cannot assure you that we will be able to utilise fully the additional production capacity because such utilisation is dependent on a number of factors, including but not limited to our success in expanding our business and the amount of available raw milk. Demand for our products may not be as high as we expect or the new production lines may not function as anticipated, and we may consequently fail to realise the expected benefit from our investment in the new production facilities.

We do not have an integrated, comprehensive and enterprise-wide management information system. As a consequence, we may not be able to manage our expansion and operations effectively, and our ability to operate our business efficiently may be hindered.

Although our management information system covers finance and inventories, we do not have an integrated, comprehensive and enterprise-wide management information system that enables us to review our production performance and production capacity, trace our customers' orders and assess our product delivery schedule on a real-time basis. In addition, we record our inventory levels based on our monthly stock-take. As such, we do not have real-time records which show the movement of our inventories at a particular time. As a consequence, we may not be able to manage our expansion and operations effectively, and our ability to operate our business efficiently may be hindered, which, in turn, may have a material adverse effect on our business, financial condition and operating results.

We did not comply with PRC regulations relating to the housing provident fund.

The Regulations on Management of the Housing Provident Fund《住房公積金管理條例》, which were promulgated and became effective on 3 April 1999 and then amended on 24 March 2002, provide that enterprises in the PRC shall undertake to register with the relevant authorities and maintain the relevant accounts with designated banks in respect of the housing provident fund, and contribute to the housing provident funds at a rate of not less than 5% of the average monthly salaries paid to the employees in the previous year. Violation of the above-mentioned regulations may result in the imposition of fines or penalties, or other liability in severe cases.

Prior to April 2010, Daqing Dairy did not register with the relevant authority or maintain accounts with a designated bank in respect of the housing provident fund, or make any contributions to the housing provident fund. As such, Daqing Dairy has breached the Regulations on Management of the Housing Provident Fund《住房公積金管理條例》. The letter of confirmation issued by the housing provident fund management centres of Daqing municipality (大慶市住房公積金管理中心) dated 11 June 2010 confirms that since the effective date of the Regulations on Management of the Housing Provident Fund《住房公積金管理條例》, the housing provident fund management centre of Daqing municipality (大慶市住房公積金管理中心) has been progressively implementing the regulations on private enterprises, foreign-invested enterprises and other non State-owned enterprises in Daqing municipality and notes that a substantial number of these enterprises have not set up and contributed towards the housing provident funds and are currently taking steps to set up and contribute towards the housing provident funds. Given the progressive implementation approach of the housing provident fund management centre of Daqing municipality (大慶市住房公積金管理中心), while our legal department oversees and ensures our continued compliance with laws and regulations, Daqing Dairy did not register the housing provident fund with the relevant housing provident fund management centre (住房公積金管理中心) immediately upon the effective date of these regulations.

Since its incorporation on 7 August 2008, Changqing Dairy has not registered with the relevant authority or maintained accounts with a designated bank in respect of the housing provident fund, or made any contributions to the housing provident fund. As such, Changqing Dairy has breached the Regulations on Management of the Housing Provident Fund《住房公積金管理條例》. On 20 April 2010, Changqing Dairy obtained a written confirmation from the housing provident fund management centre (住房公積金管理中心) of Harbin municipality's Wuchang office regarding the unpaid contributions from the date of incorporation of Changqing Dairy to 20 April 2010. According to such written confirmation, the housing provident fund management centre (住房公積金管理中心) will not require Changqing Dairy to make any contribution payment in respect of the above unpaid contributions nor will any penalty or other form of administrative penalties be imposed on Changqing Dairy for the unpaid contributions to the housing provident fund.

Our PRC Legal Advisers have advised us that the relevant housing provident fund management centres (住房公積金管理中心) have the authority to issue the letters of confirmation above, and such letters of confirmation are legal and valid.

Since April 2010, Daqing Dairy and Changqing Dairy have registered with, and made the relevant contributions to, the relevant housing provident fund management centres (住房公積金管理中心).

We estimate the amounts of outstanding contributions for the housing provident fund up to 31 December 2009 would amount to approximately RMB2.2 million and we have thus made full provisions in the relevant accounts.

We may experience a shortage of labour and our labour costs may increase.

The dairy industry in China is labour intensive. During the Track Record Period, the costs of direct labour expressed as a percentage of our cost of sales amounted to approximately 0.6%, 1.3%, 1.1% and 1.0%, respectively, of our costs of sale. Labour costs in China have been increasing and may continue to increase in the future. We cannot assure you that we will not experience any shortage of labour. Our labour costs may continue to increase in the future. If we experience a shortage of labour, we may not be able to maintain or expand our production operations. If labour costs increase, our production costs will also increase and we may not be able to pass such increase to our customers due to competitive pricing pressures. In such circumstances, our business, financial condition and operating results may be materially and adversely affected.

We rely on our key personnel and our ability to attract and retain qualified personnel. If we are unable to attract, motivate or retain such qualified personnel, our business may be materially and adversely affected.

The success of our business has been, and will continue to be, heavily dependent upon the continuing service of our key employees. In particular, we rely on the expertise and experience of Mr Zhao CW (an Executive Director, our Chairman and the honorary director of Daqing Dairy), Mr Zhao (an Executive Director, our Chief Executive Officer and the sole executive director of Daqing Dairy and Changqing Dairy), Mr Xia (an Executive Director, our Deputy Chief Executive Officer and the general manager of Daqing Dairy and Changqing Dairy), Mr Fu (an Executive Director and our Chief Operations Officer) and Mr Zhang Bing (our assistant general manager for production). They play a pivotal role in our daily operations and business strategies. If we lose the services of any of these key executives and cannot hire suitable replacements in a timely manner, our business, financial condition and operating results may be materially and adversely affected.

In addition, our success depends on our ability to attract and retain talented personnel, in particular, our team of personnel. We may not be able to attract or retain all the personnel we need. We may also need to offer superior compensation and other benefits to attract and retain key personnel and therefore cannot assure you that we will have the resources to fully achieve our staffing needs. Our failure to attract and retain competent personnel and any increase in staffing costs to retain such personnel may have a negative impact on our ability to maintain our competitive position and to grow our business. As a result, our business, financial condition and operating results may be materially and adversely affected.

The financial information of the Daqing Dairy Group is not directly comparable with that of our Group.

Pursuant to an equity transfer agreement dated 26 December 2007 entered into between Mr Pan, Mr Xu, Mr Du and Global Milk Singapore, Global Milk Singapore acquired the entire equity interest in Daqing Dairy on 25 July 2008 and accordingly such acquisition was recognised using the purchase accounting method. As a result, the financial information of the Daqing Dairy Group from 1 January 2007 to 24 July 2008 (being the date prior to the acquisition of Daqing Dairy by Global Milk Singapore) and for the financial year ended 31 December 2008, and the financial information of the Daqing Dairy Group for the financial year ended 31 December 2009, are not directly comparable to the financial information of our Group from 1 January 2008 to 31 December 2009. You should not place undue reliance on a comparison of the financial condition and operating results of the Daqing Dairy Group and our Group in deciding whether to invest in the Company.

Our operating results are subject to seasonal fluctuation and other variations.

Sales of our products are subject to seasonality. We typically experience higher sales of milk formula products and whole milk powder products in the second half of the year compared to the first half. Our Directors believe that this seasonality factor mainly reflects an increase in purchase orders made by our distributors in the second half of the year to increase inventories in advance of the Chinese New Year in anticipation of higher demand around the holiday period. However, it is also possible that our distributors increase their purchases in the second half of the year to meet their sales targets so that they qualify for annual sales rebates. From time to time, we make visits to our distributors to monitor their inventory levels and are not aware of any significant instance of over-stocking of our products. However, if our distributors over-stock significantly and then on-sell our products to ultimate consumers at a price which is significantly below our suggested unit retail price or if the expiry period of the products that reach the ultimate consumers is significantly shorter than the expiry period of our competitors' products, our brand image, reputation, business, financial condition and operating results may be materially and adversely affected. For further information, please refer to the section headed "Business — Seasonality" in this prospectus.

We are exposed to payment delays or defaults by our customers.

Where products are sold on credit, our customers are generally required to pay by bank transfers within 30 days of the date(s) of invoice(s). Our trade receivable turnover (calculated by dividing the trade receivables balance for the period by revenue and multiplying by 160 days, to exclude the period prior to the date of the acquisition of the Daqing Dairy Group) for the financial year ended 31 December 2008 was eight days. Our trade receivable turnover (calculated by dividing the trade receivables balance for the period by revenue and multiplying by 365 days, to reflect the full year) for the financial year ended 31 December 2008 was eight days. The trade receivable turnover of the Daqing Dairy Group (calculated by dividing the trade receivables balance for the period by revenue and multiplying by 266 days, to exclude the suspension of production and sales operations from 1 January 2007 to 9 April 2007) for the financial year ended 31 December 2007 was 10 days. The trade receivable turnover of the Daqing Dairy Group (calculated by dividing the trade receivables balance for the period by revenue and multiplying by 205 days, to reflect the number of days in the period) for the Predecessor Track Record Period in 2008 was nine days. There is no assurance that our customers will be able to meet their payment obligations on time or in full or that our trade receivables days will not increase. Any inability on the part of our customers to settle promptly and in full the amounts due to us may materially and adversely affect our business, financial condition and operating cash flow.

Our internal control policies and procedures may be inadequate or ineffective.

We have established risk management and internal control systems consisting of organisational framework policies, procedures and risk management methods that our Directors believe are appropriate for our business operations. We seek to continue to enhance our risk management and internal control systems from time to time. However, we cannot assure you that our risk management and internal control systems will be sufficiently effective to identify and prevent all such risks.

In preparation for the Listing, we have implemented measures to enhance our internal controls. As some of our risk management and internal control policies and procedures are relatively new, we will require additional time to fully evaluate the effectiveness of, and ensure compliance with, these policies and procedures. Our risk management and internal control policies and procedures depend on their implementation by our employees. We cannot assure you that all of our employees will adhere to our policies and procedures, and the implementation of such policies and procedures may involve human errors or mistakes. Moreover, our growth and expansion may affect our ability to implement and maintain stringent risk management and internal controls as our business evolves. Any material deficiency in our risk management and internal control policies or procedures may expose us to significant operational risk, which may, in turn, have a material adverse effect on our business, financial condition and operating results.

We face possible infringement of our trademarks and other intellectual property rights and possible counterfeiting of our products, and may inadvertently infringe third party intellectual property rights.

The production process of our products and the ingredients and the ingredient-mix of our products may involve proprietary know-how, technology or data that may not be patentable. Details of the ingredients and contents of our dairy products are required by applicable laws and regulations in the PRC to be listed on the packaging of the products. We may not have protection against third parties who may copy our trade secrets and product formulae. In addition, our Directors believe that our brand recognition and reputation have been vital to the success and growth of our business. We may not always be successful in securing protection for our trade secrets, know-how, trademarks and other intellectual property rights. Protections under the PRC intellectual property laws and the enforcement of such laws may not be as effective as in other countries. We may need to resort to litigation in the future to enforce our intellectual property rights. Any such litigation may result in substantial costs and a diversion of our resources. Our failure to protect and enforce our intellectual property rights may have a material adverse effect on our business, financial condition and operating results.

Counterfeiting and imitation have occurred in the past in the PRC for many products. We cannot assure you that counterfeiting and imitation of our products will not occur in the future. If it does occur, we may not be able to detect it and deal with it effectively. Any occurrence of counterfeiting or imitation may impact negatively upon our reputation and brand name. In addition, counterfeit and imitation products may result in a reduction of our market share, cause a decline in our revenue and increase our administrative costs in respect of detection and prosecution.

During the course of our operations including our production process, we may inadvertently infringe third party intellectual property rights, as a result of which other parties may initiate litigation or other proceedings against us. Responding to and defending these proceedings may require substantial costs and diversion of resources, and the result of these proceedings may be uncertain. Our reputation may also be materially and adversely affected. If any of our employees infringes any third party's intellectual property rights or violates his obligations of confidentiality to any third party during his work for us, the relevant employee may be held liable and we may also be held liable for the conduct of such employee. In particular, if any of our employees infringes any third party's intellectual property rights or violates his obligations of confidentiality to any third party (including his previous employer) and uses the information obtained to develop any of our products, we may be held liable for damages and may not be able to produce and sell such products in the future.

We may be subject to product liability claims if our products are found to be unfit for consumption or cause illness.

We may be subject to product liability claims if our products are found to be unfit for consumption or cause illness. Products may be rendered unfit for consumption or cause illness due to contamination of ingredients, whether intentional or not, and illegal tampering. The occurrence of such problems may result in recalls of our products and significant damage to our brand reputation. We cannot assure you that such incidents will not occur in the future. We may incur legal liabilities and have to compensate consumers for any loss or damage they suffer in respect of valid product liability claims and, in addition, we may also be subject to administrative or other government sanctions or penalties. In addition, adverse publicity from these types of concerns, whether valid or not, may discourage customers from purchasing our products. If customers lose confidence in our brand, we may experience long term declines in our sales, which may have a material adverse effect on our business, financial condition and operating results.

We may not have insurance coverage that is adequate to cover potential liabilities or losses.

We do not maintain third party liability, product liability or business interruption insurance, except for work-related injury insurance for employees as required under PRC law. We or our Directors or senior management may be exposed to claims for which no insurance policies have been maintained by us, including any claims that may be made against us if our products are found to have been contaminated with melamine or estrogen hormones that cause harm to the consumers of our products. In addition, although we maintain insurance on our properties, machinery, equipment, inventories and motor vehicles, there may be circumstances for which we would not be covered adequately or at all. If we incur substantial losses or liabilities and our insurance coverage is unavailable or inadequate to cover such losses or liabilities, our business, financial condition and operating results may be materially and adversely affected.

Delivery delays or poor handling by distributors and transport operators may have a material adverse effect on our business, financial condition and operating results.

In general, we rely on transport operators to deliver our products to our distributors. Delivery disruptions for various reasons beyond our control, including weather conditions, political turmoil, social unrest and strikes, may result in delayed or lost deliveries. The perishable nature of our dairy products may also mean that poor handling by transport operators may result in damage to our products, which may have a material adverse effect on our business, financial condition and operating results.

There may be a dilutive effect on the earnings per Share associated with the Share Option Scheme and an impact on future earnings.

We conditionally adopted the Share Option Scheme under which options to acquire Shares may be granted after completion of the Global Offering. Details of the Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix VI to this prospectus.

The issue of Shares upon the exercise of any options which may be granted under the Share Option Scheme will result in an increase in the number of Shares in issue and may result in the dilution of the percentage of ownership of our Shareholders, the earnings per Share and net asset value per Share.

The interests of our Controlling Shareholder may not always coincide with the best interests of our Company and our other Shareholders, and we have a limited operating history under our Controlling Shareholder.

Immediately after completion of the Global Offering, our Controlling Shareholder will beneficially own 55.1% of our issued share capital (assuming the Over-allotment Option and any options which may be granted under the Share Option Scheme are not exercised). Accordingly, our Controlling Shareholder, through his voting power at Shareholders' meetings and his delegates on our Board, will be in a position to exert significant influence over our management and corporate policies, including our development strategies, capital expenditure and distribution plans. In addition, our Controlling Shareholder may cause us to implement corporate transactions which might not be in, or may conflict with, our other Shareholders' best interests. In particular, our Controlling Shareholder will be able to:

- subject to applicable laws, rules and regulations, cause our Board to act in a manner that may not be in the best interests of our other Shareholders;

- subject to the provisions of our Articles of Association, cause us to adopt amendments to our Articles of Association, including amendments that are not in the best interests of our other Shareholders; and

- otherwise determine the outcome of most corporate actions, including the enforcement of indemnities against our Controlling Shareholder, and, subject to the applicable requirements of the Stock Exchange, cause us to effect corporate transactions without the approval of our other Shareholders.

We cannot assure you that our Controlling Shareholder will vote on Shareholders' resolutions in a way that will benefit our other Shareholders.

Our Controlling Shareholder did not acquire his ownership interests in Daqing Dairy until 25 July 2008. We have a limited operating history under our Controlling Shareholder. Consequently, the historical financial information in this prospectus may not provide a meaningful basis for investors to evaluate our historical business, our operations or our business prospects, and our operating results during the Track Record Period may not be indicative of our future performance.

RISKS RELATING TO OUR INDUSTRY

We operate in a highly competitive market.

Our Directors consider the dairy market in which we operate to be highly competitive, and we expect the competition to continually increase. Our competitors include producers of milk formula products and milk powder products. Many of our competitors sell products that are similar to ours, and our ability to compete against them is significantly dependent on our ability to distinguish our products from those of our competitors and demonstrate our product quality. According to the Euromonitor International Report, leading global brands, such as Wyeth, Mead Johnson, Dumex, Nestle and Abbot, collectively account for almost 40% of the total market share by sales value in the market in China in 2009. The market has yet to see a local Milk Powder manufacturer capable of overriding the leading global brand producers in China. In addition, consumer preferences and needs may change quickly and frequently, creating opportunities for new competitors to enter our market and for existing competitors to take away our market share. For instance, the melamine scandal in 2008, coupled with the impact of the global financial crisis in late 2008, led to a decrease in the consumption of dairy products in the PRC as consumers likely became more cautious in their consumption of non-necessities such as milk powder for adults. Furthermore, consumers may increasingly shift their purchases of infant milk formula from domestically sourced products to internationally sourced products, which may increase the competition and reduce our market share and sales. As a result of the melamine incident in 2008, consumers in the PRC have been shifting their purchase of infant milk formula from domestically sourced infant milk formula to internationally sourced infant milk formula. The recent incident relating to hormone-tainted milk formula products in China may undermine consumers' confidence in domestic milk formula products, in particular, paediatric milk formula products and consumers may avoid their purchase of local brand milk formula products in the PRC. This increases further competition between leading global brands producers and local Milk Powder manufacturers in China. Many of our existing and potential competitors may have competitive advantages over us in terms of financial, technical and marketing resources. We cannot assure you that our existing or potential competitors will not provide products comparable or superior to those we provide or adapt more quickly than we do to evolving market trends or changing market requirements. It is also possible that there will occur significant consolidation of the dairy industry among our competitors, which could result in an increase of the market share of some of our competitors. Our competitors may successfully expand their business upstream in raw milk production, which may enable them to better control the price and quality of the raw milk used to make their products, thereby enhancing their competitiveness. Increased competition may reduce our sales volume, prices and margins. As a result, our business, financial condition and operating results may be materially and adversely affected. We cannot assure you that we will be able to compete effectively against our existing and potential competitors. Please refer to the section headed "Business — Competition" in this prospectus for further information.

Adverse publicity concerning milk formula and other dairy products may affect our business performance or damage our reputation, and their societal impact may lead to additional government regulations.

We are highly dependent on consumers' perception of the quality and safety of our products. As a result, adverse publicity about contamination in dairy products or an outbreak of any illness or disease in cows in the PRC may lower public confidence in dairy products produced in the PRC, including our products. The occurrence of any of these events may have a material adverse effect on our business, financial condition and operating results.

In 2008, several brands of milk formula and other dairy products in China were found to be contaminated with melamine, which poses health risks for consumers. This led to a nationwide investigation into dairy products, particularly milk formula, for traces of melamine. After a number of domestically sourced infant formula products were found to contain melamine, consumers in the PRC have been shifting their purchase of infant milk formula from domestically sourced infant milk formula to internationally sourced infant milk formula, and as a result, internationally sourced infant milk formula brands experienced an increase in domestic sales of their products. Please refer to the section headed "Financial Information — Review of Historical Operating Results" in this prospectus for further information on the impact of the melamine scandal in 2008 on our operating results.

In August 2010, three infants in Hubei province in the PRC were reported to have experienced pubescent development, which was allegedly caused by the content of estrogen hormones found in a particular local brand milk formula products they consumed. This resulted in the Ministry of Health of the PRC launching an investigation into the above alleged claims. The clinical investigation conducted by the Ministry of Health of the PRC on the residue of milk powder consumed by these infants revealed that the milk formula products involved did not contain such estrogen hormones that caused these infants' pubescent development. Notwithstanding the above, the incident may undermine consumers' confidence in domestic milk formula products, in particular, paediatric milk formula products and consumers may avoid their purchase of local brand milk formula products in the PRC. This may, in turn, have an impact of the sales of local brand milk formula products in the PRC. Please also refer to the section headed "Business — Quality Control" in this prospectus for further information.

There have also been incidents in the past of milk formula contamination with E. sakazakii (*Enterobacter sakazakii*), a potentially fatal bacterium. These incidents of dairy product contamination negatively impacted domestic producers of dairy products. There can be no assurance that such incidents of contamination by melamine, E. sakazakii or any other contaminants in dairy products will not occur in the future.

In addition, any major outbreak of any illness or disease in cows such as mad cow disease (*bovine spongiform encephalopathy*) and bovine tuberculosis may lead to significant shortfalls in the supply of our raw milk and result in loss of consumer confidence in, and demand for, our dairy products. Adverse publicity about contamination, illness or disease in the dairy industry may lower public confidence in the dairy industry and increase governmental regulation of our industry, which may have a material adverse effect on our business, financial condition and operating results.

The PRC Milk Powder industry, including the Baby Milk Powder industry, may face slower growth.

The PRC Milk Powder industry has undergone substantial growth in recent years. According to the Euromonitor International Report, the Milk Powder market in the PRC has grown from approximately RMB37,142 million in 2007 to approximately RMB42,062 million in 2009 in terms of retail sales value. However, there is no guarantee that the Milk Powder market in the PRC will continue to grow at such a rate in the future. The Baby Milk Powder market in the PRC may experience slower growth in the future due to market saturation, which may impact the size and growth of the market for dairy products in the PRC in general. Growth in the Milk Powder market in the PRC may also be affected by changes in consumer preferences and needs.

The PRC Government food safety and food production laws and regulations may become more onerous, and our related certificates may be revoked, or may not be renewed or extended, which may materially and adversely affect our business, financial condition and operating results.

Domestic producers of dairy products are required to comply with certain food safety and food production laws and regulations. These laws and regulations establish standards on food and food additives, packaging and containers, and disclosure of information on packaging, as well as set out requirements on food safety, production, sites, facilities and equipment used for the transportation and sale of dairy products. Our PRC Legal Advisers have advised us that we are in compliance with current applicable food safety and food production laws and regulations. However, if the PRC Government increases the stringency of such laws or regulations, our production and sales costs may increase, and we may be unable to pass these additional costs on to our customers, which may materially and adversely affect our business, financial condition and operating results.

Our PRC Legal Advisers have advised us that we have obtained, and are in compliance with, all relevant licences and certificates, including the National Industrial Products Manufacturing Certificates (全國工業產品生產許可證). These licences and certificates are subject to renewal or extension to carry on the business of food production and processing. If any of our licences or certificates is revoked, not renewed or not extended, we may not be able to produce or process our products and our customers may lose confidence in our products, which may have a material and adverse effect on our business, financial condition and operating results.

We may be subject to higher compliance costs if PRC environmental protection laws and regulations become more onerous, which may materially and adversely affect our business, financial condition and operating results.

We operate in an industry that is subject to PRC environmental protection laws and regulations. These laws and regulations require enterprises which produce certain environmental waste to effectively manage and treat such waste prior to disposal. Enterprises that fail to comply with such requirements may be subject to fines. Our PRC Legal Advisers have advised us that we are in compliance with current applicable environmental protection laws and regulations. However, there can be no assurance that the PRC Government will not change the existing laws or regulations or impose additional or stricter laws and regulations, compliance with which may increase our production costs in ways that may materially and adversely affect our business, financial condition and operating results.

Global market fluctuations and economic downturn may materially and adversely affect our business, financial condition and operating results.

The global financial crisis that unfolded in 2008 and continued in 2009 led to a slowdown in the economic growth of the PRC. The adverse impact of the global crisis on the PRC economy may continue or be exacerbated in the future. A recession in the global economy, Asia or the PRC or uncertainties regarding future economic prospects of the PRC may affect consumer spending habits and have a material adverse effect on our business, financial condition and operating results. In particular, although the PRC economy has recorded one of the world's fastest growth rates in terms of GDP, we cannot assure you that such growth will be sustained and continue in the future. In addition, a slowdown in the economies of the United States, the European Union and certain Asian countries with which the PRC has important trade relationships or any future calamities may materially and adversely affect the economic growth of the PRC. If the PRC economy experiences a significant downturn, our business, financial condition, operating results and prospects may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Any adverse change in the political and economic policies of the PRC Government may materially and adversely affect our business, financial condition and operating results and may result in our inability to sustain our growth and expansion strategies.

Our operations are conducted in the PRC. Accordingly, our operating results, financial condition and prospects are, to a significant degree, subject to the economic, political and legal developments of the PRC.

The PRC economy has largely been a centrally planned economy, which differs from other developed economies of the world in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- growth rate;
- the control of foreign exchange; and
- the allocation of resources.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of other developed countries. The PRC economy has been transitioning from a planned economy to a more market oriented economy. The PRC Government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy and is continuing to play a significant role in regulating industries by imposing industrial policies.

We cannot, however, predict whether changes in the political, economic and social conditions and policies in the PRC, or in the relevant laws, rules and regulations, will have any material adverse effect on our current or future business, financial condition and operating results.

Inflation in China may have a material adverse effect on our business, financial condition and operating results.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and inflation. If prices for our dairy products rise at a rate that is insufficient to compensate for the rise in our costs, our business, financial condition and operating results may be materially and adversely affected. To control inflation in the past, the PRC Government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on State bank lending. Such an austere policy can lead to a slow down in the economic growth and may materially and adversely affect our business, financial condition and operating results.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

Our operations are conducted in the PRC. The PRC legal system is based on written statutes and thus prior court decisions can only be cited as reference. Since the late 1970s, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade.

However, due to the fact that these laws, rules and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainties with respect to the outcome of any legal action that may be taken against us in the PRC.

PRC regulations relating to acquisitions of PRC companies by offshore holding companies may limit our ability to acquire PRC companies and may materially and adversely affect the implementation of our acquisition strategies as well as our business and prospects.

The M&A Provisions provide rules with which foreign investors must comply should they seek to (i) purchase the equities of the shareholders of a domestic non-foreign-funded enterprise, or subscribe to the increased capital of a domestic non-foreign-funded enterprise, and thus change the domestic non-foreign-funded enterprise into a foreign-funded enterprise, or (ii) set up a foreign-funded enterprise to acquire assets from a domestic enterprise, or assets from a domestic enterprise and set up a foreign-funded enterprise by contribution of the acquired assets. The M&A Provisions stipulate that the business scope upon acquisition of a domestic enterprise must conform to the Foreign Investment Industrial Guidance Catalogue (2007 version)《外商投資產業指導目錄》(2007 年修訂) issued by the NDRC and MOFCOM. The M&A Provisions also provide the takeovers procedures for equity interests in domestic enterprises.

Our PRC Legal Advisers have advised us that there are uncertainties as to how the M&A Provisions will be interpreted or implemented. If we decide to acquire a PRC enterprise, we cannot assure you that we or the owners of such PRC enterprise can successfully complete all necessary approval requirements under the M&A Provisions. This may restrict our ability to implement our acquisition strategies and may materially and adversely affect our business and prospects.

Implementation of the PRC Labour Contract Law and other labour-related regulations in China may materially and adversely affect our business, financial condition and operating results.

The PRC Labour Contract Law《中華人民共和國勞動合同法》and the PRC Labour Contract Law Implementation Rules《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. These labour laws and rules impose additional stringent requirements on employers in relation to entering into fixed term employment contracts, hiring of temporary employees and dismissing employees. Pursuant to the PRC Labour Contract Law, since 1 January 2008, we have been required to enter into non-fixed term employment contracts with employees who have worked for us for more than 10 years or, unless otherwise provided in the PRC Labour Contract Law, for whom a fixed term employment contract has been concluded for two consecutive terms. We may not be able to efficiently terminate non-fixed term employment contracts under the PRC Labour Contract Law without cause unless there exist special circumstances as stipulated in the PRC Labour Contract Law Implementation Rules as well as other PRC laws for the termination of employment contracts by the employer. We are also required to make severance payments to fixed term contract employees when the term of their employment contracts expire, unless such employee voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer, except (i) where the term of service is more than six months but less than a year, the amount of severance payment shall be calculated as a full year of service; (ii) where the term of service is less than six months, the employer shall pay half a month's wage to the employee as severance payment; and (iii) where the employee's monthly wage is more than three times the average monthly wage of the proceeding year announced by the local relevant PRC Government. The calculation of severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by the number of years of service which cannot exceed a maximum of 12. A minimum wage requirement has also been incorporated into the PRC Labour Contract Law. Liability for damages, fines or other administrative penalties may be imposed for any material breach of the PRC Labour Contract Law. In addition, under the Regulations on Paid Annual Leave for Employees《職工帶薪年休假條例》, which became effective 1 January 2008, employees who have continuously worked for more than one year are entitled to paid holidays ranging from 5 to 15 days, depending on their length of service. Employees who agree to waive their holiday time at the request of their employers must be compensated with three times their normal daily salaries for each holiday waived. As a result of these PRC laws, rules and regulations, our labour costs have increased. There can be no assurance that any disputes, work stoppages or strikes will not arise in the future. Furthermore, there can be no assurance as to whether there will be additional or new labour laws, rules and regulations in the PRC, which may lead to potential increases in our labour costs and future disputes with our employees. In such circumstances, our business, financial condition and operating results may be materially and adversely affected.

Failure to comply with the SAFE regulations relating to the establishment of special purpose vehicles by our beneficial owners may materially and adversely affect our business operations, limit our ability to inject capital into our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute profits to us or subject us to fines.

On 21 October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies《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》, which became effective 1 November 2005. The notice requires PRC residents to register with the local SAFE branch in the following circumstances: (i) before establishing or controlling any company (referred to in the notice as a "special purpose vehicles") outside the PRC for the purpose of capital financing; (ii) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contributions; and (iii) after any major change in the share capital of the special purpose vehicles without any round-trip investment being made.

Our beneficial owners are required to comply with further foreign exchange registration requirements in all material respects in connection with our investments and financing activities. If our beneficial owners or we fail to comply with the relevant SAFE requirements, such failure may subject the beneficial owners or us to fines and legal sanctions, restrict our ability to inject capital into our subsidiaries in the PRC or limit the ability of our subsidiaries in the PRC to distribute profits to us, thereby, materially and adversely affecting our business, financial condition and operating results.

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

On 29 August 2008, SAFE promulgated the Notice on Relevant Business Operations Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》(“**Notice 142**”) which regulates the conversion by a foreign-funded enterprise of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Notice 142 requires that the Renminbi funds converted from the foreign currency capital of a foreign-funded enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of the Renminbi funds converted from the foreign currency capital of a foreign-funded enterprise. The use of such Renminbi capital may not be changed without SAFE’s approval, and may not, in any case, be used to repay or prepay Renminbi loans if such loans are outstanding. Violations of Notice 142 will result in severe penalties, such as heavy fines as set out in the relevant foreign exchange control regulations.

As an offshore holding company of our PRC subsidiaries, our Company may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries by utilising the proceeds we receive from the Global Offering. However, we cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our PRC subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds received from the Global Offering and to fund our PRC operations may be negatively affected, which may materially and adversely affect our liquidity and ability to expand our business.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees’ share options may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange《個人外匯管理辦法實施細則》issued by SAFE on 5 January 2007 and the Operating Procedures on Administration of Foreign Exchange regarding PRC Individuals’ Participation in

Employee Share Incentive Plans and Employee Stock Option Plans of Overseas Listed Companies《境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程》on 28 March 2007, PRC citizens who are granted shares or share options by an overseas listed company under its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures relating to the share option or other share incentive plan. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into China. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator and a custodian bank, as well as to open foreign currency accounts to handle transactions relating to the share option or other share incentive plan. We and our PRC citizen employees who are granted options under the Share Option Scheme after the Listing, or other PRC option holders, will be subject to these rules. If we or our PRC option holders fail to comply with these rules, we or our PRC option holders may be subject to fines and legal or administrative sanctions.

Our Company is a holding company that relies on payments from our subsidiaries for funding.

We are a holding company incorporated in the Cayman Islands and operate our core business primarily through our subsidiaries in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders and to service our indebtedness depends on payments received from these subsidiaries. If our subsidiaries incur any debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends or other distributions and to service our indebtedness will be restricted.

PRC laws, rules and regulations require that dividends be paid only out of the accumulated profit calculated according to PRC accounting standards, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws, rules and regulations also require PRC-incorporated enterprises, such as our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as dividends.

In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future, if any, may also restrict the ability of our PRC subsidiaries to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

We may be deemed to be a PRC tax resident under the EIT Law and be subject to PRC taxation on our worldwide income.

Under the EIT Law, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to a uniform 25% EIT on their worldwide income. Under the EIT Rules, “de facto management bodies” are defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China and may remain in China. Therefore, we may be treated as a PRC resident enterprise for EIT purposes and thus be subject to EIT on our worldwide income. However, a PRC resident enterprise is exempt from dividend income received from qualified resident enterprises. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and how local tax authorities apply or enforce the EIT Law and the EIT Rules. Our business, financial condition and operating results may be materially and adversely affected if we are subject to PRC taxation on our worldwide income.

Fluctuations in foreign exchange rates and changes in foreign exchange regulations may materially and adversely affect our business, financial condition, operating results and our ability to remit payments.

Our revenue and expenditures are denominated in Renminbi, which is currently not a freely convertible currency. However, we will require foreign currencies for dividend payment (if any) to our Shareholders. As a result, we are exposed to risks associated with fluctuations in the exchange rates of foreign currency.

In the PRC, since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC. The PRC Government has, with effect from 21 July 2005, reformed the exchange rate regime by permitting Renminbi to fluctuate within a narrow and managed band based on market supply and demand with reference to a basket of currencies. On 21 July 2005, this revaluation resulted in Renminbi appreciating against the US dollar and Hong Kong dollar by approximately 2%. The PRC Government has since made further adjustments to the exchange rate system. Any appreciation of Renminbi may affect the value of, and any dividends payable on, our Shares in foreign currency terms.

As at 31 December 2009, our Group had borrowings of S$21,000,000. For further details of the principal and interest of the borrowings, please refer to the section headed "History, Reorganisation and Group Structure — Investment in the Company prior to the Global Offering" in this prospectus. On 14 April 2010, the Singapore dollar appreciated against the Renminbi from S$1.00 to RMB4.90 to S$1.00 to RMB4.96. If the Singapore dollar continues to appreciate against the Renminbi in the future, we may have to convert more RMB into Singapore dollars to repay the principal and interest amount of the above borrowings.

Under the current PRC foreign exchange regulations, following the completion of the Global Offering, by complying with certain procedural requirements, we will be able to pay dividends (if any) in foreign currencies without prior approval from SAFE. Currently, Renminbi is convertible without approval from SAFE only with respect to current account transactions, and not with respect to capital account transactions. Dividend payments and payments for goods and services are current account transactions. Under current regulations, PRC companies may convert Renminbi into foreign currency for current account transactions directly at commercial banks authorised to deal with foreign exchange transactions by complying with certain requirements. It is uncertain whether the PRC Government, at its discretion, will take measures in the future to restrict access to foreign currencies for current account transactions under certain circumstances. Such restrictions, if imposed, may have a material adverse effect on our ability to receive payments from our subsidiaries in the PRC.

Income in respect of our Shares or dividends from PRC subsidiaries may become subject to PRC taxes.

Under the EIT Law and EIT Rules, our foreign corporate Shareholders may be subject to a 10% income tax upon any gains they realise from the transfer of their Shares, if such income is regarded as income from "sources within the PRC". According to the EIT Rules, whether income generated from transferring equity investments is to be regarded as sources within the PRC or from foreign territory shall depend upon the locations in which the enterprises accepting the equity investment are located. However, it is unclear whether income received by our Shareholders will be deemed to be income from sources within the PRC and whether there will be any exemption or reduction in taxation for our foreign corporate Shareholders due to the recent promulgation of the EIT Law. If our foreign corporate Shareholders are required to pay PRC income tax on the transfers of our Shares that they hold, the value of our foreign corporate Shareholders' investments in our Shares may be materially and adversely affected.

We were incorporated in the Cayman Islands, and substantially all of our income will come from dividends that we receive from our PRC subsidiaries. Before the EIT Law came into effect, dividends derived from our business operations in the PRC were not subject to income tax under PRC law. Under the EIT Law, dividends payable to foreign investors that are "derived from sources within the PRC" may be subject to income tax at the rate of 10% by way of withholding, unless otherwise reduced by PRC laws, rules and regulations or through agreements between the PRC Government and the government of other countries or regions. Under the EIT Rules, equity investment income from sources within the PRC or a foreign territory, such as dividends and bonuses, will be recognised by reference to the locations in which the enterprises that distributed the dividends and bonuses are located. As a result, dividends payable to our foreign investors may be deemed to be income derived from sources within the PRC.

Pursuant to the Notice of SAT on the List of Agreed Dividend Tax Rates《國家稅務總局關於下發協定股息稅率情況一覽表》issued on 29 January 2008, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise or a Singapore resident enterprise is 5% if the Hong Kong or the Singapore resident enterprise owns at least 25% of the PRC enterprise. Otherwise, the dividend withholding tax rate is 10%.

Furthermore, under the Arrangement between the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income《內地和香港特別行政區關於對所得避免雙重征稅和防止偷漏稅的安排》(the "**Tax Agreement**"), effective 8 December 2006, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% if the Hong Kong enterprise owns at least 25% of the PRC enterprise; otherwise, the dividend withholding tax rate is 10%. According to the Notice of the SAT on Issues relating to the Administration of the Dividend Provision in Tax Treaties《國家稅務總局關於執行稅收協定股息條款有關問題的通知》promulgated on 20 February 2009, the corporate recipient of dividends distributed by PRC enterprises must satisfy the direct equity interest thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. SAT issued the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation)《非居民享受稅收協定待遇管理辯法(試行)》on 24 August 2009 and the Notice on How to Understand and Identify the Owner of Benefits in Tax Agreements

《國家稅務總局關於如何理解和認定稅收協定中受益所有人的通知》on 27 October 2009. Pursuant to these regulations, non-resident enterprises are required to obtain approval from the competent tax authorities in order to enjoy the favourable treatment under tax treaties. However, if a company is deemed a pass-through entity rather than a qualified owner of benefits, it cannot enjoy the favourable tax treatment provided in the Tax Agreement. In addition, if transactions or arrangements are deemed by the relevant tax authorities to be entered into mainly for the purpose of enjoying favourable tax treatment under the Tax Arrangement, such favourable tax treatment may be subject to adjustment by the relevant tax authorities in the future. Therefore, if Global Milk Singapore, the holding company of our PRC subsidiaries, fails to obtain approval for the favourable tax treatment under the Tax Agreement and is deemed a pass-through entity rather than a qualified owner of benefits, the dividends to be distributed to Global Milk Singapore by our PRC subsidiaries will be subject to withholding tax at a rate of 10% instead of 5%.

In summary, if we are required under the EIT Law to pay EIT on the dividends we receive from our PRC subsidiaries at an ordinary rate or to withhold PRC income tax on dividends payable to our non-PRC Shareholders, your investment in us may be materially and adversely affected.

It may be difficult to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgements obtained from non-PRC courts against, us or our management who reside in the PRC.

Substantially all of our management resides in the PRC and substantially all of our assets are located in the PRC. Accordingly, it may be difficult for you to effect service of process in connection with disputes brought in the courts outside the PRC on, or to enforce judgements obtained from non-PRC courts against, us or our management who reside in the PRC.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements awarded by courts in the United States, Singapore, the Cayman Islands and most other western countries. Hence, the recognition and enforcement in the PRC of judgements 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.

Acts of God, acts of war, epidemics, such as severe acute respiratory syndrome (SARS), H5N1 avian flu or H1N1 influenza, and other disasters may affect our business.

Our business is subject to the general and social conditions in the PRC. Natural disasters, epidemics, acts of God and other disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. Our business, financial condition and operating results may be materially and adversely affected if these natural disasters occur.

Epidemics threaten people's lives and may materially and adversely affect their livelihoods as well as living and consumption patterns. The occurrence of an epidemic is beyond our control and there is no assurance that the outbreak of SARS, H5N1 avian flu or H1N1 influenza will not happen again. Any epidemic occurring in areas in which we operate, or even in areas in which we do not operate, may materially and adversely affect our business, financial condition and operating results.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, facilities, our distribution channels, markets, suppliers and customers, the occurrence of any of which may materially and adversely impact our business, revenue, cost of sales, financial condition and operating results or Share price. Potential war or terrorist attacks may also cause uncertainties and cause our business to suffer in ways that we cannot currently predict.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

As there has been no prior public market for our Shares before the Listing, the liquidity and market price of our Shares following the Listing may be volatile.

Before the Listing, there has been no public market for our Shares. The Offer Price for our Shares will be the result of negotiations between the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us, which may differ from the market prices of our Shares after the Listing. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares. However, there is no assurance that the Listing will result in the development of an active and liquid public trading market for our Shares following the Listing or in the future or, if it does develop, that it will be sustained after the Listing or that the market price of our Shares will not decline below the Offer Price. The market price, liquidity and trading volume of our Shares may be volatile and may result in substantial losses for investors purchasing the Offer Shares in the Global Offering.

Factors that may affect the volume and price at which our Shares will be traded include, among other things:

- variations in our revenue, earnings and cash flows;
- changes in our pricing policy as a result of the presence of competitors;
- changes in our senior management personnel;
- our new investments;
- investors' perception of us and our future business plans;
- changes in laws, rules and regulations in the PRC; and
- general economic and other factors in the PRC.

We can give no assurance that these developments will not occur in the future.

Purchasers of the Offer Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Offer Shares is higher than the net tangible asset value per Share immediately before the Global Offering. Therefore, purchasers of the Offer Shares in the Global

Offering will experience an immediate dilution in the pro forma net tangible asset value to RMB1.40 (or HK$1.61) per Share (assuming an Offer Price of HK$4.40, which is the mid-point of our indicative Offer Price range, and assuming the Over-allotment Option and any options which may be granted under the Share Option Scheme are not exercised).

To expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Offer Shares may experience further dilution in the net tangible asset value per Share if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share.

Any actual or perceived sale of Shares in the future by our existing Shareholders may have a material adverse effect on our Share price.

Future sales by our existing Shareholders of a substantial number of our Shares in the public markets after the Listing may materially and adversely affect the market price of our Shares prevailing from time to time. Only a limited number of the Shares currently outstanding will be available for sale immediately after the Listing due to contractual and regulatory restrictions on re-sale. Please refer to the section headed "Underwriting — Undertakings" in this prospectus for a description of some of the contractual and regulatory restrictions on re-sale. Nevertheless, after these restrictions lapse or if they are waived or breached, future sales of a substantial number of our Shares, or the perception that these sales may occur, may materially and adversely affect the market prices of our Shares and our ability to raise equity capital in the future.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands laws, and the laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or other jurisdictions.

Our corporate affairs are governed by the Memorandum of Association, the Articles of Association, and by the Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statues and judicial precedent in existence in Hong Kong and other jurisdictions. These differences may mean that the remedies available to the Company's minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed "Summary of the Constitution of our Company and Cayman Islands Company Law — Cayman Islands Company Law" in Appendix V to this prospectus for further information.

Facts and statistics in this prospectus relating to the PRC, the PRC economy and the dairy industry in the PRC may not be fully reliable.

Facts and statistics in this prospectus relating to the PRC and the industry in which we operate, including those relating to the PRC economy and the dairy industry in the PRC, are derived from various publications of governmental agencies or independent third parties which we believe are reliable. However, we cannot give assurance as to the quality or reliability of such source materials. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Selling Shareholders, the Sole Global Coordinator, the Sponsor, the Underwriters, nor any of their or our directors, affiliates or advisers or any other parties involved in the Global Offering. We, therefore, make no representation as to the accuracy and completeness of such information. Accordingly, such facts and statistics should not be unduly relied upon. Investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics and should not place undue reliance on them.

You may not place undue reliance on information derived from the research report contained in this prospectus.

Our Directors believe that the source of information derived from the research report contained in this prospectus is an appropriate source for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Selling Shareholders, the Sole Global Coordinator, Sponsor, the Underwriters, nor any of their or our directors, affiliates, advisers or any other parties involved in the Global Offering and no representation is given as to its accuracy.

WAIVER FROM COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Under Rule 8.12 of the Listing Rules, we 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, there is no business or practical need to appoint Executive Directors in Hong Kong. If two Executive Directors were to ordinarily reside in Hong Kong in order to comply with Rule 8.12 of the Listing Rules, this would draw upon our key senior management resources which would otherwise be necessary for the management of our business operations which are mainly located in the PRC (the "**Business**"). We acknowledge that personnel should be ordinarily resident in Hong Kong to be available as contact persons to the Stock Exchange and also to handle on-going compliance matters relating to the Listing Rules subsequent to the Listing, but if such arrangements were to draw upon our key senior management resources in the PRC, this may have an adverse effect on the Business. Each of the Executive Directors has a vital role in the Business and it is desirable for them to remain in close proximity to our operations in the PRC. Our Directors therefore 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 compliance with the requirements under Rule 8.12 of the Listing Rules, and the waiver has been granted by the Stock Exchange.

For the above reasons, we have put in place the following measures to maintain regular communication with the Stock Exchange:

(a) we have appointed Mr Daniel Fong and Ms Queenie Ho as our authorised representatives under Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange. Ms Queenie Ho, our company secretary and one of our authorised representatives, ordinarily resides in Hong Kong. Mr Daniel Fong is our Executive Director and Chief Financial Officer. Both of them will be available to meet the Stock Exchange on reasonable notice as and when required and will be readily contactable by the Stock Exchange by telephone, facsimile or email to promptly address enquiries from the Stock Exchange. Of the current members of our Board, Mr Daniel Fong, who is a Singaporean, and Mr Zhao, who is a Canadian citizen, have confirmed that they possess valid travel documents to enable them to meet the Stock Exchange on reasonable and advance notice. Mr Zhao CW, Mr Xia and Mr Fu, our other Executive Directors, and Mr Zhang Zhou, one of our independent non-executive Directors, are ordinarily residents in the PRC and they have confirmed that they will apply for valid travel documents to enable them to travel to Hong Kong to meet with the Stock Exchange on reasonable and advance notice when required;

(b) our authorised representatives will have means to contact all members of our Board (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. In order to enhance communication between our Company and the Stock Exchange, (i) each of our Directors (including our independent non-executive Directors) has provided to our authorised representatives and the Stock Exchange his or her respective contact details such as mobile and office telephone numbers, facsimile number and e-mail address; and (ii) each of our Directors will endeavour to provide valid phone number or means of communication to the authorised representatives when he or she is travelling;

(c) we shall promptly inform the Stock Exchange of any changes of our authorised representatives and the contact details of our authorised representatives and Directors; and

(d) our Company has maintained and will continue to maintain a principal place of business in Hong Kong, which is currently at 35th floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

In addition, we have appointed Quam Capital Limited as our compliance adviser under Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we distribute our annual report for the first full financial year after the Listing Date to provide us professional advice on continuing obligations under the Listing Rules. In addition, our compliance adviser will act as an additional channel of communication with the Stock Exchange and our compliance adviser will ensure that we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines.

Our executive Board comprises Mr Zhao CW (our Chairman), Mr Zhao (our Chief Executive Officer), Mr Xia (our Deputy Chief Executive Officer), Mr Fu (our Chief Operations Officer) and Mr Daniel Fong (our Chief Financial Officer). Both Mr Xia and Mr Fu are PRC residents who manage our operations in China on a full time basis in China. Mr Zhao CW is also a PRC resident. Notwithstanding that Mr Zhao is a Canadian citizen who does not have any permanent residence in China, he devotes a substantial portion of his time in Daqing municipality to manage our day to day operations with the assistance and support of Mr Zhao CW, Mr Xia, Mr Fu and the senior management of our PRC subsidiaries. As a Singapore citizen, Mr Daniel Fong is currently able to travel to China without the need to apply for any travel visa. Each of Mr Zhao CW, Mr Zhao, Mr Xia, Mr Fu and Mr Daniel Fong has been appointed as Executive Directors of our Company. Other than Mr Zhao, who has been appointed as the sole executive director and legal representative of Daqing Dairy and Changqing Dairy, Mr Daniel Fong will not be appointed to hold any executive positions in our PRC subsidiaries. Our PRC Legal Advisers have advised us that Mr Zhao is in compliance with the applicable employment formalities in the PRC relating to his appointments with our PRC subsidiaries.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus or 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 in this prospectus and the Application Forms. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by us, the Selling Shareholders, the Sole Global Coordinator, the Sponsor, the Underwriters, any of their respective directors, agents, employees or advisers or any other parties 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" in this prospectus, 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" in this prospectus 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 Offer will be required to, or be deemed by his acquisition of Offer 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 authorised 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 authorisation by the relevant securities regulatory authorities or an exemption from the authorities.

Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in, our Shares (or exercising rights attached to them). None of us, the Selling Shareholders, the Sole Global Coordinator, the Sponsor, the Underwriters, any of their respective directors or any other persons or parties 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 or any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal share registrar, Codan Trust Company (Cayman) Limited, in the Cayman Islands and our Company's register of members in Hong Kong will be maintained by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Dealings in the Shares registered in the register of members in Hong Kong will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS

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

HK$1.1463 = RMB1.00
HK$5.5423 = S$1.00

No representation is made that any amounts in RMB, S$ 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

The English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the Over-allotment Option.

DIRECTORS

	Residential address	Nationality
Executive Directors		
Mr Zhao Chuan Wen (趙傳文)	Door 1, No. 17, Ting Tao Wan Yan Hu Town Dongfeng Village Sa'er Tu District Daqing City Heilongjiang Province PRC	Chinese
Mr Zhao Yu (趙宇)	707-8120 Lansdowne Road Richmond British Columbia Canada V6X0A1	Canadian
Mr Xia Yuan Jun (夏元軍)	Room 201, Door 1 No. 6, Hanlin Wan Yan Hu Town Dongfeng Village Sa'er Tu District Daqing City Heilongjiang Province PRC	Chinese
Mr Fu Chong (付翀)	Room 101, Unit 4, Building No. 1 Cang Long Yuan Huhejiadi Hohhot Inner Mongolia PRC	Chinese
Mr Fong Pin Jan (方秉權)	26 Jalan Nipah Singapore 488831	Singaporean

	Residential address	Nationality
Independent non-executive Directors		
Mr Cheung Hok Fung Alexander (張學鋒)	Flat B, 2/F Ching Wah Mansion 1 Ching Wah Street Hong Kong	Singaporean
Ms Chan Wah Man Carman (陳華敏)	Flat E, 19/F, Block 3 The Victoria Towers 188 Canton Road Tsim Sha Tsui Hong Kong	Chinese
Mr Zhang Zhou (張舟)	Room 502, Unit 1, Block 16 Harbin Institute of Technology 2 West Wenhua Road Weihai City Shandong Province PRC	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Global Coordinator and Sponsor	Macquarie Capital Securities Limited Level 18, One International Finance Centre 1 Harbour View Street Central Hong Kong
Joint Bookrunners	Macquarie Capital Securities Limited Level 18, One International Finance Centre 1 Harbour View Street Central Hong Kong
	CCB International Capital Limited 34th Floor, Two Pacific Place 88 Queensway Admiralty Hong Kong
Joint Lead Managers	Macquarie Capital Securities Limited Level 18, One International Finance Centre 1 Harbour View Street Central Hong Kong
	CCB International Capital Limited 34th Floor, Two Pacific Place 88 Queensway Admiralty Hong Kong
	ABCI Securities Company Limited 13th Floor, Fairmont House 8 Cotton Tree Drive Central Hong Kong
Legal advisers to our Company	*As to Hong Kong law* Stephenson Harwood 35th floor, Bank of China Tower 1 Garden Road Central Hong Kong

As to US law
Pillsbury Winthrop Shaw Pittman LLP
Suite 4201, Bund Center
222 Yan An Road East
Shanghai 200002
PRC

As to PRC law
Jingtian & Gongcheng
Suite 3505, K. Wah Centre
1010 Huai Hai Road (M)
Shanghai 200031
PRC

As to Singapore law
Loo & Partners LLP
16 Gemmill Lane
Singapore 069254

As to Cayman Islands law
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Legal advisers to the Underwriters

As to Hong Kong and US law
Hogan Lovells
11th Floor, One Pacific Place
88 Queensway
Hong Kong

As to PRC law
Haiwen & Partners
21/F, Beijing Silver Tower
No. 2 Dong San Huan North Road
Chaoyang District
Beijing 100027
PRC

Auditors and reporting accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Property Valuers	Jones Lang LaSalle Sallmanns Limited 17/F Dorset House Taikoo Place 979 King's Road Quarry Bay Hong Kong
Receiving bank	Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong
Selling Shareholders	the persons whose names and particulars are set out in the section headed "Other Information — Particulars of the Selling Shareholders" in Appendix VI to this prospectus

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters	18 Kilometer An Sa Road Daqing High-Tech Industrial Development Zone Daqing City Heilongjiang Province PRC
Principal place of business in Hong Kong	35th floor, Bank of China Tower 1 Garden Road Central Hong Kong
Company's website address	www.global-dairy.com.cn *(information on the website does not form part of this prospectus)*
Company secretary	Ms Queenie Ho, *ICSA and HKICS*
Authorised representatives	Mr Daniel Fong 26 Jalan Nipah Singapore 488831 Ms Queenie Ho Room 2609, 26/F, Seung Lai House Wah Lai Estate Lai Chi Kok Kowloon Hong Kong
Audit Committee	Ms Carman Chan *(Chairman)* Mr Alexander Cheung Mr Zhang
Remuneration Committee	Mr Zhang *(Chairman)* Ms Carman Chan Mr Alexander Cheung Mr Zhao Mr Zhao CW
Nomination Committee	Mr Alexander Cheung *(Chairman)* Ms Carman Chan Mr Zhang Mr Zhao

Compliance adviser	Quam Capital Limited 32/F, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Principal share registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 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
Principal banks	Long Jiang Bank, Daqing Development Zone Branch No. 13 Xing Hua Street Daqing High-Tech Industrial Development Zone Daqing City Heilongjiang province PRC
	China Construction Bank, Daqing Branch No. 10, CCB Street Dongfeng Xin Cun Sa'er Tu District Daqing City Heilongjiang province PRC
	Credit Suisse AG 1 Raffles Link, #05-02 Singapore 039393
	Credit Suisse AG, Hong Kong Branch 23rd Floor Three Exchange Square 8 Connaught Place Central Hong Kong

This section contains information, forecasts and statistics relating to the economy in China and the industry in which we operate. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. We have derived such information and data partly from publicly available government and official sources as well as a report we commissioned from Euromonitor International, an Independent Third Party, and a report we purchased from the Dairy Association of China (中國奶業協會), an Independent Third Party, which have not been independently verified by us, the Selling Shareholders, the Sole Global Coordinator, the Sponsor, the Underwriters, nor any of their or our directors, affiliates, advisers or any other parties involved in the Global Offering. Furthermore, the information provided by PRC Government sources may not be consistent with the information complied within or outside China by third parties. We make no representation as to the correctness or accuracy of government or official information contained in this prospectus. Accordingly, such information should not be unduly relied upon. We have, however, taken such care as we consider reasonable in the reproduction and extraction of such information.

EUROMONITOR INTERNATIONAL REPORT

We commissioned Euromonitor International to conduct an analysis of the Milk Powder market in China and prepare the Euromonitor International Report at a fixed fee of US$13,500. The Euromonitor International Report includes information on the Milk Powder market in China such as sales value, sales volume, market share of leading players of foreign and local brands, and the outlook of the Milk Powder market in China, which have been quoted in this prospectus.

Euromonitor International's independent analysis was undertaken through primary and secondary research obtained from various sources. Primary research includes interviewing milk powder manufacturers, distributors, retailers and other third parties for fresh data, opinions and insights as well as national or regional dairy industry associations, government, semi-official and other segment observers. Secondary research involves gathering, refining and confirming information from multiple and relevant published data sources. Projected market size by retail sales value and retail sales volume were obtained based on a comprehensive and in-depth review over the historical market development, and a cross check with established government/industry figures or trade interviews, and statistical tools, where possible.

Euromonitor International made the following major assumptions in the preparation of the Euromonitor International Report:

- the research conducted covers the sale of Milk Powder through all retail channels in China and does not include the sale of Milk Powder for industrial use;
- the economy in China is expected to recover from 2010; and
- all sales values are based on retail sales prices.

CHINA DAIRY STATISTICAL REPORT

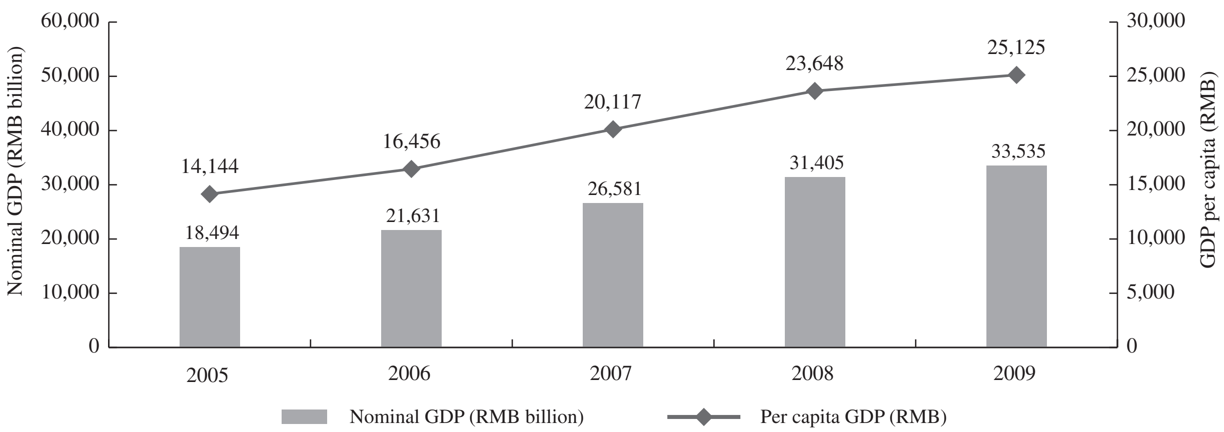
The Dairy Association of China (中國奶業協會), an Independent Third Party, is a non-profit trade organisation set up by dairy farms, individual dairy farm operators and dairy product processing enterprises in the PRC, and is under the supervision of the Ministry of Agriculture of the PRC. The China Dairy Statistical Report was prepared by the Dairy Association of China (中國奶業協會). We did not commission the preparation of the China Dairy Statistical Report, which we purchased from the Dairy Association of China (中國奶業協會).

THE PRC ECONOMY

Economic growth and urbanisation

The economy in China is one of the world's fastest growing economies. According to the National Bureau of Statistics, the nominal GDP of China in 2009 was RMB33,535 billion, representing a CAGR of 16.0% and annual growth of 6.8% from 2005 to 2009. From 2005 to 2009, the GDP per capita in China also increased from RMB14,144 to RMB25,125, representing a CAGR of 15.5%. The following chart illustrates the nominal GDP and the GDP per capita growth in China from 2005 to 2009.

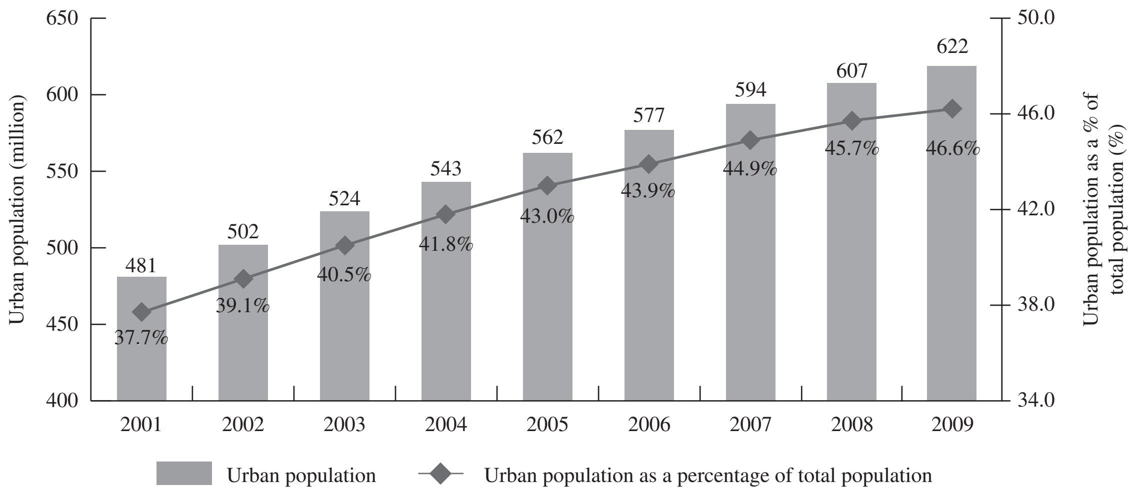
Nominal GDP and GDP per capita growth in China



Source: National Bureau of Statistics

The economic growth in China has been accompanied by rapid urbanisation. The total urban population in China increased from 481 million as at the end of 2001 to 622 million as at the end of 2009, representing an increase of 29.3% between 2001 and 2009. During the same period, the urban population as a percentage of the total population increased from 37.7% to 46.6%. The chart below illustrates the total urban population and the urban population as a percentage of the total population in China as at the end of the periods indicated.

Absolute and Relative Growth of Urban Population in China

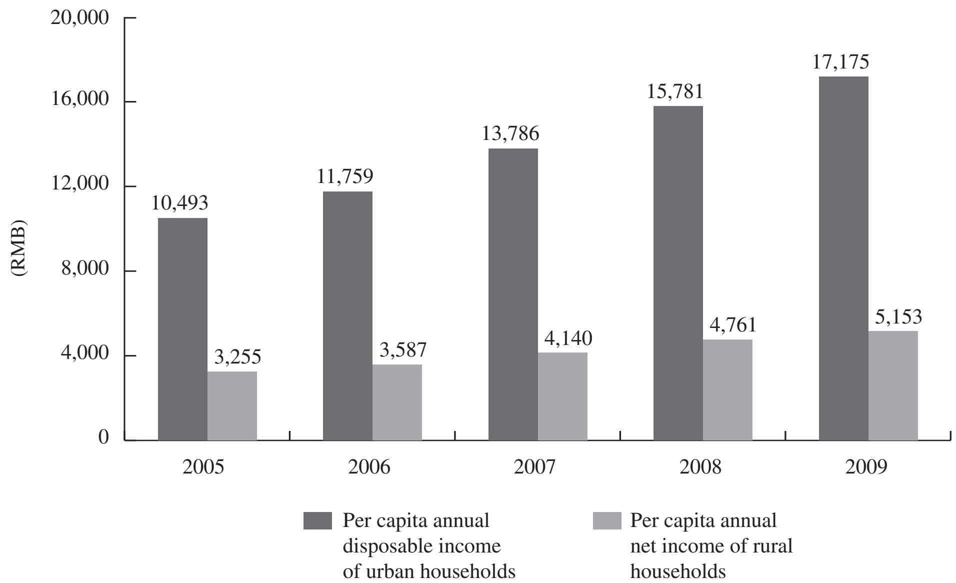


Source: National Bureau of Statistics

Growth in disposable income of urban households and net income of rural households

Per capita income from urban and rural households in China has been increasing along with economic growth and increasing urbanisation. According to the National Bureau of Statistics, from 2005 to 2009, the per capita annual disposable income of urban households in China increased from RMB10,493 to RMB17,175, representing a CAGR of 13.1%. During the same period, the per capita annual net income of rural households in China increased from RMB3,255 to RMB5,153, representing a CAGR of 12.2%. These increases indicate that the purchasing power of Chinese consumers is increasing, and as a result Chinese consumers are more capable of purchasing high quality products for their babies and children. The following chart sets out the per capita annual disposable income of urban households and the per capita annual net income of rural households in China from 2005 to 2009.

Per capita annual disposable income of urban households in China and per capita annual net income of rural households in China

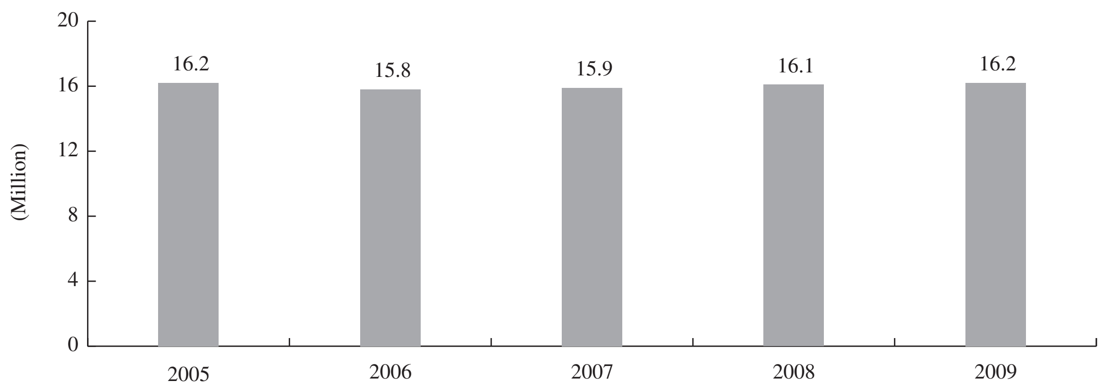


Source: National Bureau of Statistics

Number of newborns in China

From 2005 to 2009, the number of newborns in China was relatively stable, at around 16 million births each year. Our Directors believe that the number of newborns in China will continue at a relatively consistent level in the near future. The following chart illustrates the number of newborns in China from 2005 to 2009, which is calculated based on the birth rate and population in China during the same period.

Number of newborns in China



Source: National Bureau of Statistics

THE MILK POWDER INDUSTRY IN CHINA

The Milk Powder industry in China has experienced significant changes in recent years. In particular, the Milk Powder market in China recorded a slow-down in growth from 2008 to 2009, due to the melamine scandal in September 2008.

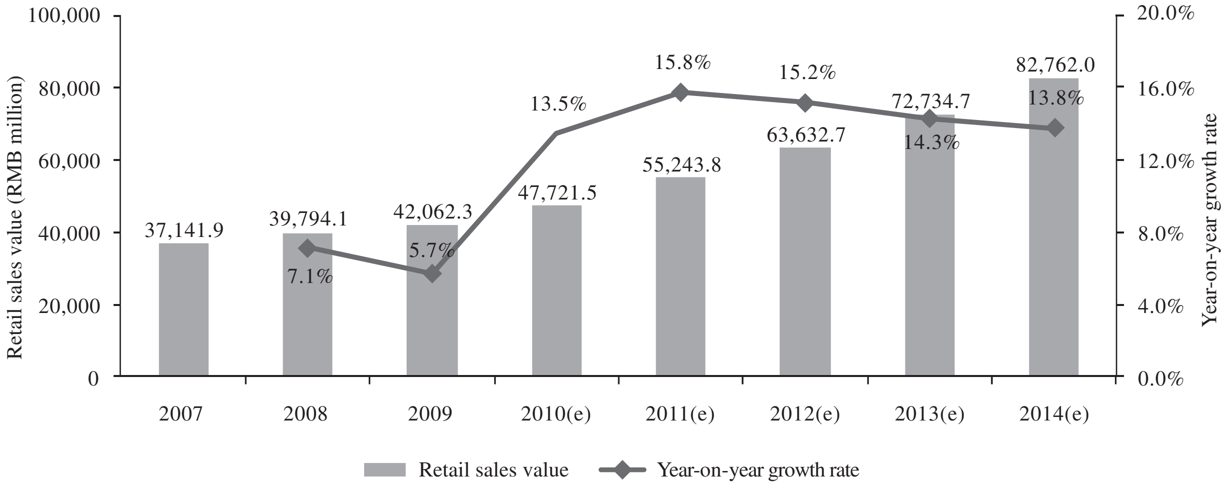
In September 2008, the milk products of a number of large domestic dairy products manufacturers in China were found to contain melamine, which can cause infants to develop kidney stones, and affected the health of several thousands of children. The melamine scandal undermined consumers' confidence in paediatric milk formula produced by milk powder sourced domestically, which was reflected in the significant drop in such purchases and resulted in a decrease in production volume.

According to the Euromonitor International Report, the retail sales volume of the Milk Powder market in China dropped by 3.2% in 2008 from 678,580 tonnes in 2007 to 656,600 tonnes in 2008, and the retail sales value of the Milk Powder market in China reached RMB39,794.1 million in 2008, an increase of 7.1% over 2007.

However, supported by the strong demands for milk formula, Euromonitor International believes that the growth of the Milk Powder market in China is expected to recover partly during the period between 2009 and 2014 with an estimated value CAGR of 14.5% from 2009 to 2014. According to data produced by Euromonitor International, the retail sales volume of Milk Powder in China is expected to increase by 4.9% from 640,400 tonnes in 2009 to 671,700 tonnes in 2010. Furthermore, the market scale of the Milk Powder market in China is estimated to achieve RMB82,762.0 million in retail sales value in 2014.

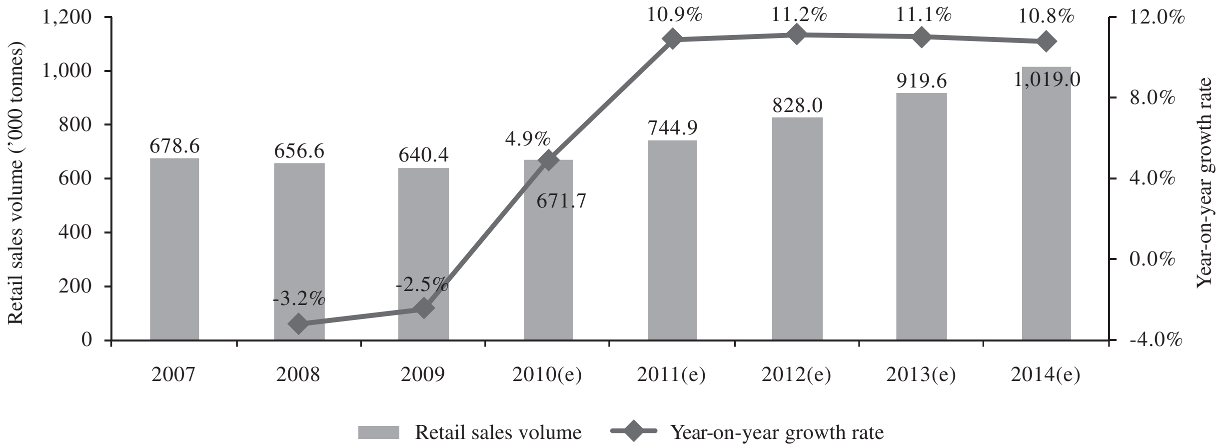
The following charts illustrate the historical (2007 to 2009) and forecast (2010-2014) market size and the year-on-year growth rate of the Milk Powder market in China by retail sales value and retail sales volume, respectively.

Historical (2007-2009) and forecast (2010-2014) market size and year-on-year growth rate of Milk Powder market in China by retail sales value



Source: Euromonitor International

Historical (2007-2009) and forecast (2010-2014) market size and year-on-year growth rate of Milk Powder market in China by retail sales volume



Source: Euromonitor International

Baby Milk Powder Market in China

(i) Market overview

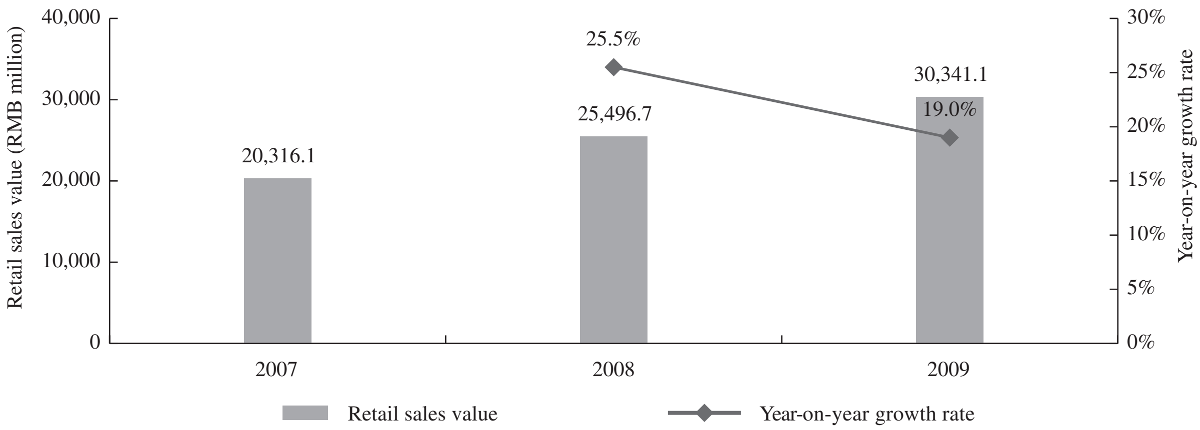
With China's rising economy and increasing birth rates, the Baby Milk Powder market in China has been experiencing high growth of above 20% in retail sales value since 2005. However, the growth in the Baby Milk Powder market in China slowed down in 2008 and 2009 due to the negative impact caused by the melamine scandal in 2008.

The year-on-year volume growth of the Baby Milk Powder market in China declined to 19.0% in 2008 and declined further to 15.4% in 2009.

Due to the price increase in 2008, the value growth of the Baby Milk Powder market in China maintained a high level of 25.5% in 2008 but dropped to 19.0% in 2009. The total market size of Baby Milk Powder in China by retail sales value amounted to RMB30,341.1 million in 2009.

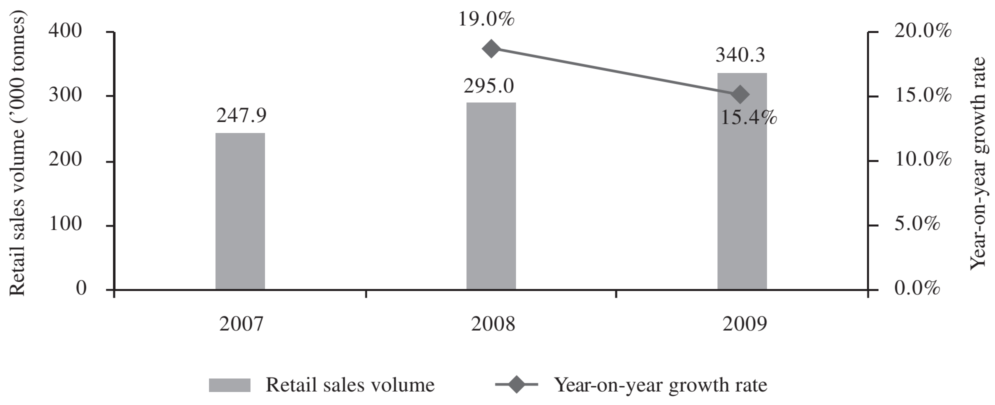
The following charts illustrate the market size and the year-on-year growth rate of the Baby Milk Powder market in China from 2007 to 2009 by retail sales value and retail sales volume, respectively.

Market size and year-on-year growth rate of Baby Milk Powder market in China by retail sales value, 2007-2009



Source: Euromonitor International

Market size and year-on-year growth rate of Baby Milk Powder market in China by retail sales volume, 2007-2009



Source: Euromonitor International

(ii) Market drivers & constraints

The melamine scandal in 2008 had, to a certain extent, affected the Baby Milk Powder market in China in 2008 and 2009. However, the market still maintained a high growth rate in the past two years, which was driven by various factors as set out below:

- as a necessity, the demand for Baby Milk Powder is driven by the rising population of babies in China as illustrated above. The birth rate of China has maintained at a high level of above 12% during the period between 2007 and 2008. As a result, demand for Baby Milk Powder has grown steadily during the period from 2007 to 2009 even through its growth rate slowed down between 2008 and 2009;

- the brand names and recognition of many local producers of Baby Milk Powder were tarnished by the melamine scandal. Parents in China have since become increasingly concerned about the quality of Baby Milk Powder and are more cautious when choosing products. To the extent they can afford it, they will try to purchase Baby Milk Powder produced by leading foreign brands and reputable local brands, which are usually higher-priced products;

- various rounds of price increase from 2008 to 2009 have also driven the growth of the Baby Milk Powder market in China. In 2008, many brands that were not involved in the melamine scandal started to increase their product prices. For instance, as consumer demand rose and the supply of milk resources declined, Wyeth further increased its product price. Euromonitor International expects the price increase in Baby Milk Powder to continue in 2010; and

- many local brands that were not involved in the melamine scandal such as Beingmate (貝因美) and Feihe (飛鶴) have seized upon the opportunity to grow rapidly from 2008 to 2009. For example, Beingmate (貝因美) increased its market share in terms of sales value from 4.0% in 2008 to 5.1% in 2009, and Feihe (飛鶴) increased its market share in terms of sales value from 2.4% in 2008 to 3.6% in 2009.

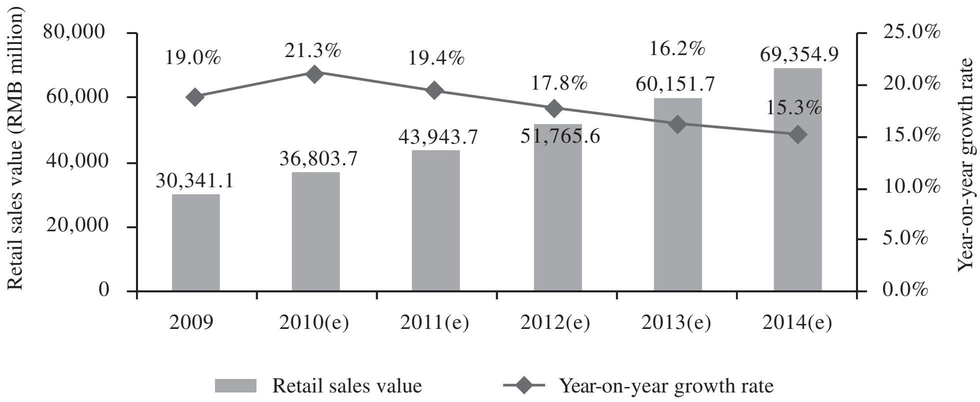
(iii) Outlook

Based on the trends and facts mentioned above, the Baby Milk Powder market in China is expected to recover by 2010 with a value growth at 21.3% and with a volume growth at 15.7%. The value growth is expected to slow down from 2011 to 2014 and the volume growth is expected to slow down from 2012 to 2014 as the Baby Milk Powder market in China becomes more mature.

In 2014, the Baby Milk Powder market in China is estimated to reach RMB69,354.9 million in terms of retail sales value and 685,700 tonnes in terms of retail sales volume. The CAGR in retail sales value and in retail sales volume from 2009 to 2014 is estimated at approximately 18.0% and 15.0%, respectively.

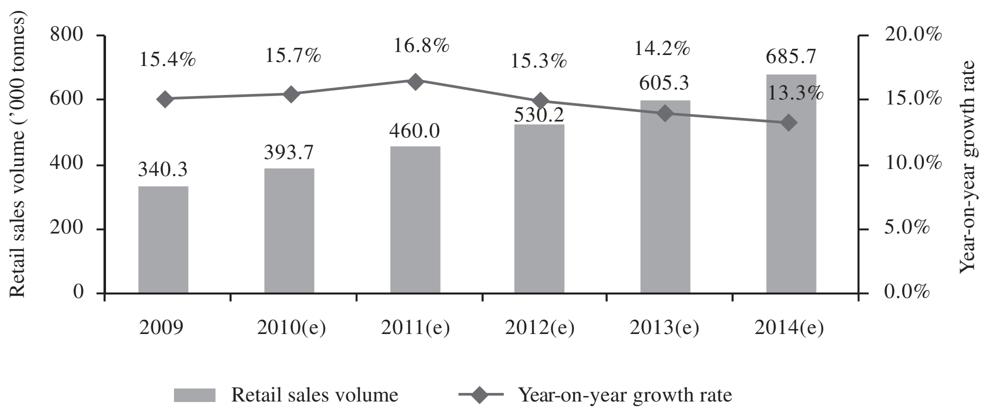
The following charts illustrate the outlook of the market size and the year-on-year growth rate of the Baby Milk Powder market in China between 2009 and 2014 by retail sales value and retail sales volume, respectively.

Market size and year-on-year growth rate of Baby Milk Powder market in China by retail sales value, 2009-2014



Source: Euromonitor International

Market size and year-on-year growth rate of
Baby Milk Powder market in China by retail sales volume, 2009-2014



Source: Euromonitor International

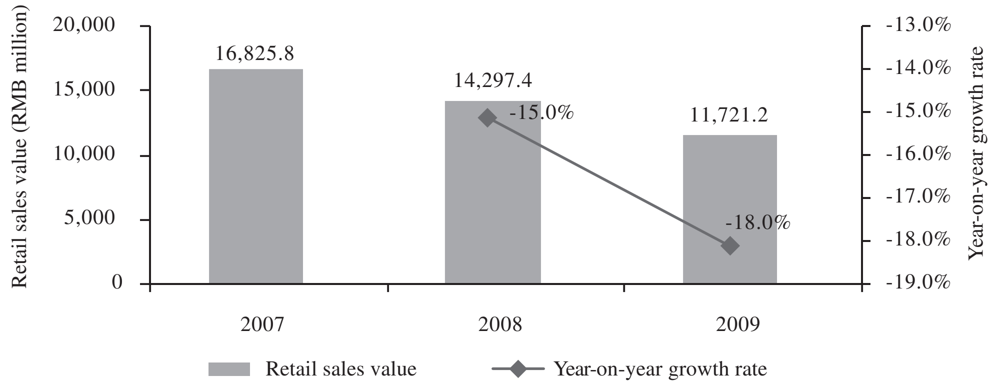
Other Milk Powder Market in China

(i) Market overview

The Other Milk Powder market in China was greatly impacted by the melamine scandal. The retail sales value of the Other Milk Powder market in China declined from RMB16,825.8 million in 2007 to RMB14,297.4 million in 2008, and declined further to RMB11,721.2 million in 2009, with a year-on-year value growth at -18.0% in 2009. On the other hand, the retail sales volume of the Other Milk Powder market in China declined from 430,600 tonnes in 2007 to 361,600 tonnes in 2008, and declined further to 300,100 tonnes in 2009, with a year-on-year volume growth at -17.0% in 2009.

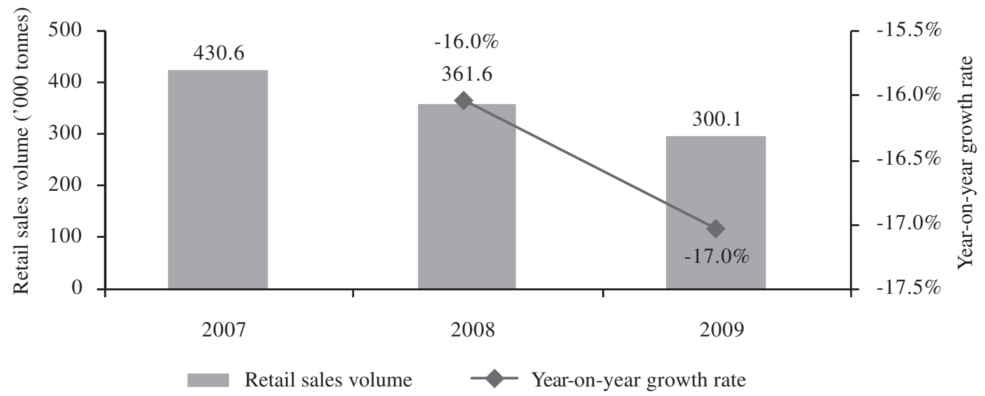
The following charts illustrate the market size and the year-on-year growth rate of the Other Milk Powder market in China between 2007 and 2009 by retail sales value and retail sales volume, respectively.

Market size and year-on-year growth rate of
Other Milk Powder market in China by retail sales value, 2007-2009



Source: Euromonitor International

Market size and year-on-year growth rate of
Other Milk Powder market in China by retail sales volume, 2007-2009



Source: Euromonitor International

(ii) Market drivers & constraints

Unlike the Baby Milk Powder market, the Other Milk Powder market in China is more vulnerable to the melamine scandal due to the lack of stable demand. The scandal, coupled with the impact brought about by the global financial crisis in late 2008, has led to many consumers giving up consumption of milk products or becoming more cautious in their consumption of non-necessities such as milk powder for adults. Stocks of some manufacturers and distributors increased dramatically in late 2008.

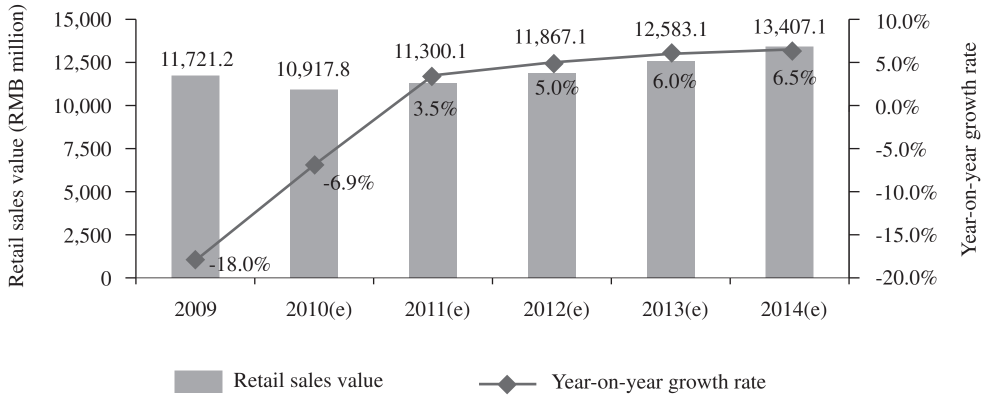
However, the Other Milk Powder market for pregnant women and elderly persons in China are still considered promising. As young pregnant women in China are increasingly concerned about the health of their babies even before the babies are born, it is expected that they will accept and consume more Other Milk Powder. Consumption of milk products is believed to help minimise calcium insufficiency commonly found in elderly persons. It is expected that traditional adult milk powder will be gradually replaced by functional milk powder in the near future.

(iii) Outlook

The Other Milk Powder market in China is expected to recover gradually during the forecast period with a CAGR in retail sales value of approximately 2.7% from 2009 to 2014, reaching RMB13,407.1 million in 2014, and a CAGR in retail sales volume of approximately 2.1% from 2009 to 2014, reaching 333,300 tonnes in 2014. The year-on-year growth rates in terms of retail sales value and retail sales volume are expected to turn positive in 2011.

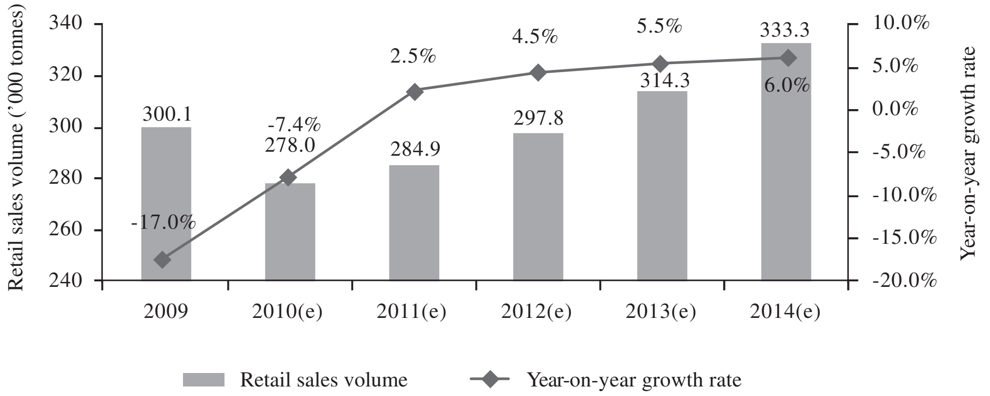
The following charts illustrate the outlook of the market size and the year-on-year growth rate of the Other Milk Powder market in China between 2009 and 2014 by retail sales value and retail sales volume, respectively.

Market size and year-on-year growth rate of Other Milk Powder market in China by retail sales value, 2009-2014



Source: Euromonitor International

Market size and year-on-year growth rate of Other Milk Powder market in China by retail sales volume, 2009-2014



Source: Euromonitor International

COMPETITION IN THE MILK POWDER INDUSTRY IN CHINA

Market Shares Of Leading Players In Milk Powder Market

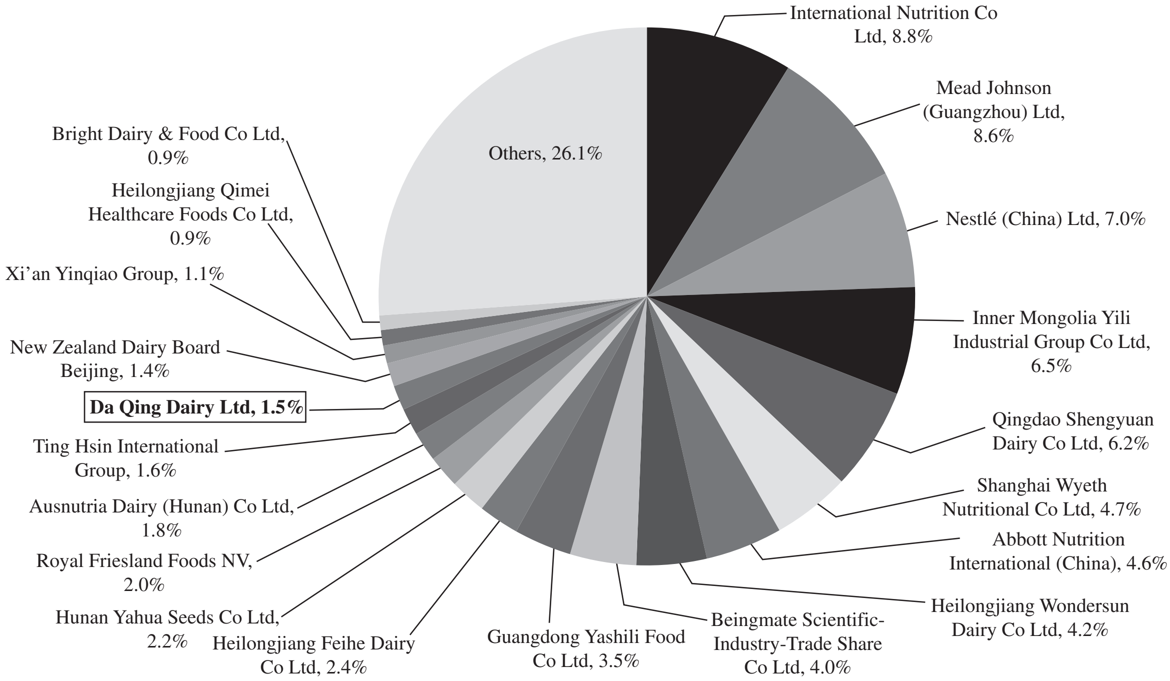
The melamine scandal greatly changed the competitive environment of the Milk Powder industry in China. As a result of the scandal, while some companies lost their market shares or disappeared from the market such as 石家莊三鹿集團股份有限公司 (Shijiazhuang Sanlu Group Co., Ltd*), other companies actually benefited from the scandal such as Beingmate Scientific Industry-Trade Share Co Ltd, 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd*) and 黑龍江飛鶴乳業有限公司 (Heilongjiang Feihe Dairy Co., Ltd.*), which gained additional 1.1%, 1.5% and 1.2% of market share in 2009, respectively.

According to the Euromonitor International Report, we ranked ninth among the local brand owners in the Milk Powder market in China with a 1.5% of market share and 15th among the brand owners in the Milk Powder market in China (which comprised both foreign and local brand owners) with a 1.5% of market share in terms of sales value in 2009.

The top 14 Milk Powder producers in China in 2009 comprised leading foreign brands such as Mead Johnson, Dumex, Nestle, Wyeth and Abbott, and some local brands including Yili (伊利), Wondersun (完達山), Beingmate (貝因美) and Synutra (聖元). Our Directors believe that with approximately 40% of the retail sales value in 2009 constituted by a large number of smaller players, our position and competitive advantage (including stringent quality control system, high product quality, strong brand recognition and extensive distribution network) over these other players will enable us to capture an increasing portion of the market share in the Milk Powder market in China, which will reinforce our market position and increase our returns. While the market has yet to see a local Milk Powder manufacturer capable of overriding the leading global brand producers, our Directors believe this will provide us with opportunities to grow, to increase our market share and to further enhance our position in the market in China.

The following charts illustrate the market shares of top 20 companies in the Milk Powder market in China (comprising both foreign brands (Note 1) and local brands (Note 2)) based on retail sales values in 2008 and 2009.

Market shares of top 20 companies in Milk Power market in China, 2008



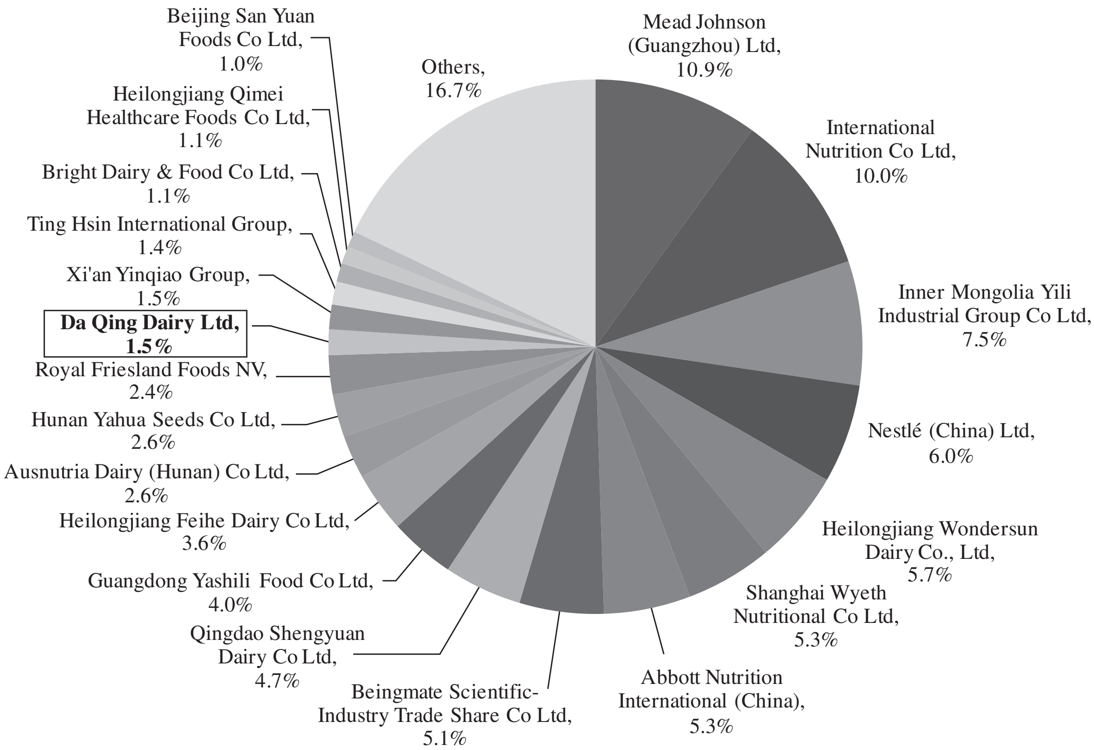
Source: Euromonitor International

Notes:

(1) Foreign brands refer to brands that derive less than 90% of their retail sales value from China.

(2) Local brands refer to brands that derive more than 90% of their retail sales value from China.

Market shares of top 20 companies in Milk Powder market in China, 2009



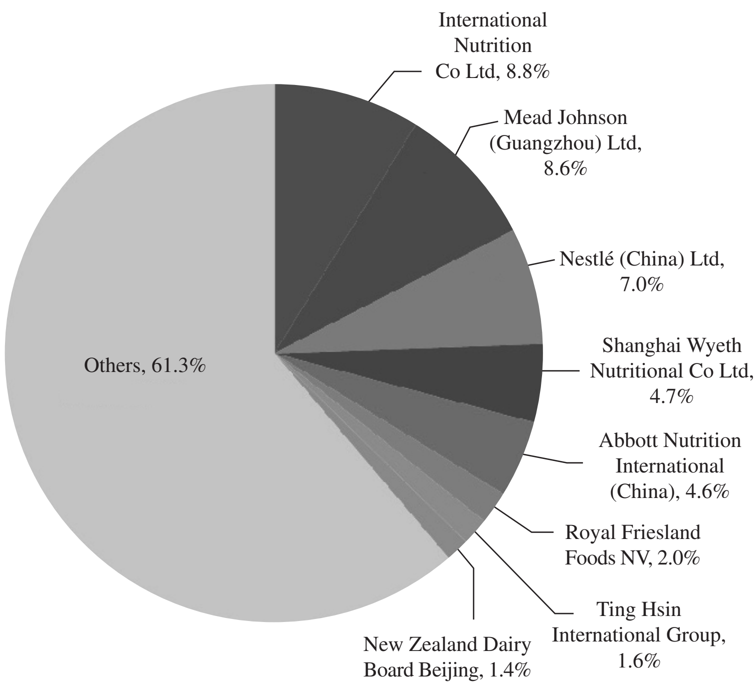
Source: Euromonitor International

Market Shares Of Leading Players Of Foreign Brands In Milk Powder Market

As leading players of foreign brands were not involved in the melamine scandal, the market shares are relatively stable. Most of the top leading players of foreign brands actually benefited from the scandal and increased their market shares. For example, Mead Johnson gained an additional 1.3% of market share in 2009.

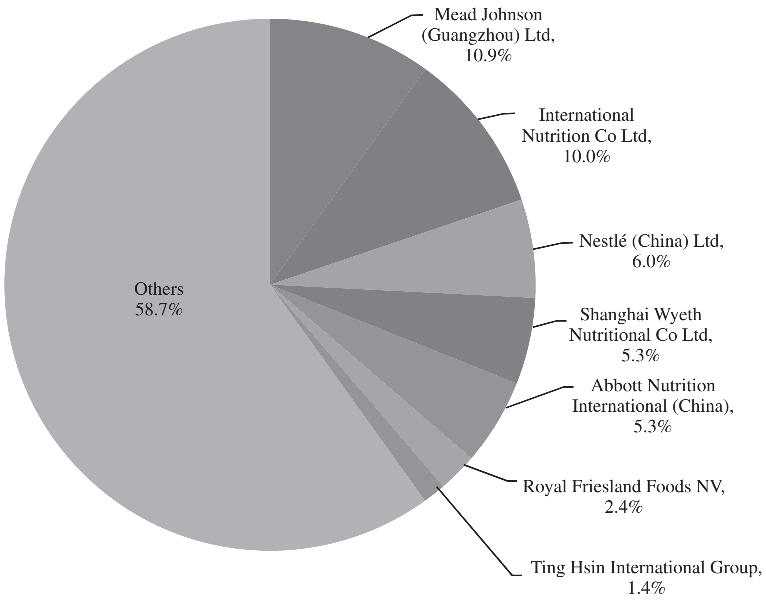
The following charts illustrate the market shares of leading companies of foreign brands in the Milk Powder market in China in 2008 and 2009.

Market shares of leading companies of foreign brands in Milk Powder market in China, 2008



Source: Euromonitor International

Market shares of leading companies of foreign brands in Milk Powder market in China, 2009



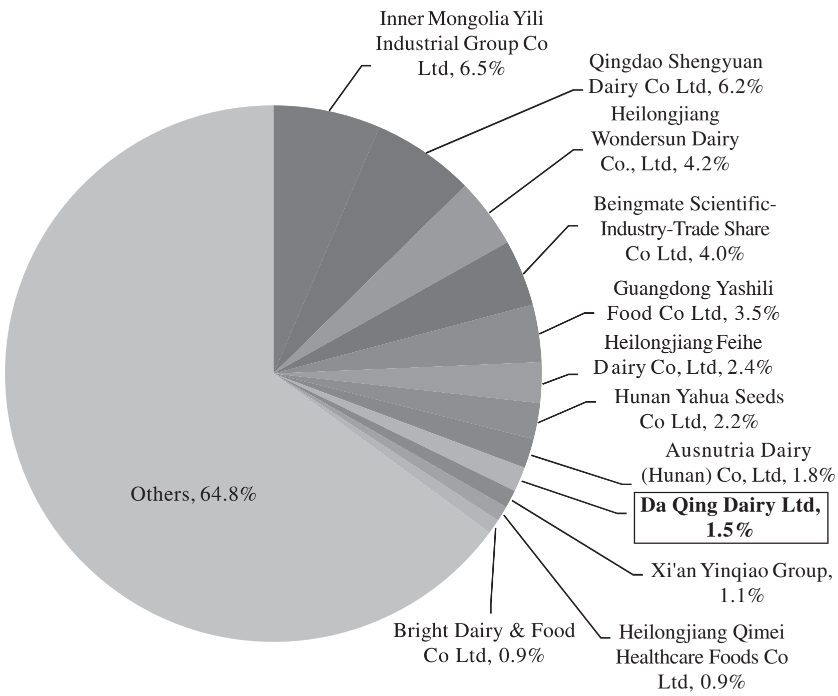
Source: Euromonitor International

Market Shares Of Leading Players Of Local Brands In Milk Powder Market

Many local players enjoyed dynamic growth in 2009. For example, 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd*) gained 1.5% of market share in China and 杭州貝因美集團有限公司 (Hangzhou Beingmate Group Co., Ltd*) gained 1.1% of market share in China. Notwithstanding the negative impact arising out of the melamine scandal, 內蒙古伊利實業集團股份有限公司 (Inner Mongolia Yili Industrial Group Co., Ltd*) recovered quickly in late 2008 and early 2009 by focusing on Baby Milk Powder and maintained a healthy growth in 2009. Other manufacturers such as 黑龍江飛鶴乳業有限公司 (Heilongjiang Feihe Dairy Co., Ltd.*) and 澳優乳品(湖南)有限公司 (Ausnutria Dairy (Hunan) Co., Ltd.*) also performed well in 2009.

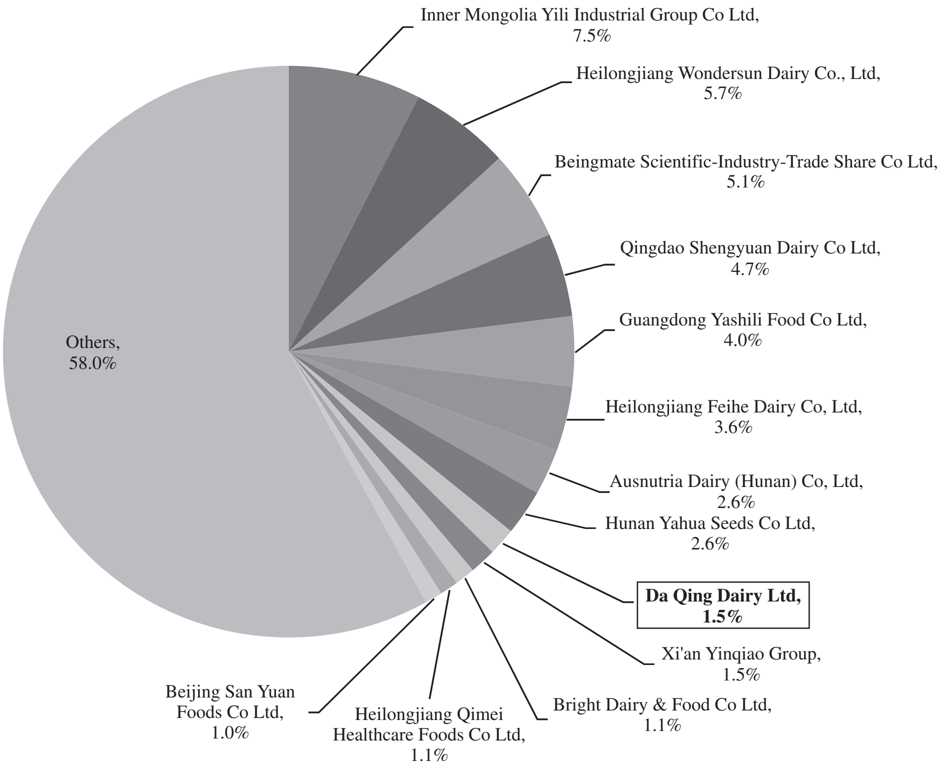
The following charts illustrate the market shares of leading companies of local brands in Milk Powder market in China in 2008 and 2009.

Market shares of leading companies of local brands in Milk Powder market in China, 2008



Source: Euromonitor International

Market shares of leading companies of local brands in Milk Powder market in China, 2009



Source: Euromonitor International

THE DAIRY INDUSTRY IN HEILONGJINAG PROVINCE

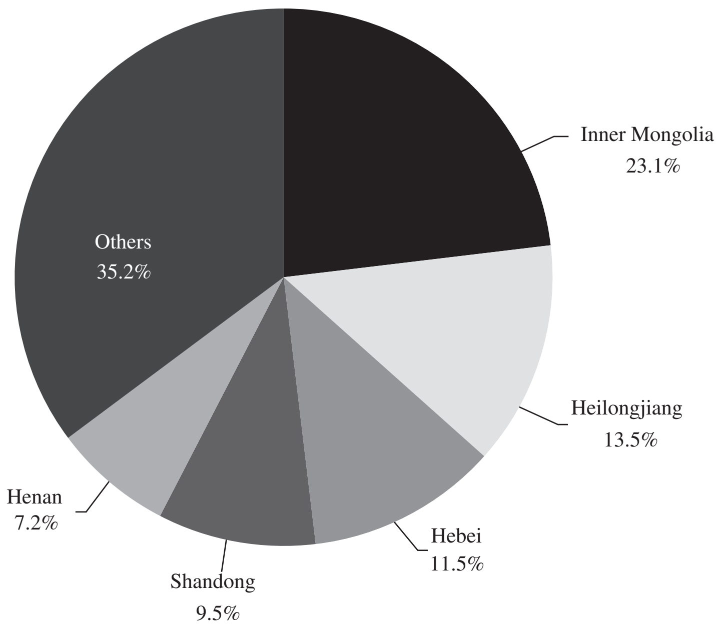
Heilongjiang province is located in the northeast of China and covers an area of 454,000 square km. It has 44.4 million hectares of soiled land with rich organics and 40% of which is suitable for farming. Heilongjiang province is one of the world's three major black soil zones with 67.6% of its total farmland of 9.9 million hectares which is being cultivated on either black soiled land, marshland or black calcium soil. Furthermore, it has 4.3 million hectares of pastures and 4.8 million hectares of land reserved for farming. Heilongjiang province ranks:

- first in China in terms of farmland and forest area;
- second in China in terms of land reserved for farming;
- forth in China in terms of land available for development; and
- seventh in China in terms of pasture area.

According to the China Dairy Statistical Report, Heilongjiang recorded raw milk output of 5.3 million tonnes in 2009, which ranked second in China in 2009, representing 13.5% of the total raw milk output in China in 2009 in terms of volume. Furthermore, Daqing municipality, which is in Heilongjiang province and where we are located, ranked fifth among prefectural-level cities in China and produced approximately 1.3 million tonnes of raw milk in 2009, which represent approximately 25% of the total raw milk output in Heilongjiang province in 2009 in terms of volume.

The following chart illustrates the raw milk production output by provinces in China in 2009 in terms of volume.

Raw Milk Production Output by Provinces in China, 2009



Source: China Dairy Statistical Report

The following chart illustrates the top five raw milk production prefectural-level cities in China in 2009 in terms of volume and Daqing recorded the highest growth in raw milk production in 2009 in terms of volume.

Top Five Raw Milk Production Prefectural-Level Cities in China, 2009

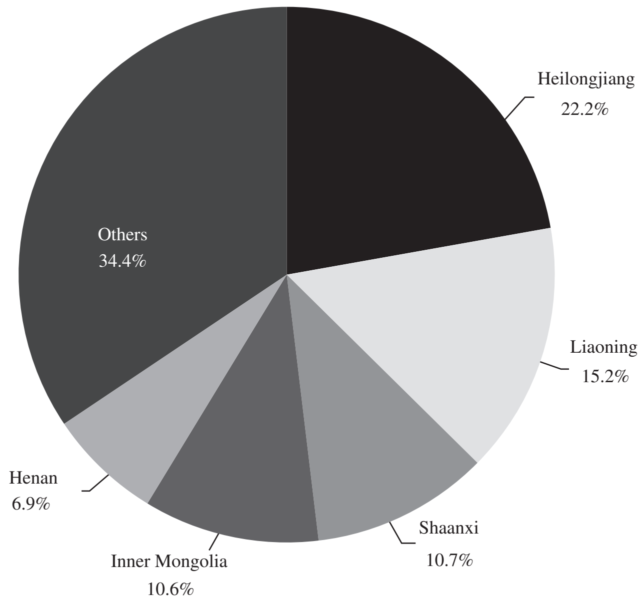
Prefectural-level cities/Provinces/Autonomous Regions	Production	% of total raw milk production output of provinces	% of change from 2008
	('000 tonnes)		
Hohhot, Inner Mongolia Autonomous Region	3,052.9	33.5%	-21.7%
Tangshan, Hebei province	1,677.3	37.2%	10.2%
Baotou, Inner Mongolia Autonomous Region	1,439.0	15.8%	10.0%
Harbin, Heilongjiang province	1,380.8	26.1%	4.5%
Daqing, Heilongjiang province	1,327.0	25.1%	16.9%

Source: China Dairy Statistical Report

Heilongjiang province ranked first in China in 2009 in terms of dehydrated dairy production output, representing 22.2% of the total dehydrated dairy production output in China in 2009 in terms of volume. Dehydrated dairy production output refers to dairy products formed by dehydration process such as milk powder, hard cheese and butter other than liquid milk.

The following chart illustrates the dehydrated dairy production output by provinces in China in 2009 in terms of volume.

Dehydrated dairy production output by provinces in China, 2009



Source: China Dairy Statistical Report

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The primary production and operations entities of the Group are Daqing Dairy and Changqing Dairy, which are located in the PRC. Both companies' business operations, including the production, marketing and sale of milk formula products, whole milk powder and other dairy products, are subject to industrial policies, relevant laws, regulations and rules and government policies. With respect to its current business operations, the Group is mainly subject to the following laws, regulations and rules:

Policies relating to the Foreign-invested Paediatric Nutrition Products Industry

Guidance on the foreign investment industry in the PRC can be found in the Foreign Investment Industrial Guidance Catalogue (2007 version)《外商投資產業指導目錄》(2007年修訂), which has been promulgated and implemented from time to time. In the Foreign Investment Industrial Guidance Catalogue, which was jointly issued by the NDRC and MOFCOM on 31 October 2007, the business of development and production of infant food and food for the elderly has been listed as a business for which foreign investment is encouraged.

In addition, 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.

Laws and Regulations Relating to the Food and Dairy Industry

Food Safety

The Food Safety Law of the PRC《中華人民共和國食品安全法》, which was adopted by the Standing Committee of the NPC on 28 February 2009 and became effective on 1 June 2009, stipulates that food safety standards are compulsory and must include the following:

- maximum limits relating to the level of pathogenic micro-organisms, pesticide residue, veterinary medicine residue, heavy metals, contaminants, and other substances which may be harmful to human health;
- types, scope of application and dosage of food additives;
- nutritional requirements of staple and supplementary food exclusively for infants and toddlers and other special groups of people;
- requirements for labels, identification and instructions relevant to food safety and nutrition;
- hygiene requirements for food production operations;
- quality requirements relating to food safety;

- methods and procedures for food inspection and testing; and
- other particulars proposed to be developed as food safety standards.

If there is any contravention of the Food Safety Law of the PRC《中華人民共和國食品安全法》, which includes the use of non-edible substances or the use of chemical substances other than food additives in food production, the relevant authority will (i) forfeit all the income generated from the affected products by any person who contravenes the Food Safety Law of the PRC《中國人民共和國食品安全法》and all equipment and raw materials used in the production of the affected products, and (ii) impose on such person a fine, which is equivalent to a sum not exceeding RMB50,000 if the prices of the affected products are less than RMB10,000 or a sum which is equivalent to five to 10 times of the prices of the affected products if the prices of the affected products are RMB10,000 or more.

According to the Regulations for the Implementation of the Food Safety Law of the PRC《中華人民共和國食品安全法實施條例》, which were promulgated and became effective on 20 July 2009, food production operators should engage in production operation activities in accordance with relevant PRC laws, regulations and food safety standards, establish sound food safety management systems and adopt effective measures to ensure that food is safe. Food production operators should be responsible for the safety of the food which they produce and trade, be responsible to the public, and assume social responsibility.

According to the Notice on the Issuance of the Recent Special Rectification Emphasis, Requirement and Focus on Nationwide Crackdown on Illegal Addition of Non-edible Substances and Misuse of Food Additives《關於印發〈全國打擊違法添加非食用物質和濫用食品添加劑專項整治近期工作重點及要求〉的通知》, which was promulgated by the Ministry of Health of the PRC and became effective on 6 March 2009, the addition of non-edible substances in food additives, melamine and other non-edible substances in the production of food products such as dairy products is illegal and prohibited.

According to the Regulations 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 were 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 should 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. If any contravention of these regulations results in serious consequences, any person who contravenes these regulations will be prosecuted and the issuing authority may revoke the food production licence of such person. If any contravention of these regulations does not result in serious consequences, the relevant authority will forfeit the affected products and impose a fine, which is equivalent to a sum between 15 and 30 times of the prices of the affected products, on any person who contravenes these regulations and the issuing authority may revoke the food production licence of such person.

Pursuant to the Notice of the AQSIQ on the Enhancement of the Licensing of Dairy Product Production 《國家質量監督檢驗檢疫總局關於加強乳製品生產許可工作的通知》, which was promulgated by the AQSIQ and became effective on 12 November 2008, the relevant Provincial Department of Administration of Quality Supervision, Inspection and Quarantine (省級質量技術監督局) must ensure that dairy product enterprises have the relevant testing facilities and where they are involved in the production of infant milk formula products, have the relevant personnel, to test the content of melamine in the raw materials they use and their products. If these enterprises are not able to meet the above requirements, they must appoint testing centres that are equipped with melamine testing facilities and approved by the quality inspection department above the relevant Provincial Department of Administration of Quality Supervision, Inspection and Quarantine (省級質量技術監督局).

According to the Notice on the Enhancement of Quality and Safety Works on Dairy Products 《關於進一步加強乳品質量安全工作的通知》promulgated by the General Office of the State Council (國務院辦公廳) on 16 September 2010, each province and municipality in the PRC, among others, must:

- strictly manage the dairy industry by enforcing the policies of the dairy product industry, including the completion of the inspection of the existing dairy product enterprises by the end of 2010. The relevant quality control departments must revoke the production permits of the relevant dairy product enterprises that fail to meet the industry standards;

- through the AQSIQ, complete the amendments of the regulations on the inspection of dairy product production permits before the end of October 2010. The provincial AQSIQ must carry out strict inspection on newly set up dairy product enterprises and must not issue production permits to such enterprises that fail to fulfil the relevant conditions;

- through the AQSIQ, carry out new inspections before the end of February 2011 on the existing dairy product enterprises that have obtained production permits in accordance with the above revised regulations, and order these enterprises that fail to meet the relevant requirements to rectify the above non-compliance and stop production or sales activities;

- prohibit the issuance of permits to parties other than dairy product enterprises, dairy farms, dairy farmer societies that have registered with the relevant departments of industrial commerce;

- through the local AQSIQ, enhance the inspection and carry out sample testings of not less than 15% of all batches of raw milk and milk powder products purchased by the food processing enterprises. Food processing enterprises must test the content of melamine in raw milk and milk powder products they purchase, and strictly enforce the invoicing system;

- through the local AQSIQ, carry out a sampling test on the products of dairy product enterprises once every week. Dairy product enterprises must test the content of melamine in each batch of their outgoing products;

- expedite the implementation of a national information database on dairy production enterprises;

- refine further the overall inspection on the operations, management and purchase records of dairy product enterprises and enhance the retrieval of record. Food processing enterprises must, prior to their purchases, verify the relevant dairy product enterprises and business units, inspection reports, invoices and other information;

- order dairy product enterprises that fail to record or trace the products or identify the authenticity of products they purchase in accordance with the relevant regulations to cease business operations and revoke the permits;

- implement electronic information tracking system covering, among other things, sources of raw milk, procurement and production;

- complete the development of electronic information tracking system and put in place by the end of 2011 the standards and regulations relating to such tracking system as may be implemented in the dairy industry in respect infant milk formula and milk powder products;

- carry out a comprehensive inspection of infant milk formula product enterprises' hazard analysis and critical control point terminal system, and immediately order the closure of the enterprises that fail to meet the relevant requirements, the rectification of the non-compliance and if the enterprises fail to meet the relevant requirements after the rectification, revocation of the production permits, and publish such closure, rectification and revocation of permits in the main local media; and

- through the quality inspection department, publish and update the names and products of infant formula milk powder product enterprises online.

Food Hygiene

According to the Food Safety Law of the PRC《中華人民共和國食品安全法》, food production operations must comply with the following hygiene requirements:

- appropriate facilities must be available for treating raw materials for food and for processing, packaging and storing food, based on the variety and quantity of food produced; such facilities must be kept tidy and clean; and appropriate distance must be maintained between such facilities and toxic or hazardous elements or other sources of contamination;

- appropriate equipment and facilities must be available for food production, disinfection, workplace dress changes, cleaning, lighting, illumination, ventilation, anti-corrosion, dust-proofing, fly-proofing, rat-proofing, insect-proofing, cleansing and treating waste water, rubbish and other waste storage;

- technical professionals and management personnel in the field of food safety and a regulated system to ensure food safety must be available;

- equipment and production lines must be arranged in a practical way to prevent cross-contamination between food that is pending processing and food that is ready-to-eat and between raw materials and finished products, and to avoid contact between food and toxic or unclean substances;

- tableware, drinking utensils and containers for ready-to-eat food must be cleaned and disinfected prior to use, and cooking utensils and other utensils must be washed after use and kept clean;

- containers, utensils and equipment used for storage, transportation, loading and unloading of food must be safe, harmless and kept clean to prevent food contamination and must conform to specifications such as maintaining temperature at the level required to ensure food safety; food must be transported separately from toxic and hazardous substances;

- ready-to-eat food must be kept in small packaging or use packaging materials and tableware which are non-toxic and clean;

- food production and operating staff must maintain good personal hygiene, wash their hands thoroughly and wear clean working clothes and headwear while producing and operating food; non-toxic and clean tools must be used while selling ready-to-eat food without packaging;

- water used must comply with the national hygiene standards for drinking water;

- detergents and disinfectants used must be safe and harmless for the human body; and

- other relevant PRC laws and regulations must be complied with.

Food Production Licence

In accordance with the Food Safety Law of the PRC《中華人民共和國食品安全法》, China has implemented a licensing system on food production and operation. Food producers must obtain food production licences. Furthermore, food producers who have obtained food production licences and are selling the food they produce at their production premises are not required to obtain food circulation licences.

The Regulations of the PRC on the Administration of Production Licences 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《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 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 licences 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 licence 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.

Pursuant to the Regulations on Supervision and Inspection of Food Production and Processing Enterprises Bearing Primary Responsibility For Quality and Safety《食品生產加工企業落實質量安全主體責任監督檢查規定》, which were promulgated by the AQSIQ on 23 December 2009 and became effective on 1 March 2010, food production and processing enterprises must maintain the name on its food production licence so that it is in line with its business licence, and the actual food production site and food production scope must be consistent with the contents of the food production licence. Furthermore, food production and processing enterprises must establish the following systems, including purchase inspection record system, manufacturing process control system, delivery inspection record system, sub-standard product management system, recall system for unsafe products, consumer complaint accept system. Employee health, professional training and implementation of enterprise standards for food production and processing enterprises must comply with relevant PRC laws and regulations.

Food Standardisation

Under the Standardisation 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 the mandatory standards.

According to the Notice of Issues Relating to the Implementation of the Three Compulsory National Standards, Including General Technical Requirements of Infant Formula Powder and Infant Supplementary Cereals Powder《關於實施<嬰幼兒配方粉及嬰幼兒補充穀粉通用技術條件>等三項强制性國家標準有關問題的通知》(國標委農輕聯[2004]63號), which was issued by the Standardisation Administration Commission of the PRC and the AQSIQ on 29 June 2004, production enterprises should strictly comply with the three compulsory national standards, namely GB10767-1997 General Technical Requirements of Paediatric Formula Powder and Paediatric Supplementary Cereals Powder《嬰幼兒配方粉及嬰幼兒補充穀粉通用技術條件》), GB 10765-1997 Infant Formula Milk Powder Ⅰ《嬰兒配方乳粉Ⅰ》and GB 10766-1997 Infant Formula Milk Powder II, Ⅲ《嬰兒配方乳粉II, Ⅲ》.

According to the National Food Safety Standards for "Raw Milk" (GB19301-2010) and 66 Other Items of Food (Wei Tong [2010] No. 7) (《生乳》(GB19301-2010) 等66項食品安全國家標準(衛通[2010]7號)), which were promulgated by the Ministry of Health of the PRC on 26 March 2010, national food safety standards for 66 food items have been drawn up, including national standards with serial numbers GB19644-2010 milk powder (乳粉), which will become effective on 1 December 2010;

GB10765-2010 infant formula (嬰兒配方食品), which will become effective on 1 April 2011, GB10767-2010 older infants and young children formula (較大嬰兒和幼兒配方食品), which will become effective on 1 April 2011, GB12693-2010 good manufacturing practice for milk products (乳製品良好生產規範), which will become effective on 1 December 2010 and GB23790-2010 good manufacturing practice for powdered formulae for infants and young children (粉狀嬰幼兒配方食品良好生產規範), which will become effective on 1 December 2010.

In addition to adhering to these compulsory national standards, enterprises producing paediatric formula products may also adopt enterprise standards to the extent that such standards are not below the corresponding technical requirements of the national standards. Enterprises are required to file such standards with the local standardisation administrative department.

Food Inspection

In accordance with the Food Safety Law of the PRC《中華人民共和國食品安全法》, 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 authorised food inspection agent, in order to check compliance with the requirements of the Food Safety Law of the PRC.

Food Identification Administration System

Pursuant to the Provisions on the Administration of Food Identification《食品標識管理規定》, which were promulgated by the AQSIQ on 27 August 2007 and became effective on 1 September 2008, and subsequently amended by the AQSIQ on 22 October 2009, food identification labels must state the name of the food, the place and date of production, the expiry date of the food, the net content of the package, food size as required by relevant specific regulations, the list of ingredients, the names, addresses and contact information of the producers and product standard codes implemented by the producers. Food identification labels on the primary and subsidiary food for infants or other specific groups must state the main nutritional components and their respective contents.

Food labels with wordings such as “nutrition” and “strengthen” in their names or descriptions are required to disclose the nutrition and calories of such food in accordance with the relevant national standards and comply with the content and composition standards required by under national standards. Food produced under the production licensing management arrangement is required to display its food production licence number and quality safety (QS) mark on the food label.

Food Recall

The PRC has established a food recall system as required by the Food Safety Law of the PRC.

Pursuant to the Provisions on the Administration of Food Recall《食品召回管理規定》, which were issued by the AQSIQ and became effective on 27 August 2007, food recall is categorised into three grades based on the degree of severity of the food safety hazard. Food may be recalled either voluntarily or by order of the government.

Voluntary recall

In the case of a voluntary recall under the Provisions on the Administration of Food Recall:

- the food producer must immediately cease production and sale of the food identified as unsafe for human consumption;

- from the date on which the food has been identified as unsafe and must be recalled, the relevant sellers must be notified not to sell, and consumers must be notified not to consume, within one day for a grade one recall, within two days for a grade two recall, and within three days for a grade three recall;

- information distributed by food producers to the public relating to a food recall must be reported to the quality and technical supervision departments of the provincial-level government or above in accordance with relevant requirements;

- from the date on which the food has been identified as unsafe and must be recalled, the producer should submit its food recall plan to the quality and technical supervision departments of provincial-level through the quality and technical supervision departments of municipal-level governments where such producers are located and must do so within three days for a grade one recall, within five days for a grade two recall, and within seven days for a grade three recall; and

- from the date on which the food has been recalled and must be recalled, progress reports must be submitted to the quality and technical supervision departments of provincial-level governments through the quality and technical supervision departments of municipal-level governments where such producers are located and must do so once every three days for a grade one recall, once every seven days for a grade two recall and once every 15 days for a grade three recall.

Recall by order

If any of the following cases, the AQSIQ will order food producers to recall the relevant unsafe food and may publish relevant food safety information and consumption warnings or adopt other measures to avoid any further harm being caused to the public:

- food producers deliberately concealing the hazards of food safety, or food producers not taking recall action where a voluntary recall is appropriate;
- the harm has expanded or recurred due to the fault of food producers; and
- hidden problems relating to food safety which may be harmful to human health and life are discovered during a selective inspection conducted by the nation's supervisors.

Food producers are required to cease production and sale of the unsafe food immediately after receiving notice of a recall order.

Supervision on the use of food additives

Under the Food Safety Law of the PRC《中華人民共和國食品安全法》, 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 (國務院衛生主管部門), 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 licence 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.

The Measures for the Administration of New Varieties of Food Additives《食品添加劑新品種管理辦法》, which were promulgated and became effective on 30 March 2010 by the Ministry of Health of the PRC, stipulate that

- food additives must not be used to conceal the decomposition or deterioration in food;

- food additives must not be used to conceal the quality deficiencies in food or those arising during the food production process;
- food additives must not be used for the purposes of creating counterfeit or fake products;
- food additives must not be used to reduce the nutritional value of food;
- the use of food additives must be kept to a minimal that can achieve the intended result; and
- food enterprises must remove processing substances or aids used in food production before the completion of the finished products save for the permitted residue quantities.

Marketing of breast milk substitute products

Pursuant to the Measures for the Administration of the Marketing of Breast Milk Substitute Products《母乳代用品銷售管理辦法》, which were jointly promulgated by the Ministry of Health, the Ministry of Internal Trade, the Ministry of Radio, Film & Television, the State Press and Publication Administration and the China National Council of Light Industry of the PRC as well as the SAIC on 13 June 1995 and became effective on 1 October 1995, packaging labels of breast milk substitute products shall prominently be marked with a statement about the advantages of breastfeeding. Furthermore, no pictures of infants or terms such as "breast milk" shall be printed on the packaging labels of these products. Producers and distributors of breast milk substitute products are also prohibited from, among other things, giving breast milk substitute products or samples of these products as gifts to medical and healthcare bodies, pregnant women, families with infants as part of the promotion of these products. For the purposes of the Measures for the Administration of the Marketing of Breast Milk Substitute Products《母乳代用品銷售管理辦法》, breast milk substitute products refer to, among other things, infant formula products which are manufactured in accordance with applicable PRC laws on food standards that meet normal nutritional requirements and suit the physiological characteristics of infants between four and six months of age and other dairy products for infants which are designed as substitutes for breast milk.

Provincial Regulations

The Regulations Applicable to the Dairy Industry in Heilongjiang province《黑龍江省奶業條例》, which were promulgated by the Standing Committee of the People's Congress of Heilongjiang province on 15 October 2004, set out the detailed standards for the sale and purchase of raw milk, and for the processing and safety of raw milk and dairy products, in Heilongjiang province.

Laws on Products 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.

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.

LAWS AND REGULATIONS RELATING TO LABOUR MATTERS

The PRC Labour Contract Law《中華人民共和國勞動合同法》, which became effective on 1 January 2008, imposes certain requirements in respect of human resources management, including, among other things, signing labour contracts with employees, terminating labour contracts, paying remuneration and compensation and making social insurance contributions. In addition, the PRC Labour 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 WFOEs:

- the Corporation Law of the PRC of 2005《中華人民共和國公司法》(2005);
- the Wholly Foreign-Owned Enterprise Law of the PRC of 2000《中華人民共和國外資企業法》(2000); and
- the Wholly Foreign-Owned Enterprise Law Implementation Rules of the PRC of 2001, 《中華人民共和國外資企業法實施細則》(2001).

Under the current regulatory regime in China, WFOEs 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, a WFOE 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 dividends. The shareholder(s) of a WFOE may, in his/her/their discretion, allocate a portion of the enterprise's after-tax profit to such enterprise's staff welfare and bonus funds. WFOEs 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.

The Enterprise Income Tax Law of the PRC《中華人民共和國企業所得稅法》, 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 organisation or presence is set up in the PRC by a non-resident enterprise, it will be subject to enterprise income tax on the income derived from such organisation or presence in the PRC and the income derived from outside the PRC but with actual connection with such organisation or presence in the PRC. For a non-resident enterprise which has not set up an organisation or presence in the PRC, or has set up an organisation or presence but the income derived has no actual connection with such organisation 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 were promulgated on 13 December 1993 and amended on 5 November 2008, and the implementation regulations, 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

Our 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.

The Law of the PRC on the Prevention and Control of Environmental Noise Pollution《中華人民共和國環境噪聲污染防治法》, which became effective on 1 March 1997, stipulates the supervision and management measures in respect of the prevention and control of environmental noise pollution including industrial noise pollution, as well as noise pollution from construction, transportation and social activities. The law also specifies the relevant legal liabilities.

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

Under the M&A Provisions《關於外國投資者併購境內企業的規定》which became effective on 8 September 2006 and M&A Provisions promulgated and became effective on 22 June 2009 by MOFCOM《商務部關於外國投資者併購境內企業的規定》, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor:

- the foreign investor purchases by agreement the equities of the shareholders of a domestic non-foreign-invested enterprise ("**domestic enterprise**") or subscribes for the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise;

- the foreign investor establishes a foreign-invested enterprise through which it purchases by agreement the assets of a domestic enterprise and operates its assets; or

- the foreign investor purchases by agreement the assets of a domestic enterprise and then invests such assets to establish a foreign-invested enterprise and operates the assets.

HISTORY AND DEVELOPMENT

History and development of Daqing Dairy, our principal operating subsidiary

Daqing City Animal Husbandry Trade Joint Company's dairy factory* (大慶市牧工商聯合公司乳品廠) ("**Daqing Joint Company Dairy Factory**"), the predecessor of Daqing Dairy, was established by Daqing City Animal Husbandry Trade Joint Company* (大慶市牧工商聯合公司) on 1 December 1970 as its factory unit. Based on the business licence issued by the Heilongjiang Province Administration of Industry and Commerce on 23 April 1981, Daqing Joint Company Dairy Factory was established as a State-owned enterprise. Its initial scope of business was the production and sale of milk powder (as its principal product) and malted milk products (麥乳精), ice creams and popsicles (as its ancillary products). On 26 October 1984, Daqing Joint Company Dairy Factory was renamed as Daqing Dairy Factory (大慶乳品廠) ("**Daqing Dairy Factory**"). Since its establishment and up till the First Capital Restructuring (defined below), all the equity and beneficial interest in Daqing Dairy Factory was State-owned.

In October 1997, Daqing Dairy Factory was converted into a limited liability enterprise when its first capital restructuring (the "**First Capital Restructuring**") was approved pursuant to the "Reply regarding Daqing Dairy Factory's Property Rights Reform Proposal (Qing Gong Jiao Gai Fu No.[1997] 1)" 《關於<大慶乳品廠產權制度改革實施方案>的批復》慶工交改復[1997]1號 issued by the Property Rights Reform Leading Group of Daqing Municipal Industrial and Communications System (大慶市工交系統產權制度改革領導小組) on 22 September 1997. The First Capital Restructuring was undertaken as one of the first steps to transfer the State-owned interest in Daqing Dairy Factory to non State-owned persons and to denationalise Daqing Dairy Factory.

In connection with the First Capital Restructuring, Daqing Dairy Factory changed its name to 大慶乳品有限責任公司 (Daqing Dairy Products Co., Ltd*) ("**Daqing Dairy Products**"), and the registered capital of Daqing Dairy Products was increased to RMB17.31 million, of which 74.65% was contributed by Daqing Sanhuan and the remaining 25.35% was contributed by Mr Li Zhi Fu (李志富), Mr Zhang Bin Hua (張濱華) and Mr Xu Jing Wen (徐井文) (that is, the Three Individual Shareholders) on behalf of all the then 664 employees of Daqing Dairy Products (including the Three Individual Shareholders). Daqing Sanhuan was a State-owned enterprise established in the PRC on 24 June 1991 and accordingly, the 74.65% equity interest in Daqing Dairy Products was beneficially State-owned whereas the remaining 25.35% of the equity interest in Daqing Dairy Products was beneficially owned by the then 664 employees of Daqing Dairy Products (including the Three Individual Shareholders).

In 1998 and as a further and final step taken towards denationalising Daqing Dairy Products, Daqing Dairy Products underwent a second capital restructuring (the "**Second Capital Restructuring**") when its shareholders resolved on 20 May 1998 to transfer 74.65% of Daqing Dairy Products' registered capital held by Daqing Sanhuan to Daqing Dairy Products' employees. The Second Capital Restructuring and the transfer of 74.65% of Daqing Dairy Products' equity interest by Daqing Sanhuan to the employees of Daqing Dairy Products at a consideration based on the net asset value of Daqing Dairy Products was approved by Daqing Municipal Enterprise Property Rights

Reform Leading Group (大慶市企業產權制度改革領導小組) pursuant to its "Reply regarding the Proposal for Promoting and Implementing the De-Nationalisation of Daqing Dairy Products (Qing Qi Gai Fu No.[1998]4)" 《關於<推進大慶乳品有限責任公司非國有化進程實施方案>的批復》慶企改復[1998]4號 dated 23 May 1998.

Upon the completion of the Second Capital Restructuring, Daqing Dairy Products was converted into a wholly private-owned limited liabilities enterprise and its entire registered capital was beneficially owned by its then 543 employees (including the Three Individual Shareholders) who acquired such interest from Daqing Sanhuan for approximately RMB2.35 million. On 9 March 1999, Daqing Dairy Products changed its name to its current name, Da Qing Dairy Ltd (大慶乳品廠有限責任公司). Notwithstanding that the records of the Daqing Municipal Administration of Industry and Commerce (the "**Daqing SAIC**") relating to Daqing Dairy was not updated to reflect the change of shareholders upon the completion of the Second Capital Restructuring, the Daqing Municipal People's Government State-owned Assets Supervision and Administration Commission (大慶市人民政府國有資產監督管理委員會) (the "**Daqing SASAC**") issued its "Confirmation regarding Daqing Dairy's Asset (Qing Guo Zi Han No.[2007]2)" 《關於大慶乳品廠有限責任公司資產確認函》慶國資函[2007]2號 on 27 March 2007 confirming (i) the completion of the First Capital Restructuring and the Second Capital Restructuring; (ii) the completion of the transfer of the State-controlled interests in the registered capital of Daqing Dairy; and (iii) the de-nationalisation of Daqing Dairy. Our PRC Legal Advisers have advised us that there are no legal requirements under the applicable PRC laws and regulations for the Daqing SASAC to issue any confirmation regarding the completion of the de-nationalisation of Daqing Dairy. In view of the pending disposal of the entire equity interest in Daqing Dairy by the then 543 employee-shareholders, we had requested such a confirmation from the Daqing SASAC at the material time in order to ascertain that the First Capital Restructuring and the Second Capital Restructuring had been duly completed and in order to ensure that the persons agreeing to the disposal were the relevant holders of the equity interests involved.

The Daqing SASAC further confirmed on 1 June 2010 that (i) the consideration of approximately RMB2.35 million for the transfer of Daqing Sanhuan's 74.65% equity interest in Daqing Dairy Products to the then 543 employees, which was settled in cash by those employees, was determined by reference to the then existing state of the assets of Daqing Dairy Products, (ii) it had approved the consideration of approximately RMB2.35 million, and (iii) there was no objection from the employees of Daqing Dairy Products regarding the consideration of approximately RMB2.35 million. In addition, the Daqing SASAC confirmed that the number of the employees of Daqing Dairy Products as at the First Capital Restructuring and the Second Capital Restructuring was 664 and 543, respectively. Due to the large number of shareholders resulting from the completion of the First Capital Restructuring, Daqing Sanhuan and all the employees of Daqing Dairy Products at the material time agreed that the 25.35% equity interest in Daqing Dairy Products owned by those employees would be held by the Three Individual Shareholders on the employees' behalf and for the Three Individual Shareholders to exercise all legal rights and fulfil all legal obligations on behalf of those employees. For the same reason, all the employees of Daqing Dairy Products at the material time agreed that the entire registered capital of Daqing Dairy Products owned by them upon the completion of the Second Capital Restructuring would be held by the Three Individual Shareholders (as to 25.35%) and the Daqing Labour Union Committee (as to 74.65%) on their behalf and for the Three Individual Shareholders and the Daqing Labour Union Committee to exercise all legal rights and fulfil all legal obligations on their behalf. Our PRC Legal Advisers have advised us that, at the material time, the Daqing SAIC only permitted not more than 50 shareholders to be registered as shareholders of a PRC private enterprise as the number of shareholders of limited liability company permitted under the PRC Company Law at that time was limited to 50 persons.

Our PRC Legal Advisers have advised us that as the Daqing SASAC is a competent government department of the State-owned Assets Supervision and Administration, it has the authority to issue the above confirmation.

The Daqing Development Area Committee approached Mr Zhao CW, who is currently our Chairman and Executive Director, in May 2006 to help put together a plan to reorganise the management of Daqing Dairy and elevate it out of its then financial situation. In this regard, the Daqing Development Area Committee looked up to Mr Zhao CW to plan and strategise for rather than operate Daqing Dairy on a day to day basis. The Daqing Development Area Committee is a government agency responsible for the implementation of the high-tech industrialisation principles, policies, resolutions and decisions of the national, provincial and municipal government in the Daqing New & High Technology Development Area (大慶高新技術產業開發區) (the "**Daqing Development Area**") and Daqing Dairy's principal production facilities are located within the area overseen by the Daqing Development Area Committee. The Daqing Development Area Committee formulates implementation of advice and exercises management authority granted by the municipal government. It also exercises part of the economic management authority delegated by the provincial government and implements administrative, economic, cultural and social undertakings within the Daqing Development Area under a unified leadership, uniformed rules and unified management.

Due to its outmoded plant and equipment, a lack of capital and its inadequate management, Daqing Dairy suspended its production and sales operations from June 2006 to March 2007 pending installation of new equipment and machinery at its production facility. Furthermore, it recorded losses financially and its employees also faced the potential of being retrenched in the event that Daqing Dairy ceases operations altogether. In June 2006, through the liaison of and discussion with the local government, Daqing Dairy's directors appointed Mr Zhao CW as an honorary director to assist in revitalising Daqing Dairy. In order to distribute the risks and rewards related to this arrangement, Daqing Dairy's board further agreed to assign the "Daqing" trademark to Mr Zhao CW for a consideration of RMB200,000 and to pay him a licensing fee of 5% of Daqing Dairy's annual profit in return for a right for Daqing Dairy to use the "Daqing" trademark. Mr Zhao CW opted to hold the trademark through Dazheng Real Estate (as defined below). Please refer to the sub-section headed "Discontinued Connected Transactions — "Daqing" trademark assignment and licensing" in the section headed "Connected Transactions" in this prospectus for further details relating to this arrangement.

Mr Zhao CW is the executive chairman and indirectly controls more than 30% of the shares eligible to vote at general meetings of Sino Construction. He stepped down from the position as the chief executive officer of Sino Construction in April 2010. Sino Construction and its PRC subsidiaries (the "**Sino Construction Group**") had been involved in numerous building and construction projects commissioned by or for various Daqing authorities and governmental bodies. As a result, Mr Zhao CW is well known to various Daqing authorities and governmental bodies including the Daqing Development Area Committee. Major customers of the Sino Construction Group between 2005 and

2006 included the Daqing City Development Major Project Administrative Office (大慶市城建大項目管理辦公室) and Daqing City Administration Bureau (大慶市城市管理局). Daqing Petroleum Institute (大慶石油學院) (now known as 東北石油大學 (Northeast Petroleum University)) was also one of the public sectors customers of the Sino Construction Group.

Having considered a number of options on 30 June 2006, the representatives of the employee-shareholders decided to dispose of the entire interest in Daqing Dairy and Daqing Dairy's board, with the assistance of Mr Zhao CW, began to look for suitable investors. As a transition arrangement to safeguard the interest of the employee-shareholders and to facilitate a smooth disposal by and payment of transfer consideration to the employee-shareholders, Mr Zhao CW agreed to pay the consideration to the employee-shareholders for the proposed disposal once a reasonable price has been agreed. In this connection and notwithstanding the then existing state of Daqing Dairy, in July 2006, all 543 employee-shareholders (other than four employee-shareholders) signed a transferring shareholders' name list signifying their willingness to dispose their entire interest for an aggregate consideration of approximately RMB3.38 million as compared to the aggregate amount of approximately RMB2.35 million they had invested during the Second Capital Restructuring. With respect to the four employee-shareholders who had not signed the transferring shareholders' name list (namely 喬建華 Qiao Jian Hua, 武維國 Wu Wei Guo, 王成富 Wang Cheng Fu and 黃潤宇 Huang Run Yu) (the "**Four Employee-Shareholders**"), Mr Zhao CW had confirmed on 2 July 2010 that the Four Employee-Shareholders had agreed to transfer their entire interest in Daqing Dairy and each of them had received the consideration for the transfer as set out against their respective names in the transferring shareholders' name list. In addition, Mr Zhao CW had also undertaken that he shall be responsible for any claims that may arise in the event any of the Four Employee-Shareholders claimed that he/she had not agreed to the transfer or had not received payment of his/her respective consideration. The Four Employee-Shareholders are no longer with our Group and the aggregate amount of consideration paid to the Four Employee-Shareholders was RMB20,132.

The Daqing Development Area Committee confirmed on 1 June 2010 that (i) Mr Zhao CW, being the person it had entrusted with the task of finding new investors for Daqing Dairy, had paid the consideration of approximately RMB3.38 million in cash to the employee-shareholders, (ii) such consideration was agreed between the employee-shareholders and Mr Zhao CW under its coordination, and (iii) since the payment of the consideration by Mr Zhao CW after the transferring shareholders' name list was executed, it has not received any complaints or disputes relating to the process of and consideration for the transfer of the entire interest in Daqing Dairy by the 543 employee-shareholders to Mr Zhao CW. Our PRC Legal Advisers have advised us that as the Daqing Development Area Committee is the competent local government department to which Daqing Dairy is subject and since it was involved in the entire equity transfer process, the Daqing Development Area Committee has the authority to issue the above confirmation.

On 6 April 2007, in view of the above transition arrangement and given that the proposed investor, Mr Cao, only wanted to deal with a single responsible person for the transfer of the entire equity interest in Daqing Dairy instead of the Daqing Labour Union Committee and the Three Individual Shareholders who held the entire equity interest in Daqing Dairy on behalf of 543 employee-shareholders at that time, Daqing Dairy's shareholders approved the transfer of its entire registered capital to Mr Zhao CW. For these purposes, Daqing Dairy's Labour Union Committee and the Three Individual Shareholders (both on behalf of all the employee-shareholders) entered into separate equity transfer agreements with Mr Zhao CW. Upon completion of these equity transfer agreements on 6 April 2007, the legal and beneficial interest in the entire registered capital in Daqing Dairy was held by Mr Zhao CW. Our PRC Legal Advisers have advised us that no approval is required from the Daqing SASAC or any other regulatory authorities in the PRC for the equity transfer by the then 543 employee-shareholders to Mr Zhao CW. In view of the above confirmation from the Daqing Development Area Committee, our PRC Legal Advisers have advised us that all legal requirements relating to transfer of the entire equity interest in Daqing Dairy by the 543 employee-shareholders to Mr Zhao CW have been fulfilled, and all steps taken and resolutions and documents executed in relation thereto are legal, valid and enforceable and there are no material flaws in existence that may affect the validity of this transfer.

As Mr Zhao CW had acquired the entire equity from the employee-shareholders purely as a transition arrangement to safeguard the interest of the employee-shareholders and as the proposed investor, Mr Cao, wanted to deal with a single responsible person, namely Mr Zhao CW as described above, Mr Zhao CW (in his capacity as the sole shareholder of Daqing Dairy) passed the sole shareholder's resolutions on 6 April 2007 to approve (i) the transfer of the entire registered capital in Daqing Dairy from Mr Zhao CW to Mr Cao, and (ii) the addition of Mr Cao, Mr Pan, Mr Hu, Mr Wang, Mr Li, Mr Xu and Mr Du (that is, the Seven Original Shareholders) as new shareholders of Daqing Dairy. Mr Zhao CW and Mr Cao entered into an equity transfer agreement, pursuant to which Mr Cao acquired the legal and beneficial interests in the entire registered capital in Daqing Dairy from Mr Zhao CW for the same consideration at which Mr Zhao CW had acquired those interest from the 543 employee-shareholders, being approximately RMB3.38 million, which was paid in cash on the same day.

Also on the same day, 6 April 2007, in order to inject the capital and equipment required, the Seven Original Shareholders resolved to increase the registered capital of Daqing Dairy from RMB17.31 million to RMB120 million, and based on the capital verification report issued by 黑龍江方正會計師事務所有限責任公司 (Heilongjiang Fang Zheng CPA Ltd*) and the valuation reports issued by 黑龍江省建興資產評估有限公司 (Heilongjiang Jian Xing Asset Valuer Co., Ltd*) with a valuation reference date as at 16 March 2007, the Seven Original Shareholders injected cash, land use rights, equipment and machinery valued at RMB102.69 million into Daqing Dairy as follows:

- Mr Cao injected cash, land use rights, equipment and machinery purchased by him valued at RMB54.69 million towards the increase of registered capital resulting in him holding 60% of the equity interest in Daqing Dairy (taking into account the original registered capital of RMB17.31 million that was transferred to him by Mr Zhao CW);

- Mr Pan and Mr Hu each injected equipment and machinery purchased by each of them valued at RMB12 million for 10% of the equity interest in Daqing Dairy each; and

- Mr Xu, Mr Du, Mr Wang and Mr Li each injected equipment and machinery purchased by each of them valued at RMB6 million for 5% of the equity interest in Daqing Dairy each.

The actual capital contributions made by the Seven Original Shareholders exceeded the above contribution amounts required for the subscription of their respective equity interests in Daqing Dairy by a total sum amounting to RMB37,162,408. As at the Latest Practicable Date, we were in contact with four of the Seven Original Shareholders, namely Mr Cao, Mr Pan, Mr Du and Mr Wang. Mr Xu is deceased and we have been unable to contact Mr Hu and Mr Li despite our efforts to this end. Mr Cao, Mr Pan, Mr Du and Mr Wang have confirmed that each of them used his own financial resources towards his capital contribution to Daqing Dairy in April 2007. Mr Cao had engaged in various businesses between 1989 and 2006 including oilfield materials and building sub-contracting works. Between 1986 and 2006, Mr Pan was engaged in various businesses including those related to petrochemical products and construction material industries. Mr Du had also accumulated financial resources from his separate daily grocery wholesale business. Between 1988 and 2007, Mr Wang was engaged in the business of engineering equipment installation.

By a letter dated 6 May 2010 to Daqing Dairy, each of Mr Cao, Mr Pan and Mr Du, being three of the Seven Original Shareholders whom we are able to locate and/or are in contact with, jointly and irrevocably, confirmed to Daqing Dairy as follows:

- the manner and amount of contributions (including their excess capital contributions), and the percentage of their equity interests in Daqing Dairy upon their respective capital contributions were approved at the shareholders' meeting of Daqing Dairy and reflected the intention of the Seven Original Shareholders;

- from the date of the shareholders' meeting of Daqing Dairy approving the above capital contribution and at any time after such date, each of them will not demand from Daqing Dairy the excess amount that he has contributed (including but not limited to the actual excess amount, interest, costs and expenses or any other forms of funds) in any manner whatsoever, whether directly or indirectly;

- each of them agrees to indemnify Daqing Dairy, jointly and severally, against all losses that Daqing Dairy may incur if any of the remaining Seven Original Shareholders (other than Mr Cao, Mr Pan and Mr Du) were to claim against Daqing Dairy for refund of the excess amounts of RMB8,318,750 ("**Excess Amount**") that they have contributed; and

- as at the date of the letter of confirmation, there being no unsettled disputes over claims or debts among each of them and Daqing Dairy.

In addition to the above confirmations given by Mr Cao, Mr Pan and Mr Du, Mr Wang has also confirmed as follows:

- the manner and amount of contributions (including his excess capital contributions), and the percentage of his equity interests in Daqing Dairy upon his capital contributions were approved at the shareholders' meeting of Daqing Dairy and reflected the intention of the Seven Original Shareholders;

- from the date of the shareholders' meeting of Daqing Dairy approving the above capital contribution and at any time after such date, he will not demand from Daqing Dairy the excess amount that he has contributed (including but not limited to the actual excess amount, interest, costs and expenses or any other forms of funds) in any manner whatsoever, whether directly or indirectly; and

- as at the date of his letter of confirmation, there being no unsettled disputes over claims or debts among each of Seven Original Shareholders and Daqing Dairy.

Our PRC Legal Advisers have advised us that under PRC laws, the right of a person to commence a legal proceeding commences from the day when such person knows or ought to have known that he or she has the right to pursue a claim. Furthermore, our PRC Legal Advisers have advised us that as the Seven Original Shareholders knew or ought to have known on 6 April 2007 (being the date of the capital verification report in respect of their respective capital contributions to Daqing Dairy) of the Excess Amount, the Seven Original Shareholders' right of claim against Daqing Dairy for the refund of the Excess Amount extinguished on 5 April 2009, being the expiry date of the two-year limitation period.

Our Directors confirmed that Daqing Dairy did not enter into any contrary arrangement with any of the Seven Original Shareholders on the use of the Excess Amount for purposes other than as contributions towards the increase in the registered capital of Daqing Dairy nor are they aware of any claim having been made by any of the remaining Seven Original Shareholders against Daqing Dairy for the refund of the Excess Amount on or before 5 April 2009.

If there is any contrary arrangement between any of the remaining Seven Original Shareholders and Daqing Dairy on the use of the Excess Amount other than as contributions towards the increase in the registered capital of Daqing Dairy or none of the remaining Seven Original Shareholders is aware or ought to have known that he has a right to claim against Daqing Dairy for the refund of the Excess Amount, the two-year limitation period will not have commenced. Under such circumstances, any of the remaining Seven Original Shareholders has the right to claim against Daqing Dairy for the refund of his portion of the Excess Amount and Mr Cao, Mr Pan and Mr Du will have to indemnify Daqing Dairy, jointly and severally, against all losses that Daqing Dairy may incur in accordance with the above letter of confirmation. Upon completion of the increase of the registered capital of Daqing Dairy, the legal and beneficial interest in the equity interest of Daqing Dairy was held by Mr Cao (as to 60%), Mr Pan (as to 10%), Mr Hu (as to 10%), Mr Xu (as to 5%), Mr Du (as to 5%), Mr Wang (as to 5%) and Mr Li (as to 5%) and the excess contribution of approximately RMB37.16 million did not affect the above interest.

Both Mr Cao and Mr Pan were businessmen, and each of Mr Hu, Mr Xu, Mr Wang and Mr Li was a former management member of Daqing Dairy. Save for Mr Du who is and will continue to act as Daqing Dairy's assistant general manager (sales and logistics), none of the other Seven Original Shareholders will hold any management position in our Group. At the material time, although Mr Pan was a businessman and a full-time executive officer of Sino Construction, the company which Mr Zhao CW listed in Singapore, Mr Zhao CW was not related to any of the other Seven Original Shareholders and their respective associates nor was there any understanding or written agreement between Mr Zhao CW and any one of the Seven Original Shareholders to (i) hold the entire equity interest in Daqing Dairy in favour of Mr Zhao CW and/or his nominee, and/or (ii) to transfer back any interest in Daqing Dairy to him and/or his nominees.

On 30 November 2007, the Seven Original Shareholders resolved to approve the transfer from Mr Cao, Mr Hu, Mr Wang and Mr Li of an aggregate of 80% of the registered capital of Daqing Dairy to Mr Pan and each of the above transferors entered into separate equity transfer agreements with Mr

Pan. Upon completion of such transfers, the registered capital of Daqing Dairy of RMB120 million was held as to 90% by Mr Pan, 5% by Mr Xu and 5% by Mr Du, respectively. Mr Pan paid an aggregate of approximately RMB112.58 million (being the total amount of actual capital contribution made by Mr Cao, Mr Hu, Mr Wang and Mr Li in connection with the increase of Daqing Dairy's registered capital in April 2007 as well as the consideration paid by Mr Cao when he acquired all the entire interest in Daqing Dairy from Mr Zhao CW in April 2007) when this equity transfer was completed on 30 November 2007 in cash to each of Mr Cao, Mr Hu, Mr Wang and Mr Li according to their shareholding proportion.

Changes in Daqing Dairy's board of directors and senior management during the Track Record Period

The directors appointed to Daqing Dairy's board during the Track Record Period reflected the respective shareholdings in Daqing Dairy at the relevant time. Apart from Mr Zhao CW, who was appointed as Daqing Dairy's honorary director under the recommendation of the Daqing Development Area Committee to help put together a plan to reorganise Daqing Dairy's management, Daqing Dairy's other directors were appointed to represent the shareholders' interests or their own interests as shareholders, as the case may be.

Mr Wang Xing Cai 王興才, Mr Yang Xue Jun 楊學軍, Mr Zhou Ying Cai 周英才, Mr Li Zhi Fu 李志富 and Mr Cui Guo Xin 崔國新 were appointed to Daqing Dairy's board by employee-shareholders to represent their interest as shareholders after or during the First Capital Restructuring and Second Capital Restructuring undertaken by Daqing Dairy in 1997 and 1998, respectively. Each of them resigned as directors when Mr Cao, Mr Pan and Mr Hu were appointed to Daqing Dairy's board on 6 April 2007 when, on the same day, (a) Mr Zhao CW acquired the entire equity interest in Daqing Dairy; (b) Mr Zhao CW transferred the entire equity interest in Daqing Dairy to Mr Cao, (c) Mr Cao, Mr Pan and Mr Hu (as three of the Seven Original Shareholders) acquired in aggregate 60%, 10% and 10% of the equity interest in Daqing Dairy, respectively.

When Mr Cao and Mr Hu disposed their equity interest in Daqing Dairy to Mr Pan in November 2007 and Mr Pan acquired an additional 80% of the equity interest in Daqing Dairy, the articles of association of Daqing Dairy were amended to dispense with the requirement of having a board of directors and Mr Pan assumed the position as the sole executive director of Daqing Dairy. Our PRC Legal Advisers have advised us that such amendments to the articles of association of Daqing Dairy comply with the applicable PRC laws and regulations, and are legal and valid.

As at the relevant time when Global Milk Singapore acquired Daqing Dairy, Mr Zhao has just returned from Canada. Mr Zhao CW, in his capacity as Daqing Dairy's honorary director, decided that it would not be in the interest of Daqing Dairy and its image and standing nationally to seek Mr Pan's immediate resignation and be replaced by Mr Zhao. Hence, with effect from August 2008 and in order to ensure a smooth transition to Mr Zhao, Mr Zhao was appointed as the personal assistant to Mr Pan which then formally allowed him to participate in Daqing Dairy's corporate affairs and to familiarise himself with the management and operations of the Group. In December 2009, Mr Zhao was formally appointed as Daqing Dairy's legal representative and sole executive director.

Save that Mr Pan occasionally chaired Daqing Dairy's management committee meetings during the Track Record Period, both Mr Pan and Mr Cao, as the then directors of Daqing Dairy's board, attended to the approval and passing of resolutions regarding matters requiring directors' approval pursuant to the PRC legal and regulatory requirements and the requirements of Daqing Dairy's articles of association (such as the approval of resignation and appointment of general managers). While Mr Pan was a shareholder of Daqing Dairy, he was also a full-time executive officer of Sino Construction and he was also engaged in various businesses including those related to petrochemical products and construction material industries. Mr Pan had spent a substantial portion of his time in his role as the full-time executive officer of Sino Construction as well as managing his other business interests. During the period when Mr Cao was interested in the equity interest of Daqing Dairy and when he was a director of Daqing Dairy, Mr Cao was also engaged in various businesses including oilfield materials and building sub-contracting works and these other business interests occupied a substantial portion of his time. Given that Mr Zhao CW had been entrusted by the Daqing Development Area Committee with the task of revitalising Daqing Dairy, both of them looked up to Mr Zhao CW to render appropriate strategic leadership and guidance.

Between the period when Mr Zhao was appointed as Mr Pan's assistant in August 2008 and prior to his formal appointment as Daqing Dairy's sole executive director, Mr Zhao acquired further knowledge and expertise in running the principal operations of our Group and with effect from his appointment as Daqing Dairy's sole executive director in December 2009, he had been involved in formulating the overall business strategies, business development and managing the operations of Daqing Dairy with the input of and guidance from Mr Zhao CW.

During the Track Record Period, Daqing Dairy's board typically convened board meetings for the purposes of satisfying the formal requirements of its articles of association such as approving the appointment of Mr Zhao CW as honorary director and the appointments and resignations of Daqing Dairy's general manager. On 7 April 2007, the board of directors of Daqing Dairy (comprising Mr Pan, Mr Cao and Mr Hu) resolved that Daqing Dairy would continue to appoint Mr Zhao CW as its honorary director to render guidance, recommendation and assistance to Daqing Dairy in respect of the various important management and operational matters of Daqing Dairy, including production, management, market expansion and investments. During the Track Record Period, Mr Zhao CW was Daqing Dairy's honorary director and in that capacity he attended and guided Daqing Dairy's management on management and operational matters including business plans and budgets. Mr Zhao CW's appointment as Daqing Dairy's honorary director was evidenced by (i) a confirmation issued by Daqing Development Area Committee dated 5 March 2009 confirming, among other things, that it had recommended that Mr Zhao CW assist Daqing Dairy to reform its management and Daqing Dairy would welcome such form of guidance and assistance that Mr Zhao CW would render in this regard; (ii) a resolution of Daqing Dairy's board approving the appointment of Mr Zhao CW as Daqing Dairy's honorary director; and (iii) a resolution of Daqing Dairy's board dated 7 April 2007 approving the continued appointment of Mr Zhao CW as Daqing Dairy's honorary director. Our PRC Legal Advisers have advised us that there is no requirement to complete any registration or filing with Daqing SAIC with respect to Mr Zhao CW's appointment as Daqing Dairy's honorary director as the position of "honorary director" does not fall within the scope of a "director" with respect to which such registration or filing is required. As the person entrusted by the Daqing Development Area Committee with the task of putting together a plan to revitalise Daqing Dairy, Mr Zhao CW, as Daqing Dairy's honorary director, rendered key strategic directions and guidance regarding the development and revitalisation of Daqing Dairy throughout the Track Record Period and he played a pivotal role in the growth and expansion of Daqing Dairy over the years. Accordingly, the previous directors of Daqing Dairy primarily attended board meetings of Daqing Dairy to satisfy the formal requirements of the PRC legal and regulatory requirements as well as the requirements under Daqing Dairy's articles of association, including the appointment and removal of general managers of Daqing Dairy. Each of them was not actively involved in the management and operations of Daqing Dairy, which were mainly managed and operated by Daqing Dairy's core management team and supervised by the then general managers under the guidance of Mr Zhao CW and none of them sought to interfere with the management and operational decisions of Daqing Dairy's core management team through their influence as Daqing Dairy's directors or through other channels.

By 31 December 2006, Daqing Dairy was at a net liability position and had ceased all business operations. Following his appointment as Daqing Dairy's honorary director, Mr Zhao CW assisted Daqing Dairy to secure much needed funding and capital for modernisation and expansion by introducing Mr Cao and the other Seven Original Shareholders to Daqing Dairy. Other contributions by Mr Zhao CW to the development of Daqing Dairy include:

- advising and guiding the Daqing Dairy management on ways to capitalise on the natural advantages offered by Daqing municipality's physical location and the support of the leadership of Daqing municipality to reinforce its foothold in the PRC dairy production industry;

- advising and guiding the Daqing Dairy management on the expansion of Daqing Dairy's production scale, the employment of industry talents, the improvement of Daqing Dairy's technology and R&D capabilities and the building of Daqing Dairy's brand awareness;

- advising and guiding the Daqing Dairy management on Daqing Dairy's response to the melamine incident in 2008 including improvement of its quality control testing capability;

- securing the continuing loyalty and service of the core management team comprising Mr Du, Mr Ma, Mr Shi and Mr Zhao JX; and

- securing the appointment of Mr Xia, Mr Fu and Mr Zhang Bing to our Group, all of whom were industry talents from other Chinese dairy industry operators namely 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd*) and 內蒙古伊利實業集團股份有限公司 (Inner Mongolia Yili Industrial Group Co., Ltd.*) to boost the management team.

We relied on a core management team to consider and make day to day management and operational decisions, plans, actions and recommendations regarding Daqing Dairy and the respective assistant general managers heading each of the key departments, namely sales and logistics, procurement, finance and production, together with its general manager, managed and oversaw Daqing Dairy's day to day management and operations. The financial controller, assistant general managers and the relevant deputy assistant general managers are responsible for assisting the directors and general manager manage the day-to-day operations of their respective department under the guidance and advice of Mr Zhao CW.

Throughout the Track Record Period, Mr Du, Mr Shi and Mr Ma were Daqing Dairy's assistant general manager (sales and logistics), assistant general manager (procurement) and financial controller (a position known as assistant general manager (finance) prior to July 2009), respectively. Each of Mr Du, Mr Ma and Mr Shi had been with Daqing Dairy since January 1996, October 1996 and August 2006, respectively. Since 2006, each of Mr Du, Mr Shi and Mr Ma in their respective capacity as Daqing Dairy's assistant general manager (sales and logistics), assistant general manager (procurement) and financial controller has been responsible for the following aspects of Daqing Dairy's management and operations under the advice and guidance of Mr Zhao CW:

- Mr Du : Formulating and implementing Daqing Dairy's sales and marketing plans; overseeing the logistics operations of Daqing Dairy as well as building the distribution channels for Daqing Dairy's products, training the sales and marketing teams, recruiting additional sales and marketing talents, and representing Daqing Dairy at sales and marketing events;
- Mr Shi : Formulating and implementing Daqing Dairy's purchasing plans as well as building and managing the source of Daqing Dairy's raw materials, particularly the source of fresh milk in line with the business and production plans and targets of Daqing Dairy; and
- Mr Ma : Managing the overall finance operations of Daqing Dairy.

Daqing Dairy's assistant general manager (production) underwent a number of changes during the Track Record Period. The assistant general manager (production) manages Daqing Dairy's production operations under the guidance and advice of Mr Zhao CW. In this regard, he /she was and is responsible for formulating and implementing Daqing Dairy's production plans with the assistance of Mr Zhao JX (Daqing Dairy's deputy assistant general manager (production)) under the advice and guidance of Mr Zhao CW. Mr Zhao JX, Daqing Dairy's deputy assistant general manager (production) since 2007, assists the assistant general manager (production) in formulating and implementing Daqing Dairy's production plans. Furthermore, he is responsible for the on-site production management, ensuring our production is operated in accordance with ISO standards, stepping up training of the production personnel, ensuring that our products meet requisite standards without additional processing; and production cost reduction. Mr Li was Daqing Dairy's assistant general manager (production) between April and August 2007. Mr Zhao JX, who joined Daqing Dairy in December 1989 and, together with Mr Du and Mr Ma, is one of the longest serving management of Daqing Dairy, stepped in as temporary stand-in when Mr Li resigned his appointment with Daqing Dairy. Mr Liu Jun Jian was appointed as Daqing Dairy's assistant general manager (production) in January 2008 and Mr Zhang Bing assumed that position in September 2009, a position which he still holds, when Mr Liu Jun Jian resigned. Throughout the various changes in assistant general manager (production), we relied on Mr Zhao JX, Daqing Dairy's deputy assistant general manager (production), to provide continuity in the production function of Daqing Dairy.

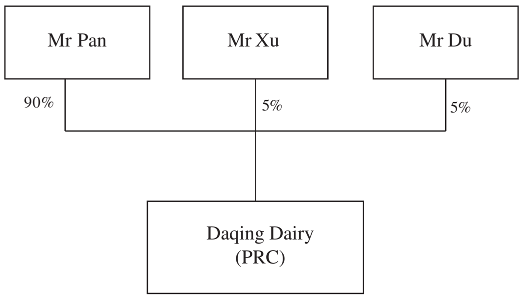
Although Daqing Dairy's general manager also underwent a number of changes during the Track Record Period, it was able to rely on the continual service and dedication of its assistant general manager (sales and logistics), assistant general manager (procurement), financial controller and deputy assistant general manager (production) to manage its day to day operations. In addition to his appointment to Daqing Dairy's board of directors, Mr Hu was appointed as Daqing Dairy's general manager on 6 April 2007 and was re-appointed in the same capacity when he acquired a 10% stake in Daqing Dairy on 7 April 2007. Mr Hu resigned from this position in the fourth quarter of 2007 prior to his sale of his entire interest in Daqing Dairy to Mr Pan. Mr Xu Kun Yuan was appointed as a temporary stand-in between September 2007 and October 2007 whilst Daqing Dairy sought a suitable replacement for Mr Hu. Ms Sun Shu Qing was appointed in November 2007 as Daqing Dairy's general manager and resigned from that position in March 2008 due to a potential conflict of interest arising from her husband's appointment in another dairy business operator. Mr Xia, our Deputy Chief Executive Officer, was appointed as Daqing Dairy's general manager in March 2008 and he continues to act in this capacity.

Our Directors consider that Mr Zhao CW (Daqing Dairy's honorary director), Mr Du (Daqing Dairy's assistant general manager (sales and logistics)), Mr Shi (Daqing Dairy's assistant general manager (procurement), Mr Ma (Daqing Dairy's financial controller) and Mr Zhao JX (Daqing Dairy's deputy assistant general manager (production)) comprised a group of individuals in the management of Daqing Dairy, our sole operating subsidiary during the Track Record Period, who constituted the core management group responsible for the results of Daqing Dairy during the Track Record Period, and who had been in place for the required three-year period and up to the Listing (the "**Core Management Team**"). Under the management of this core management group, Daqing Dairy (including Changqing Dairy for the financial year ended 31 December 2009) was able to turn around from a negative net asset position as at 31 December 2006 and achieve profit and total comprehensive income of approximately RMB84.70 million, RMB113.10 million and RMB143.15 million for each of the financial years ended 31 December 2007, 2008 and 2009, respectively. As our Group now comprises more than one PRC subsidiary (namely Daqing Dairy and Changqing Dairy) and given that, other than Mr Zhao CW, none the members of our Core Management Team had any experience in managing a listed company, we consider that, without derogation to the contribution that the Core Management Team has made to the Group during the Track Record Period under the advice and guidance of Mr Zhao CW, it is in the best interest of our Group and shareholders of our Company that persons with broader and more in depth experience and expertise be appointed to our Board to manage our Group, and not any individual subsidiary, as a whole. Accordingly, with the assistance of Mr Zhao CW, we have secured the appointment of Mr Xia, Mr Fu and Mr Daniel Fong as members of our management. Mr Xia and Mr Fu hailed from 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd*) and 內蒙古伊利實業集團股份有限公司 (Inner Mongolia Yili Industrial Group Co., Ltd.*), respectively (both of which are reputable Chinese dairy business operators) whilst Mr Daniel Fong was the chief financial officer of Sino Construction, a Singapore listed company, between July 2009 and April 2010.

REORGANISATION

The Reorganisation, which was effected in preparation for the Listing and pursuant to which our Company became the holding company of our Group, included the following major steps set out below.

Immediately prior to the Reorganisation, the shareholding structure of Daqing Dairy was as follows:



Incorporation of Global Milk Singapore

Global Milk Singapore was an investment vehicle incorporated in Singapore on 15 September 2006 as a private company limited by shares and it allotted and issued one ordinary share of S$1.00 to Mr Abdul Jabbar Bin Karam Din as the first subscriber upon incorporation. On 8 October 2007, Mr Abdul Jabbar Bin Karam Din transferred the single share in the issued capital of Global Milk Singapore to Mr Zhao. Save that Mr Zhao is a director of Global Milk Singapore, he does not have any other business connection with Singapore. Save that Mr Zhao CW is the executive chairman and he indirectly controls more than 30% of the shares eligible to vote at general meetings of Sino Construction, he does not have any other business connection with Singapore. He stepped down from the position as the chief executive officer of Sino Construction in April 2010.

Acquisition of the entire equity interest in Daqing Dairy by Global Milk Singapore

In late 2007, Mr Zhao, a Canadian citizen since October 2003 felt that Daqing Dairy had achieved remarkable financial performance and it showed potential for further growth. Mr Zhao has known the “Daqing” brand since young as this dairy product brand was well known to the public in Heilongjiang province for more than 30 years. In addition, with Mr Zhao CW’s appointment as the honorary director of Daqing Dairy in June 2006, he was introduced to the former shareholders, directors and other members of its management, namely Mr Cao, Mr Hu, Mr Wang, Mr Li, Mr Pan, Mr Xu, Mr Ma and Mr Shi on social occasions by Mr Zhao CW whenever he returned to China from Canada in 2007. Over time, from Mr Zhao CW and as Mr Zhao interacted with the former shareholders, directors and other members of Daqing Dairy’s management and, based on his discussions with Mr Zhao CW and those persons, he formed the view that Daqing Dairy had achieved remarkable performance and it showed potential for further growth. Mr Zhao informed Mr Zhao CW of his interest to acquire Daqing Dairy. Accordingly and in preparation for such an acquisition, Mr Zhao acquired Global Milk Singapore as described above. In this connection and given that foreign investment was required to fund his intended acquisition of Daqing Dairy, Mr Zhao asked Mr Zhao

CW, who knew various foreign investors during the listing process of Sino Construction in Singapore, to help him arrange for foreign investments to fund his acquisition. Having arrived at some preliminary investment terms with some of the foreign investors, Mr Zhao decided that it was appropriate to enter into an equity transfer agreement with Mr Pan, Mr Xu and Mr Du for the acquisition of the entire equity interest in Daqing Dairy so that the approval process can be initiated.

On 26 December 2007, Mr Pan, Mr Xu and Mr Du, as shareholders of Daqing Dairy, resolved to approve (i) the acquisition of the entire equity interest in Daqing Dairy by Global Milk Singapore; (ii) the change of its scope of business to "production, sale, import and export of "Da Qing" brand glucose metabolism-improving milk powder (A), milk and dairy products and frozen drinks (大慶牌降糖奶粉(A)、乳和乳製品、冷凍飲品的生產、銷售及進出口貿易)" and (iii) the conversion of Daqing Dairy from a domestic privately-owned enterprise to a WFOE upon completion of the acquisition. On the same day, Mr Pan, Mr Xu and Mr Du entered into an equity transfer agreement with Global Milk Singapore to transfer the entire equity interest in Daqing Dairy for a transfer consideration to be determined with reference to the net asset value of Daqing Dairy as stated in the valuation report to be issued by a duly qualified PRC valuer.

On 16 July 2008, Heilongjiang Province Investment Promotion Bureau (黑龍江省招商局) (now known as MOFCOM of Heilongjiang province (黑龍江省商務廳)) ("**Heilongjiang MOFCOM**") issued the "Reply regarding Daqing Dairy's Articles of Association (Hei Zhao Wai Zi Han [2008] No. 104)" 《關於大慶乳品廠有限責任公司章程的批復》黑招外資函[2008]104號 approving the proposed acquisition of Daqing Dairy by Global Milk Singapore for an aggregate consideration of approximately RMB318.78 million. Such consideration was determined with reference to the net asset value of Daqing Dairy as at 31 December 2007 as stated in the "Daqing Dairy Valuation Report (Hei Jian Xing Ping Bao Zi [2008] No. 020))" dated 7 March 2008 (《大慶乳品廠有限責任公司評估報告書》黑建興評報字[2008]第020號) issued by Heilongjiang Jian Xing Asset Valuation Co., Ltd (黑龍江省建興資產評估有限公司) (the "**Valuation Report**"). The cash consideration of approximately RMB318.78 million was paid in RMB to Mr Pan, Mr Xu and Mr Du in proportion to their shareholding interest in Daqing Dairy in December 2009.

Our PRC Legal Advisers have advised us that the approval from the Heilongjiang MOFCOM, and the registration and filing with the relevant authorities for the acquisition of Daqing Dairy by Global Milk Singapore, have been obtained or made pursuant to the M&A Provisions. Under the M&A Provisions, an approval from MOFCOM is required under any of the following circumstances: (i) a domestic company, enterprise or natural person merges and acquires a domestic enterprise which has affiliated relation with through an overseas company lawfully established or controlled by such domestic company, enterprise or natural person; (ii) a foreign investor merges and acquires a domestic enterprise and obtains the de facto controlling power, which involves a Chinese key industry, has factors which influence or may influence Chinese national economic security, or may result in the transfer of the de facto controlling power of any domestic enterprise which owns famous trademark (馳名商標) or Chinese time-honored brands (中華老字號); or (iii) a foreign investor merges and acquires a domestic enterprise with equity. Our PRC Legal Advisers have further advised us that as this acquisition did not involve a situation stipulated under the M&A Provisions referred to above, no approval from MOFCOM was required in respect of this acquisition under the M&A Provisions. Furthermore, we have also sought written confirmation from the Heilongjiang MOFCOM that, among other things, (i) the then shareholders of Daqing Dairy at the time of the acquisition, of Daqing Dairy by Global Milk Singapore, namely Mr Pan, Mr Xu and Mr Du, and Mr Zhao Yu (being the shareholder of Global Milk Singapore) were not connected parties. As a result, there did not exist any circumstances that gave rise to a need to submit the matter for the approval of MOFCOM, and (ii) the changes in the shareholding structures of Daqing Dairy before and during the above acquisition did not constitute an acquisition involving interests of connected parties within the M&A Provisions and will not be considered as a circumvention of the M&A Provisions. By a response from the Heilongjiang MOFCOM to Daqing Dairy dated 20 August 2010, the Heilongjiang MOFCOM confirms as follows:

- Daqing Dairy had submitted all the relevant documents and information to the Heilongjiang MOFCOM;
- there did not exist any connected party relationship among Daqing Dairy, Global Milk Singapore, their shareholders and senior management; and
- as the acquisition of Daqing Dairy by Global Milk Singapore did not involve the interest of connected parties within the M&A Provisions, the Heilongjiang MOFCOM has the authority to approve such acquisition.

A reconciliation between the total consideration paid by Global Milk Singapore for the acquisition of Daqing Dairy of approximately RMB318.78 million to the net asset value of Daqing Dairy of RMB223.68 million as at 31 December 2007 as set out in Appendix IB to this prospectus is set out below:

	RMB million
Total consideration paid by Global Milk Singapore for the acquisition of Daqing Dairy based on the consideration determined based on the net asset value of Daqing Dairy as valued and reported in the Valuation Report	318.78
Revaluation surplus in respect of the Valuation Report (Note 1)	59.07
Net asset value of Daqing Dairy as at 31 December 2007 as set out in the Valuation Report which is also the net asset value of Daqing Dairy as set out in the PRC statutory accounts of Daqing Dairy for the year ended 31 December 2007	259.71
Reversal of valuation surplus in respect of certain property, plant and equipment and land use rights (Note 2)	34.53
Sundry adjustments (Note 3)	1.50
Net asset value of Daqing Dairy as at 31 December 2007 as set out in Appendix IB to this prospectus	223.68

Notes:

(1) The amount represents the valuation surplus in respect of property, plant and equipment, prepaid lease payments and land use rights of Daqing Dairy as at 31 December 2007 as set out in the Valuation Report.

(2) Certain property, plant and equipment and land use rights of Daqing Dairy were revalued in the PRC statutory accounts of Daqing Dairy for the year ended 31 December 2007. The amounts have been reversed in preparing the financial information of the Daqing Dairy Group in accordance with IFRS.

(3) The amounts represent sundry adjustments, such as cut-off of expenses, that have been incorporated into the PRC statutory accounts of Daqing Dairy for the year ended 31 December 2007 in preparing the financial information of the Daqing Dairy Group in accordance with IFRS.

Daqing Dairy obtained the "Certificate of Approval for Establishment of Enterprises with Foreign Investment in the PRC (Shang Wai Zi Hei Zhao Wai Zi Han Zi [2008] No.104)"《中華人民共和國外商投資企業批准證書》商外資黑招外資函字[2008]104號 issued by the Heilongjiang Provincial People's Government on 25 July 2008, which is the effective date of the acquisition of Daqing Dairy by Global Milk Singapore. Accordingly, Daqing Dairy became a wholly-owned subsidiary of Global Milk Singapore. Furthermore, the Daqing SAIC issued a new business licence in favour of Daqing Dairy on 20 August 2008, the effective date on Daqing Dairy which was converted into a foreign invested enterprise, which described Daqing Dairy as a WFOE with limited liability. With the completion of the Investment Agreement (as defined in the paragraph headed "Investment in the Company prior to the Global Offering" below), Global Milk Singapore paid the acquisition consideration for the acquisition of Daqing Dairy before the end of December 2009. Whilst the equity transfer agreement for our acquisition of Daqing Dairy was executed in December 2007, the Valuation Report prepared for the purposes of determining the consideration for the acquisition was only issued in March 2008. As the Valuation Report was one of the documents required to be submitted with the application for approval of this acquisition, the application for approval was only submitted after the Valuation Report was issued. Pursuant to the applicable laws and regulations, the application for approval of our acquisition of Daqing Dairy was first submitted to the Daqing Municipal's investment promotion bureau before it was forwarded to the Heilongjiang MOFCOM for their approval. Our PRC Legal Advisers have advised us that the approval time taken by the Heilongjiang MOFCOM complies with applicable PRC laws and regulations.

Incorporation of our Company

Our Company was incorporated in the Cayman Islands on 15 October 2009 as the holding company of our Group with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. One ordinary share of HK$0.01 of the Company was allotted and issued fully paid to Codan Trust Company (Cayman) Limited on incorporation. On the same day, Mr Zhao acquired the single issued share in the capital of the Company and was appointed as the sole director of the Company.

Acquisition of Global Milk Singapore by the Company

On 15 October 2009, our Company and Mr Zhao entered into a sale and purchase agreement, pursuant to which we acquired from Mr Zhao the single ordinary share in the issued share capital of Global Milk Singapore for a consideration of S$1.00, such consideration being satisfied by our Company allotting and issuing 550 shares of HK$0.01 in the capital of our Company each to Mr Zhao, credited as fully paid.

Establishment of Changqing Dairy and its acquisition by Daqing Dairy

Changqing Dairy was established in the PRC on 7 August 2008 as a sole shareholder limited liability company by Mr Pan with a registered capital of RMB10 million. Mr Pan commenced preparations and had been liaising with the local government for the establishment of Changqing Dairy in late 2007 in Wuchang, Heilongjiang. In connection with our intention to acquire Daqing Dairy from Mr Pan, Mr Pan agreed to complete the incorporation process on the understanding with Mr Zhao that after we acquired Daqing Dairy, we will procure that Daqing Dairy acquire Changqing Dairy from Mr Pan in order to expand the production capacity of our Group. In this connection and for the purposes of funding the construction of the Changqing production facility, Daqing Dairy granted a loan facility of RMB250 million to Changqing Dairy on 30 August 2008. Please refer to the sub-section headed "Discontinued Connected Transactions — Provision of loan by Daqing Dairy to Changqing Dairy" in the section headed "Connected Transactions" in this prospectus for further details regarding this loan. Pursuant to an equity transfer agreement dated 16 November 2009, Mr Pan transferred the entire registered capital in Changqing Dairy to Daqing Dairy for a consideration of RMB10 million.

Investment in the Company prior to the Global Offering

Since our Company's incorporation until immediately prior to the Global Offering, the Pre-IPO Investors and our Controlling Shareholders have made various investments in our Company in the following manners:

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
1 November 2009	Share transfer agreement in respect of the transfer of 10.3% of the entire issued share capital in our Company from Mr Zhao to Kenmoore ("**Kenmoore Transfer Agreement**").	(1) Mr Zhao (2) Kenmoore	Approximately US$6.01 million	• Consideration determined on the basis of 4 times price earnings ratio of the Group's NPAT for the financial year ended 31 December 2009 and assuming a NPAT of RMB100 million. • The purchase price per Share (on a sub-divided basis) would be approximately HK$0.82 each which represents a discount of approximately 77.2% and 84.2% to the minimum Offer Price of HK$3.60 and maximum Offer Price of HK$5.20, respectively. • Completion took place on 18 November 2009 whereby the full consideration was paid by Kenmoore and 57 ordinary shares of HK$0.01 each in the capital of our Company, representing 10.3% of our then issued share capital, was transferred by Mr Zhao to Kenmoore.

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
20 November 2009	Investment agreement ("**Investment Agreement**") consisting of: (i) a bridging finance portion ("**Bridging Loan**"); and	(1) Company (2) The Pre-IPO Investors in the following proportions: a. Kenmoore (approximately 17.8%) b. Venstar Investments (approximately 11.9%) c. 2G Capital (approximately 14.3%) d. NF Capital (approximately 14.3%) e. Magic Carpet (approximately 14.3%) f. Providence SOGF (approximately 3.6%) g. Blooming Global (approximately 2.4%) h. Broad Idea (approximately 6.0%) i. Mr Lee (approximately 11.9%) j. Mr Chua (approximately 3.6%) (3) Mr Zhao CW and Mr Zhao, as warrantors	**Bridging Loan Amount:** S$21 million (approximately RMB102.3 million)	• Under the terms of the Investment Agreement, the Bridging Loan and the proceeds of the Share subscription may only be utilised for the purpose of funding the acquisition of Daqing Dairy by Global Milk Singapore. • The maturity date of the Bridging Loan was three months to 28 February 2010. Upon maturity, the full Bridging Loan Amount together with a one-time processing fee of 2% of the Bridging Loan Amount was repayable. • The total amount repayable had been fully repaid immediately prior to the maturity date of the Bridging Loan by Kenmoore (S$11.55 million, approximately RMB56.11 million) and Mr Zhao (S$9.87 million, approximately RMB47.95 million) for and on behalf of our Company. • As a result of the above repayment, our Company became indebted to Mr Zhao and Kenmoore in the aggregate amount of S$21.42 million (approximately RMB104.32 million). • (i) we settled the amount due to Mr Zhao by paying him a sum of S$7.8 million (approximately RMB 37.73 million) in cash on 11 March 2010 and by applying the balance of S$2.07 million (approximately RMB10.14 million) on 28 February 2010 towards the outstanding sum due from him to our Company under the Subscription Agreement (see below), and (ii) we settled the amount due to Kenmoore by applying the entire sum of S$11.55 million (approximately RMB56.11 million) on 28 February 2010 towards the investment agreed to be paid by the Pre-IPO Investors under the SSFA (see below). • The S$9.87 million (approximately RMB47.95 million) required by Mr Zhao to partially settle the Bridging Loan Amount was borrowed by Mr Zhao from Kenmoore on 30 January 2010 (the "**January 2010 Loan**"). This amount (together with the December 2009 Loan (see below)) was repaid in two tranches (in June 2010 and July 2010) on behalf of Mr Zhao by Mr Zhao CW through his controlled company, namely Dazheng Real Estate to Mr Chua Beng Huat, a director and controlling shareholder of Kenmoore. Payments were made in cash in RMB in China.

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
	(ii) a subscription of Shares portion whereby the Pre-IPO Investors agreed to subscribe for 127,829 Shares ("**Share Subscription**")		**Share Subscription amount:** S$21 million (approximately RMB102.3 million) The Bridging Loan Amount and the Share Subscription amount were paid by 2 December 2009.	• Consideration for the Share Subscription was determined on the basis of 6 times price earnings ratios of our Group's NPAT for the financial year ended 31 December 2009 and assuming a NPAT of RMB100 million. • The purchase price per Share (on a sub-divided basis) would be approximately HK$0.91 each which represents a discount of approximately 74.7% and 82.5% to the minimum Offer Price of HK$3.60 and maximum Offer Price of HK$5.20, respectively. • The Pre-IPO Investors warranted that each of them would remain the beneficial holder of the Shares subscribed until our Company is listed on the Stock Exchange or any other official stock exchange acceptable to the Pre-IPO Investors, and would not enter into any agreement with any person or company to part with the ownership thereof at any time before the Company's listing on the Stock Exchange or any other official stock exchange acceptable to the Pre-IPO Investors.
20 November 2009	Subscription agreement in respect of 63,171 Shares by Mr Zhao ("**Subscription Agreement**")	(1) Company (2) Mr Zhao	RMB125 million In December 2009, Mr Zhao paid the US$ equivalent of RMB114.86 million to our Company as part settlement of the consideration. The balance was settled on 28 February 2010.	• Under the Subscription Agreement, the proceeds of the Shares subscription shall only be utilised for the purpose of funding the acquisition of Daqing Dairy by Global Milk Singapore. • In order to fund the subscription of the Shares under the Subscription Agreement, Mr Zhao borrowed approximately US$16.63 million from Kenmoore in early December 2009 (the "**December 2009 Loan**"). This amount (together with the January 2010 Loan (see above)) was repaid in two tranches (in June 2010 and July 2010) on behalf of Mr Zhao by Mr Zhao CW through his controlled company, namely Dazheng Real Estate to Mr Chua Beng Huat, a director and controlling shareholder of Kenmoore. Payments were made in cash in RMB in China.

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
28 January 2010	Second series funding agreement (the "**SSFA**"), as supplemented by a supplementary agreement dated 10 May 2010, consisting of: (i) a loan portion ("**Second Loan**"); and	(1) Company (2) The Pre-IPO Investors in the following proportions: a. Kenmoore (approximately 17.8%) b. Venstar Investments (approximately 11.9%) c. 2G Capital (approximately 14.3%) d. NF Capital (approximately 14.3%) e. Magic Carpet (approximately 14.3%) f. Providence SOGF (approximately 3.6%)	**Second Loan amount:** S$15.75 million (approximately RMB76.51 million)	• Under the SSFA, the Second Loan amount and SSFA Subscription amount may only be utilised for the purpose of funding an advertising campaign in the first half of 2010 on China Central Television and as working capital (the "**2010H1 Advertising Campaign**"). • The Second Loan amount of S$15.75 million (approximately RMB 76.51 million) was fully drawn down by 1 March 2010. The maturity date of the Second Loan was 18-months from 1 March 2010, whereupon the full amount of the Second Loan amount shall be repaid. Our company will use approximately 9.2% of the net proceeds from the Global Offering (or approximately HK$93.4 million) to repay the Second Loan amount and the interests accrued thereon. • Our Company shall pay an interest of 10% per annum (or at such other rates as the Pre-IPO Investors may in their absolute discretion determine) on the principal amount of the Second Loan on the SSFA Maturity Date or the Listing Date, whichever is earlier, calculated on the basis of the actual number of days elapsed in a 365-day year.
	(ii) a subscription of Shares portion whereby the Pre-IPO Investors agreed to subscribe for 15,879 Shares (the "**SSFA Subscription**")	g. Blooming Global (approximately 2.4%) h. Broad Idea (approximately 6.0%) i. Mr Lee (approximately 11.9%) j. Mr Chua (approximately 3.6%) (3) Mr Zhao CW and Mr Zhao, as warrantors	**SSFA Subscription amount:** S$5.25 million (approximately RMB25.5 million) Portion of Second Loan amount being S$9.24 million (approximately RMB44.9 million) (after deducting a portion of the 2% processing fee due to the Pre-IPO Investors in connection with the Second Loan) was paid by Kenmoore for itself and on behalf of the other Pre-IPO Investors on 1 February 2010.	• Under the SSFA Subscription, the consideration is determined on the basis of 10 times price earnings ratios of our Group's NPAT for the financial year ended 31 December 2009 and assuming a NPAT of RMB120 million. • The purchase price per Share (on a sub-divided basis) would be approximately HK$1.83 each which represents a discount of approximately 49.2% and 64.8% to the minimum Offer Price of HK$3.60 and maximum Offer Price of HK$5.20, respectively. • Approximately 50% of the proceeds from the SSFA was applied for 2010H1 Advertising Campaign and the balance was retained as our working capital.

Date	Type of Agreement	Parties	Amount/ Consideration	Remarks
			The remaining portion of the Second Loan and the SSFA Subscription amount were paid on 28 February 2010 when Kenmoore issued a repayment notice pursuant to the assumption of debt agreement dated 28 February 2010 made with our Company, Kenmoore and Mr Zhao under which Kenmoore acknowledged that the sum of S$11.55 million (approximately RMB56.11 million) due to it has been settled on 28 February 2010 by applying the above S$11.55 million (approximately RMB56.11 million) towards the payment of the remaining portion of the Second Loan and the SSFA Subscription amount.	

Each of the Pre-IPO Investors has irrevocably and unconditionally waived, and each of them has confirmed that none of the special rights granted to each of them pursuant to the Investment Agreement and the SSFA will continue after the Listing. Furthermore, each of the Pre-IPO Investors has undertaken not to dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares (excluding the Shares that each of them will sell as Selling Shareholders) that each of them beneficially owns as at the date of the Listing for a period of six months commencing on the Listing Date and for the subsequent six months, not to take any of the above actions such that the Controlling Shareholder will cease to be a controlling shareholder.

Information about the Pre-IPO Investors

Kenmoore is an investment holding company incorporated in the BVI owned, in equal proportion, by Mr Chua Beng Huat and his spouse, Ms Goh Bee Lan. Both of them are Singapore citizens and are Independent Third Parties.

Venstar Investments, an Independent Third Party, is a private equity investment company incorporated in Singapore and managed by Venstar Capital Management Pte Ltd on a full discretionary basis. At the relevant time when it invested in our Group, Venstar Investments was one of the approved funds under the Global Investor Programme, an initiative by the Singapore Economic Development Board. Venstar Investments seeks medium to long term private equity investments in the Asia-Pacific Region with a focus on Southeast Asia and North Asia, and its investors include high net worth individual investors from Singapore as well as high net worth individual and corporate investors from Asia, primarily the PRC.

Each of 2G Capital, NF Capital and Blooming Global are investment holding companies and all of them are Independent Third Parties. 2G Capital was incorporated in Singapore and wholly-owned by Mr Tommie Goh Thiam Poh, a Singapore citizen and an Independent Third Party. NF Capital was incorporated in the Cayman Islands and wholly-owned by Mr Seow Voon Ping, a Malaysian and an Independent Third Party. Blooming Global was incorporated in the BVI and is wholly-owned by Mr Yip Tai Him 葉棣謙, a Hong Kong resident and an Independent Third Party.

Magic Carpet, an Independent Third Party, is a discretionary fund incorporated in the Cayman Islands managed by Quantum Asset Management Pte Ltd., an Independent Third Party. Magic Carpet is a pre-IPO fund that focuses on China and Singapore companies with potential to list in recognised exchanges and its accredited investors are primarily from Asia Pacific, namely Hong Kong and Singapore.

Providence SOGF, an Independent Third Party, is a discretionary fund incorporated in Singapore managed by Providence Capital Management Pte Ltd ("**Providence Capital**"). Providence SOGF specialises in primarily late stage private equity transactions and its investors include high net worth individuals and institutions mostly from Singapore.

Broad Idea, an Independent Third Party, is an investment holding company incorporated in the BVI administered and managed by Providence Capital. Broad Idea's investors are mostly Singaporean high net worth individuals.

Both Mr Lee and Mr Chua are individual investors who are Singapore citizens and Independent Third Parties. Mr Chua is employed by Collins Stewart Pte. Limited as a director of its equity capital market division. Mr Lee is the executive chairman of and interested in approximately 20% of the issued shares NH Ceramics Ltd, a company that was listed on the Official List of the Stock Exchange of Singapore Dealing and Automated Quotation System (now known as the Catalist board of the Singapore Exchange Securities Trading Limited) in May 2000. NH Ceramics Ltd and its subsidiaries are in the business of supplying and distributing ceramics, marble, granite tile products to architects, developers, contractors and home owners. As at 18 June 2010, NH Ceramics Ltd had a market capitalisation of approximately S$16.8 million.

Pursuant to our Shareholders' resolutions passed on 3 February 2010 and for the purposes of the Share sub-division, each ordinary share of HK$0.01 in the authorised and issued share capital of our Company was sub-divided into 1,000 Shares and the 494 and 57 ordinary shares of HK$0.01 each in the issued share capital of our Company held by each of Mr Zhao and Kenmoore, respectively, were sub-divided into 494,000 and 57,000 Shares, respectively.

Following the Share sub-division, our Board passed a resolution on 4 February 2010 approving the following:

- the allotment and issuance of an aggregate of 127,829 Shares to the Pre-IPO Investors pursuant to the Investment Agreement. The Pre-IPO Investors were registered as members of our Company with respect to the 127,829 Shares on 4 February 2010; and

- the allotment and issuance of an aggregate of 63,171 Shares to Mr Zhao pursuant to the Subscription Agreement. Mr Zhao was registered as a member of our Company with respect to the 63,171 Shares on 4 February 2010.

Upon completion of the above allotment and issuance of Shares, the entire shareholding interest in our Company is set out below:

Name	**Number of Shares**	**% interest in our Company**
Mr Zhao	557,171	75.1%
Kenmoore	79,827	10.8%
Venstar Investments	15,218	2.1%
2G Capital	18,261	2.5%
NF Capital	18,261	2.5%
Magic Carpet	18,261	2.5%
Providence SOGF	4,565	0.6%
Blooming Global	3,044	0.4%
Broad Idea	7,609	1.0%
Mr Lee	15,218	2.1%
Mr Chua	4,565	0.6%
Total:	742,000	100%

Note:

The percentages in the table above do not aggregate to 100% due to rounding differences.

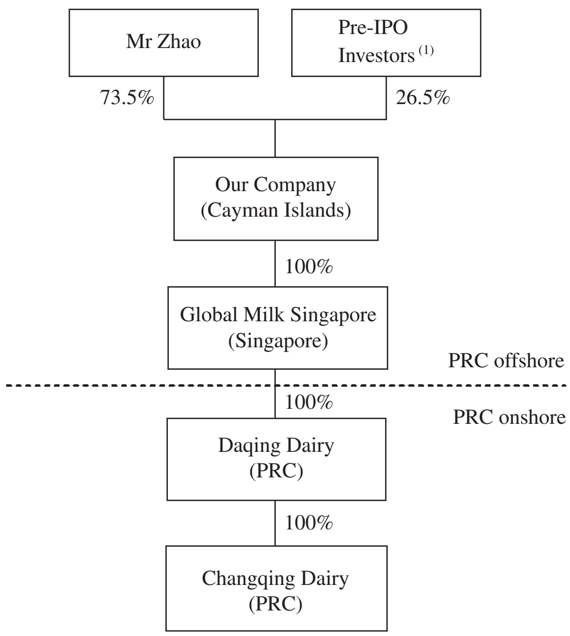
In connection with the SSFA and pursuant to a Board resolution dated 24 March 2010, our Company allotted and issued an aggregate of 15,879 Shares to the Pre-IPO Investors and these investors were registered as members of our Company with respect to those Shares on 24 March 2010.

Upon completion of the Share sub-division, the Kenmoore Transfer Agreement and the issuance of new Shares pursuant to the Investment Agreement, the Subscription Agreement and the SSFA, the entire issued share capital of our Company, comprising 757,879 Shares, was held as to approximately 73.5% by Mr Zhao (557,171 Shares) and as to approximately 26.5% by the Pre-IPO Investors as follows:

Name	Number of Shares	% interest in our Company
Kenmoore	82,665	10.9%
Venstar Investments	17,108	2.3%
2G Capital	20,529	2.7%
NF Capital	20,529	2.7%
Magic Carpet	20,529	2.7%
Providence SOGF	5,132	0.7%
Blooming Global	3,989	0.5%
Broad Idea	7,987	1.1%
Mr Lee	17,108	2.3%
Mr Chua	5,132	0.7%
Total:	200,708	26.5%

GROUP STRUCTURE

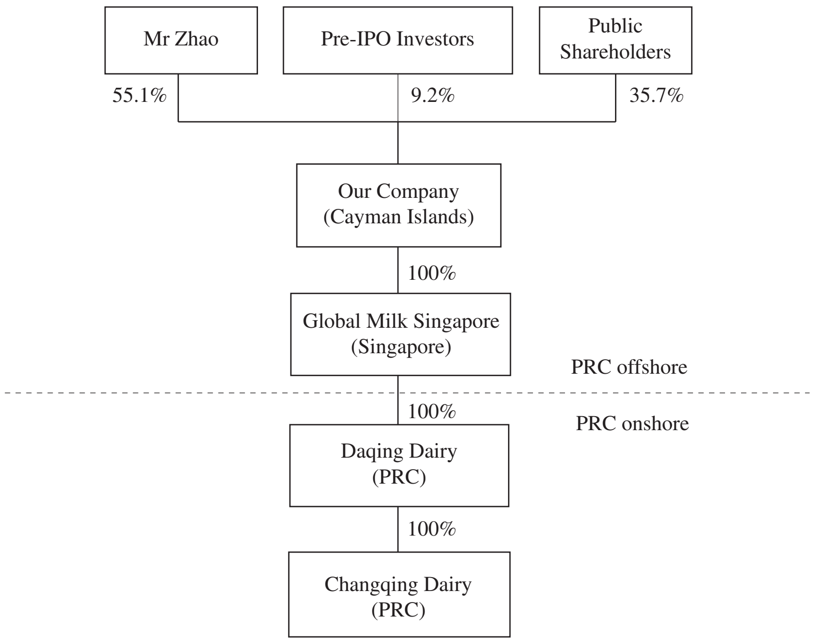
The shareholding structure of our Group immediately following the Capitalisation Issue but prior to the Global Offering and the sale of the Sale Shares is set out below:



Note:

(1) Save for Kenmoore which holds 82,665,000 Shares representing approximately 10.9% of issued share capital of the Company, none of the other Pre-IPO Investors is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or other member of our Group.

Immediately following completion of the Capitalisation Issue, the Global Offering and the sale of the Sale Shares (assuming that the Over-allotment Option has not been exercised and none of the options which may be granted under the Share Option Scheme is exercised), the shareholding structure of our Group will be as follows:



Note:

(1) Immediately following the Capitalisation Issue, the Global Offering and the sale of the Sale Shares (assuming that the Over-allotment Option has not been exercised and none of the options which may be granted under the Share Option Scheme is exercised), none of the Pre-IPO Investors is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or other member of our Group.

The shareholding interest of the Pre-IPO Investors in our Company (on a sub-divided basis) (a) immediately prior to the Capitalisation Issue, the Global Offering and the sale of the Sale Shares ("**Shareholding Interest Prior to Capitalisation Issue**"); (b) immediately following the Capitalisation Issue but prior to the Global Offering and the sale of the Sale Shares ("**Shareholding Interest Following Capitalisation Issue**"); and (c) immediately following completion of the Capitalisation Issue, the Global Offering and the sale of the Sale Shares (assuming that the Over-allotment Option has not been exercised and none of the options which may be granted under the Share Option Scheme is exercised) ("**Shareholding Interest upon Listing**") are as follows:

Name of Pre-IPO Investors	Shareholding Interest Prior to Capitalisation Issue					Shareholding Interest Following Capitalisation Issue					Shareholding Interest upon Listing	
	Number of Shares acquired under the Kenmoore Transfer Agreement	Number of Shares acquired under the Investment Agreement	Number of Shares acquired under the SSFA	Total number of Shares (Note 1)	% Interest	Total number of Shares (Note 1)	% Interest	Approximate cost of acquisition per Share (Note 2)	Approximate discount to the minimum Offer Price of HK$3.60	Approximate discount to the maximum Offer Price of HK$5.20	Total number of Shares (Note 1)	% Interest
Kenmoore	57,000	22,827	2,838	82,665	10.9%	82,665,000	10.9%	HK$0.87	75.8%	83.3%	38,079,000	3.8%
Venstar Investments	–	15,218	1,890	17,108	2.3%	17,108,000	2.3%	HK$1.01	71.9%	80.6%	7,880,000	0.8%
2G Capital	–	18,261	2,268	20,529	2.7%	20,529,000	2.7%	HK$1.01	71.9%	80.6%	9,455,000	0.9%
NF Capital	–	18,261	2,268	20,529	2.7%	20,529,000	2.7%	HK$1.01	71.9%	80.6%	9,455,000	0.9%
Magic Carpet	–	18,261	2,268	20,529	2.7%	20,529,000	2.7%	HK$1.01	71.9%	80.6%	9,455,000	0.9%
Providence SOGF	–	4,565	567	5,132	0.7%	5,132,000	0.7%	HK$1.01	71.9%	80.6%	2,364,000	0.2%
Blooming Global	–	3,044	945	3,989	0.5%	3,989,000	0.5%	HK$1.01	71.9%	80.6%	1,837,000	0.2%
Broad Idea	–	7,609	378	7,987	1.1%	7,987,000	1.1%	HK$1.01	71.9%	80.6%	3,679,000	0.4%
Mr Lee	–	15,218	1,890	17,108	2.3%	17,108,000	2.3%	HK$1.01	71.9%	80.6%	7,880,000	0.8%
Mr Chua	–	4,565	567	5,132	0.7%	5,132,000	0.7%	HK$1.01	71.9%	80.6%	2,364,000	0.2%

Notes:

(1) The difference between the total number of Shares held by the Pre-IPO Investors following the Capitalisation Issue and upon Listing represents the aggregate number of Sale Shares offered for sale by the Pre-IPO Investors in connection with the Global Offering.

(2) The approximate cost of acquisition per Share in HK$ was computed using exchange rate of US$1:HK$7.7842 and S$1:HK$5.5423.

OVERVIEW

We are one of the top ten local brand milk powder companies in the PRC market [(Note 1)]. We are principally engaged in the production, marketing, and sale of medium-to-high and premium-priced milk formula products in China. Our dairy products are classified into the following two main categories:

- milk formula products; and
- whole milk powder products.

Our milk formula products and whole milk powder products include a full range for infants and children. Our infant and paediatric milk formula products aim to supply the balanced nutrition that an infant or a child needs in his or her first few months and throughout the various stages of childhood growth and development. In addition, we have milk formula products fortified with various vitamins and essential minerals that aim to provide supplements in meeting special nutritional requirements for older children, adults, the elderly, pregnant and lactating women. Our Directors believe that our broad range of products enables us to better target consumers across different income groups with different product value propositions, thereby satisfying their particular needs.

Our main product category, milk formula products, comprises the Shi Jia Series 仕加配方奶粉系列, the Emilon Series 愛美樂配方奶粉系列 and the Daqing Series 大慶牌配方奶粉系列. The products in our Shi Jia Series are designed for consumers of premium-priced milk formula products which are suitable for infants and children at different growth stages as well as post-natal women. We aim to target our Shi Jia Series at consumers in second- and third-tier municipalities, particularly eastern coastal cities of the PRC. The products in our Emilon Series are designed for consumers of medium-to-high priced milk formula products catering for the changing nutritional needs of growing infants and children. We aim to target our Emilon Series at consumers in second- and third-tier municipalities. The products in our Daqing Milk Formula Series are designed for consumers of low-to-medium priced milk formula products suitable for children, adults and the elderly. We aim to target our Daqing Milk Formula Series at consumers in villages and counties near second- and third-tier municipalities. Our whole milk powder products are sold under the brand 大慶牌 "Daqing". In addition, we produce a variety of ice cream products under our own brand 慶乳 "Qingru" with over 10 flavours.

Note:

(1) According to the Euromonitor International Report, we ranked ninth among the local brand owners in the Milk Powder market in China with a 1.5% of market share and 15th among the brand owners in the Milk Powder market in China (which comprised both foreign and local brand owners) with a 1.5% of market share in terms of sales value in 2009. We have commissioned Euromonitor International, an Independent Third Party, to prepare the Euromonitor International Report.

We mainly sell our milk formula products and whole milk powder products through an extensive network of 120 distributors in China which are Independent Third Parties. Our distributors sell our milk formula products and whole milk powder products to their sub-distributors or directly to retail outlets, such as department stores, shopping malls, supermarkets, and children's and parenting specialty stores, in 21 provinces and Chongqing municipality. We have non-exclusive agreements with all of our current distributors. These agreements are generally for a term of one year. Our Directors have confirmed that a majority of our current distributors with whom we have entered into the distribution agreements are privately-owned entities. In general, we require our distributors to pay the full purchase price before we deliver our products to them. Our distributors are only permitted to sell our milk formula products and whole milk powder products in their designated distribution areas under the distribution agreements. We monitor and ensure, through our district sales managers for each geographical region, that our distributors do not compete in the same designated distribution areas. If any of our distributors is in breach of the above term of the distribution agreements, we have the right to terminate the relevant distribution agreement. We sell our milk formula products and Daqing sweetened whole milk powder directly to supermarkets, and other retail chain stores in Daqing municipality and other customers who purchase from us on an ad hoc basis, and our whole milk powder (packaged in 25 kg bags) directly to our customers such as food processing enterprises. We intend to continue selling our milk formula products and whole milk powder products in Heilongjiang province through our distributors and by way of direct sale, and in areas outside Heilongjiang province through our distributors. For each of the financial years ended 31 December 2008 and 31 December 2009, and the six months ended 30 June 2010, approximately 71.7%, 69.1% and 85.3% of our sales, respectively, were made to our distributors. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, approximately 59.4% and 77.3% of the sales of the Daqing Dairy Group, respectively, were made to our distributors. We sell our ice cream products directly to retail outlets in Daqing municipality and the areas which are in close proximity to Daqing municipality.

According to the Euromonitor International Report, we ranked ninth among the local brand owners in the Milk Powder market in China with a 1.5% of market share and 15th among the brand owners in the Milk Powder market in China (which comprised both foreign and local brand owners) with a 1.5% of market share in terms of sales value in 2009.

The table below sets out our revenue by product segment for the periods indicated:

Daqing Dairy Group (Note 1)

	Year ended 31 December 2007 (Note 2)		Period from 1 January 2008 to 24 July 2008		Year ended 31 December 2008		Year ended 31 December 2009		Six months ended 30 June 2009		Six months ended 30 June 2010	
	Revenue		Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue
Milk formula products	221,859	72.6	207,258	87.8	366,482	84.6	431,605	84.6	173,022	81.6	333,508	89.7
Shi Jia Series 仕加配方奶粉系列	–	–	–	–	–	–	–	–	–	–	28,703	7.7
Emilon Series 愛美樂配方奶粉系列	157,525	51.5	158,204	67.0	277,234	64.0	308,669	60.5	113,658	53.6	246,404	65.9
Daqing Series 大慶牌配方奶粉系列	64,078	21.0	49,054	20.8	89,248	20.6	122,936	24.1	59,364	28.0	60,401	16.1
Others (Note 3)	256	0.1	–	–	–	–	–	–	–	–	–	–
Whole milk powder products	83,604	27.4	28,689	12.2	65,034	15.0	61,671	12.1	32,063	15.1	26,100	7.0
Others (Note 4)	–	–	–	–	1,800	0.4	16,759	3.3	7,107	3.3	12,259	3.3
Total	**305,463**	**100.0**	**235,947**	**100.0**	**433,316**	**100.0**	**510,035**	**100.0**	**212,192**	**100.0**	**373,867**	**100.0**

The Group (Notes 1 and 5)

	Period from 8 October 2007 to 31 December 2007		Year ended 31 December 2008		Year ended 31 December 2009		Six months ended 30 June 2009		Six months ended 30 June 2010	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue
Milk formula products	–	–	159,224	80.7	431,605	84.6	173,022	81.6	335,508	89.7
Shi Jia Series 仕加配方奶粉系列	–	–	–	–	–	–	–	–	28,703	7.7
Emilon Series 愛美樂配方奶粉系列	–	–	119,030	60.3	308,669	60.5	113,658	53.6	246,404	65.9
Daqing Series 大慶牌配方奶粉系列	–	–	40,194	20.4	122,936	24.1	59,364	28.0	60,401	16.1
Others (Note 3)	–	–	–	–	–	–	–	–	–	–
Whole milk powder products	–	–	36,345	18.4	61,671	12.1	32,063	15.1	26,100	7.0
Others (Note 4)	–	–	1,800	0.9	16,759	3.3	7,107	3.3	12,259	3.3
Total	**–**	**–**	**197,369**	**100.0**	**510,035**	**100.0**	**212,192**	**100.0**	**373,867**	**100.0**

Notes:

(1) Global Milk Singapore acquired the entire equity interest in Daqing Dairy on 25 July 2008 pursuant to an equity transfer agreement dated 26 December 2007 entered into between Mr Pan, Mr Xu, Mr Du and Global Milk Singapore. The operating results of the Daqing Dairy Group before the completion of the acquisition and of our Group after the completion of the acquisition are not directly comparable as they are two separate entities from an accounting perspective. The table above contains financial information from the accountants' report of our Group and the accountants' report of the Daqing Dairy Group, which are included as Appendix IA and Appendix IB to this prospectus, respectively.

(2) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

(3) Revenue from the sale of other products in 2007 includes the sale of the remaining inventory, such as our Mei Er Si Te Series 美爾斯特 and our Qiao Fu Series 巧芙, which were discontinued in 2007. We undertook a strategic review of our existing brands of "Daqing", Mei Er Si Te Series and Qiao Fu Series in early 2007. Pursuant to the review, we decided that having two milk formula product brands without a clearly defined market segment was inefficient in terms of brand promotion and development. As such, our management decided to discontinue the brands under Mei Er Si Te Series and Qiao Fu Series and instead developed the new brand of 愛美樂 "Emilon" to replace the brands of Mei Er Si Te Series and Qiao Fu Series. The "Daqing" brand was retained to focus on consumers of low-to-medium priced milk formula products while the "Emilon" brand was then positioned to target consumers of medium-to-high priced milk formula products.

(4) Revenue from the sale of other products in 2008, 2009 and the six months ended 30 June 2009 and 2010 represents the sale of our ice cream products. We produce a variety of ice cream products under our own brand 慶乳 "Qingru" with over 10 flavours. Our ice cream products are sold in different forms, such as ice cream cups, ice cream bars, ice cream cones and tubs of packaged ice cream, ranging from 75 g to 5 kg per pack. The shelf life of our ice cream products is normally 18 months. We sell our ice cream products directly to retail outlets in Daqing municipality and the areas in close proximity to Daqing municipality. We collect sales payments in cash when the ice cream products are delivered.

(5) Although Global Milk Singapore was incorporated on 15 September 2006, the financial information of the Group has only presented the financial information of the Group from 8 October 2007, which was the date Global Milk Singapore was acquired by the Controlling Shareholder. However, Global Milk Singapore did not commence its business operations until its acquisition of the entire equity interest of Daqing Dairy on 25 July 2008. As a result, the financial information of the Group relating to the period from 8 October 2007 to 31 December 2007 is not comparable to the financial years ended 31 December 2008 and 2009. Furthermore, the Group only had substantial business operations from 25 July 2008 which has a material effect on the comparability of the financial information of the Group for the financial year ended 31 December 2008 with the financial year ended 31 December 2009, which had business operations for the full year.

Since the establishment of our production facility in Daqing in 1970, we have received various awards and certifications which have helped increase the brand recognition of our products. Some of our key awards and certifications include the following:

Awards/certifications	Year of award/ certification	Key issuing institution/authority
"Green" Food Product Certification	2007	China Green Food Development Centre (中國綠色食品發展中心)
National Quality Assurance Food Products (國家質量達標食品)	1999	China Food Industry Association (中國食品工業協會)
Provincial Advanced Enterprise on Quality Control Management (全省質量管理先進企業)	1999	Quality Control Management Association of Heilongjiang Province (黑龍江省質量管理協會)
Famous Trademark in Heilongjiang Province (黑龍江省著名商標)	1999	Heilongjiang Provincial Administration for Industry & Commerce (黑龍江省工商行政管理局)
Famous Brand in Heilongjiang Province for the Year 1996 (Daqing Milk Powder) (1996年黑龍江知名品牌產品 (大慶牌奶粉))	1996	Heilongjiang Quality Supervision and Inspection Association (黑龍江省質量監督檢驗協會), Heilongjiang Quality Control Management Association (黑龍江省質量管理協會) and the Consumers' Association of Heilongjiang Province (黑龍江省消費者協會)
National Advanced Enterprise (Quality and Efficiency Type in food industry) (全國食品行業質量效益型先進企業)	1995	China Food Industry Association (中國食品工業協會)
Advanced Enterprise on Technical Supervision for the Year 1990 (1990年度技術監督先進單位)	1991	People's Government of Daqing Municipality (大慶市人民政府)

We are strategically located in Daqing municipality in the west of Heilongjiang province in the PRC. Daqing is in the central part of the Songnen Plain (松嫩平原) in Heilongjiang province.

Heilongjiang province is located along the world's dairy belt region with a latitude of approximately 43 to 53 degrees, along with the Netherlands, Denmark and Hokkaido in Japan, which is a region known for unique geographic conditions including vast grasslands and a cool climate.

We source raw milk, the primary raw material for the production of our products, from selected milk collection centres which, in turn, collect raw milk from dairy farms and individual dairy farmers in proximity to Daqing municipality.

For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, we generated revenue of RMB197.4 million, RMB510.0 million and RMB373.9 million, respectively [Note 1]. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the Daqing Dairy Group generated revenue of RMB305.5 million and RMB235.9 million, respectively. Our profit and total comprehensive income for each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, was RMB54.1 million, RMB133.5 million and RMB108.4 million, respectively. The profit and total comprehensive income of the Daqing Dairy Group for each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008 was RMB84.7 million and RMB56.1 million, respectively.

We have two production facilities in Daqing municipality and Wuchang municipality. Our current design annual milk powder production capacity of our milk formula products and whole milk powder products is approximately 31,011 tonnes.

We have adopted a strict quality control system over our production, from the sourcing of raw milk to production, and have adopted stringent quality standards which comply with the applicable PRC government standards. This was evidenced by the various awards and certifications we received, including the GMP certification for the phase one production lines at our Daqing production facilities in respect of the production of our milk formula products and whole milk powder products, which we obtained in 2007. For further details, please refer to the section headed "Business — Awards, permits and certifications" in this prospectus. In 2010, we obtained ISO9001:2008 certification for the design, production and sale of dairy products (milk powder and liquid milk), infant milk formula and cold beverages. We ensure that all raw milk supplied to us is tested and analysed on-site for its content before we use them in our production. We conduct periodical inspection on our finished products to ensure compliance with the applicable quality standards in the PRC. As far as our Directors are aware, our products have not been cited for quality issues by either government entities or the media in the PRC.

As at 30 June 2010, we had approximately 29 employees engaged in quality control, of whom 27 were degree holders or had received tertiary education in disciplines mainly related to food science and technology or biotechnology. We have appointed Ms Wang Li Ying (王麗穎) as the manager of our

Note:

(1) Our revenue of RMB197.4 million generated in the financial year ended 31 December 2008 reflected the revenue we generated from 25 July 2008 to 31 December 2008 as we did not have any substantial business operations until our acquisition of Daqing Dairy on 25 July 2008. As such, our revenue for the financial year ended 31 December 2008 is not comparable to that of the financial year ended 31 December 2009, which had business operations for the full year.

quality control and product development department with responsibility for our overall quality control. Ms Wang, aged 31, is a graduate of 東北農業大學 (Northeast Agricultural University) with a Bachelor of Science degree in Food Science and Engineering. Before joining us in 2008, she had over six years of experience in the food industry. In 2003, Ms Wang was appointed as a Food Sensory Evaluation Expert (食品感官品評專家) by 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd.*). In 2006, Ms Wang received her Qualification Certificate for Professional Post Holding in Heilongjiang Province (黑龍江省專業技術職務任職資格證書) as a food engineer issued by the Heilongjiang Province Human Resources Department (黑龍江省人事廳).

Our quality control team closely monitors the implementation of our quality control system, which involves the following quality control measures:

(a) as raw materials we purchase may contain contaminants which are harmful to human health, we test the content and quality of all raw milk delivered to us, which include the level of protein, fat, antibiotics and impurities, and acidity to ensure compliance with the National Quality Standard for Raw Milk (中華人民共和國國家標準生鮮牛乳收購標準) and also test the level of melamine in the raw milk to ensure compliance with the applicable quality standards in the PRC. We also carry out sampling tests on other raw materials we purchase for use in our production process such as sucrose, whey powder, vegetable oil, mineral supplements, lactose, maltose, whey protein concentrate and various flavourings for bacteria content and both physical and chemical properties before we accept and store them for use at a later stage in our production process. As these raw materials generally have product expiry dates, we check the raw materials and their product expiry dates before we use them in our production;

(b) we test our semi-finished products for the water content and the level of fat and impurities in accordance with our internal quality standards. We also carry out tests on the content and quality of our finished products, which include the level of protein, fat, sucrose, impurities, bacteria and antibiotics to ensure compliance with the applicable quality standards in the PRC; and

(c) we provide our quality control staff members with compliance training to ensure proper implementation of our quality control procedures.

During the Track Record Period, none of our products was found unfit for consumption and we did not experience any product dispute, product recall or return of products which may have had a material adverse effect on our financial condition or operating results. Our Directors have further confirmed that during the Track Record Period, none of our products had been subject to any government sanctions relating to quality.

COMPETITIVE STRENGTHS

Our Directors believe that our historical success and future prospects are underpinned by a combination of competitive strengths including:

Access and proximity to strategic production location, quality raw milk source and ideal dairy farming climate

Constant supply of high quality raw milk is critical to our business and demands. We believe that geographic location in Heilongjiang province strengthens our ability to meet growing needs of our products.

We are strategically located in Daqing municipality in the west of Heilongjiang province in the PRC. Daqing is in the central part of the Songnen Plain (松嫩平原) in Heilongjiang province. Heilongjiang province is located along the world's dairy belt region with a latitude of approximately 43 to 53 degrees, along with the Netherlands, Denmark and Hokkaido in Japan, which is a region known for unique geographic conditions including vast grasslands and a cool climate. These favourable conditions are known to facilitate the production of quality milk in dairy cows and provide unique advantages and potential to the development of the dairy industry. According to the China Dairy Statistical Report, (i) the raw milk output of Heilongjiang province ranked second in China in 2009 in terms of volume; and (ii) Daqing municipality ranked fifth among prefectural-level cities in China and produced approximately 1.3 million tonnes of raw milk in 2009, which represent approximately 25% of the total raw milk output in Heilongjiang province in 2009 in terms of volume.

Our raw milk is sourced from selected milk collection centres which, in turn, collect raw milk from dairy farms and individual dairy farmers in proximity to Daqing municipality. As dairy farms and individual dairy farmers do not have all necessary milking facilities, most dairy cows are milked at milk collection centres which are equipped with the milking facilities. As such, it is the general industry practice that dairy product manufacturers source raw milk directly from milk collection centres which collect fresh milk from dairy cows rather than dairy farms and individual dairy farmers. Our Directors have confirmed that there are abundant milk collection centres in Daqing municipality. We have non-exclusive raw milk supply agreements with over 10 milk collection centres, which provide us with sufficient and stable supply of high quality raw milk. Our Directors have further confirmed that a majority of the current milk collection centres with whom we have entered into raw milk supply agreements are privately-owned entities. These agreements are generally for a term of one year. Both parties to the relevant non-exclusive raw milk supply agreement have the right to terminate the agreement if the agreement cannot be implemented due to the occurrence of any unforeseeable circumstances that prevent any of the parties to the agreement from performing the agreement. We also have the right to terminate the agreement if the raw milk supplied contains contaminants. We test the content and quality of all raw milk delivered to us, which include the level of protein, fat, antibiotics and impurities, and acidity and reject it if it does not comply with the National Quality Standards for Raw Milk (中華人民共和國國家標準生鮮牛乳收購標準). Our Directors have confirmed that during the Track Record Period, we had rejected raw milk supplied to us which did not comply with the National Quality Standards for Raw Milk (中華人民共和國國家標準生鮮牛乳收購標準). During the Track Record Period, we did not experience any shortage of supply of raw milk that affected our normal operation. Our Directors believe that our strategic location in Daqing municipality enables us to obtain sufficient and stable supply of high quality raw milk to meet our growing needs and increase our production output. The Wuchang Husbandry Bureau (五常市畜牧局) has indicated that it will guarantee the daily raw milk supply of 300 tonnes that we may require for our production when the production line at our Changqing production facility commences operations.

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, certain admission conditions are imposed on investments in dairy products in Heilongjiang province such as (i) the distance between newly built dairy processing facilities and any existing dairy processing facilities must be 100 km and above, and (ii) all newly built dairy processing facilities must have a daily raw milk processing capability of over 300 tones. Our Directors believe that these admission restrictions limit the entry of new competitors to the dairy industry in Daqing and Wuchang municipalities where we have our production facilities, and increase our competitiveness in these areas.

Wide range of milk formula products and whole milk powder products, and effective product positioning capabilities

Our Directors believe that consumers have diverse needs and a preference for a wide selection of product offerings. In recognition of our consumers' interests, our product offerings include a wide range of products designed to meet the diverse consumer preferences and needs. Our Directors further believe that our ability to modify our product offerings effectively in a timely manner enables us to position our products advantageously within the competitive market as it evolves.

We produce a wide range of milk formula products and whole milk powder products which enables us to maintain a broad consumer base. Since our establishment, we have modified our range of product offerings to meet the specific needs of particular segments of the market. Our milk formula products include the Shi Jia Series, which aims to supply the nutritional needs that an infant or a child needs in his or her first few months and throughout the various stages of childhood growth and development, and provide for the nutritional supplements of post-natal women, and the Emilon Series, which aims to supply the nutritional needs that an infant or a child needs in his or her first few months and throughout the various stages of childhood growth and development, as well as provide for the nutritional supplements of pregnant and lactating women. In addition, our Daqing Milk Formula Series of products come in varying combinations of vitamins, essential minerals and other supplements designed to meet the specific nutritional requirements of children, adults and the elderly. We also produce whole milk powder products for personal consumption and industrial use, such as a raw material in dairy and other food products. For more information on our range of products, please refer to the section headed "Business — Products" in this prospectus.

Our Directors believe that (i) our broad range of products enables us to better target consumers across different income groups with different product value propositions, thereby satisfying their particular needs and (ii) our ability to improve and expand our product offerings has been a key factor contributing to the rapid growth in our revenue and will continue to play an important role in the future.

Stringent quality control standards and high quality products

We have adopted stringent quality control standards which comply with the applicable PRC government standards. We ensure all raw milk supplied to us is tested and analysed on-site for its content before we use them in our production. We conduct periodical inspection on our finished products to ensure compliance with the applicable quality standards in the PRC. As far as our Directors are aware, our products have not been cited for quality issues by either government entities or the media in the PRC.

Our key focus is to maintain high product quality. In addition to appointing Ms Wang, whose qualifications are provided in the section headed "Business — Quality Control" in this prospectus, as the manager of our quality control and product development department with responsibility of our overall quality control, we have adopted a strict quality control system over our production, from the sourcing of raw milk to production. In 2010, we obtained ISO9001:2008 certification for the design, production and sale of dairy products (milk powder and liquid milk), infant milk formula and cold beverages. This certification demonstrates that we have an effective quality management system that shows our commitment to quality and our ability to consistently provide products that meet customers' requirements. In addition, we obtained GMP certification for the phase one production lines at our Daqing production facilities in respect of the production of our milk formula products and whole milk powder products in 2007. We have obtained various awards and certifications in respect of our products. For further details, please refer to the section headed "Business — Awards, permits and certifications" in this prospectus.

Within each of our production facilities, we have adopted stringent quality control systems to monitor our product quality at various inspection points, including testing the initial intake of raw milk and other raw materials, testing semi-finished products and finished products and enforcing sanitation and hygiene standards for staff and equipment. For further details, please refer to the section headed "Business — Quality Control" in this prospectus.

In light of the incident in 2008 where a number of domestic dairy products in China were found to contain melamine, the PRC Government has taken stringent measures to ensure safety of dairy products such as mandating product recalls and sending officers of the AQSIQ to quality control departments of dairy product producers to monitor their production processes and inspect the quality and safety of the finished products. The tests conducted by an external testing centre on some of our milk formula products and whole milk powder products in 2008 and 2009 on a sampling basis, and the tests conducted by two external testing centres on all of our milk formula products and whole milk powder products in 2010, confirmed that these products did not contain melamine. These external testing centres are Independent Third Parties.

Our Directors believe that our various awards and certifications for quality products and our melamine-free test results attest to our strict adherence to being "'green', healthy and safe", which we have adopted as the principal themes of our product image.

Strong brand recognition and extensive network

We have a history of more than 30 years in the dairy industry in the PRC, which was confirmed by the Dairy Industry Association of Heilongjiang Province (黑龍江省乳製品工業協會). Since the establishment of our production facility in Daqing in 1970, we have received various awards and certifications which have helped increase the brand recognition of our products. Some of our key awards and certifications include the following:

Awards/certifications	Year of award/ certification	Key issuing institution/authority
"Green" Food Product Certification	2007	China Green Food Development Centre (中國綠色食品發展中心)
National Quality Assurance Food Products (國家質量達標食品)	1999	China Food Industry Association (中國食品工業協會)
Provincial Advanced Enterprise on Quality Control Management (全省質量管理先進企業)	1999	Quality Control Management Association of Heilongjiang Province (黑龍江省質量管理協會)
Famous Trademark in Heilongjiang Province (黑龍江省著名商標)	1999	Heilongjiang Provincial Administration for Industry & Commerce (黑龍江省工商行政管理局)
Famous Brand in Heilongjiang Province for the Year 1996 (Daqing Milk Powder) (1996年黑龍江知名品牌產品 (大慶牌奶粉))	1996	Heilongjiang Quality Supervision and Inspection Association (黑龍江省質量監督檢驗協會), Heilongjiang Quality Control Management Association (黑龍江省質量管理協會) and the Consumers' Association of Heilongjiang Province (黑龍江省消費者協會)
National Advanced Enterprise (Quality and Efficiency Type in food industry) (全國食品行業質量效益型先進企業)	1995	China Food Industry Association (中國食品工業協會)
Advanced Enterprise on Technical Supervision for the Year 1990 (1990年度技術監督先進單位)	1991	People's Government of Daqing Municipality (大慶市人民政府)

Our Directors believe that our longstanding history in the milk powder market in the PRC has contributed to our positive brand recognition and reputation, which has enabled us to be sensitive to shifting consumer preferences and needs and to introduce new products which gain market acceptance. This has been instrumental to the success and growth of our business. Our Directors also believe that our commitment to providing quality products has generated brand loyalty among a segment of the consumer population, which further enhances the prospective success and growth of our business.

In addition to our strong brand recognition, we have also established an extensive distribution network in various parts of China to increase the circulation of our products. We mainly sell our milk formula products and whole milk powder products through 120 distributors in China which are Independent Third Parties. Our distributors sell our milk formula products and whole milk powder products to their sub-distributors or directly to retail outlets, such as department stores, shopping malls, supermarkets, and children's and parenting specialty stores, in 21 provinces and Chongqing municipality. We have non-exclusive distribution agreements with all of our current distributors. These agreements are generally for a term of one year. Our Directors have confirmed that a majority of our current distributors with whom we have entered into the distribution agreements are privately-owned entities. Under these agreements, our distributors may distribute other brands of dairy products. Our Directors believe that this enables us to select distributors with extensive experience in the distribution of international and domestic brand milk formula products and that such experience and credentials, in turn, facilitate the promotion of our milk formula products and whole milk powder products and provide broad coverage of the distribution network.

Experienced senior management team

Our senior management has strong and extensive experience in the dairy industry in the PRC, and is dedicated to the product development, production and marketing of dairy products.

- ***Product development***

  Mr Xia, our Executive Director and Deputy Chief Executive Officer, is primarily responsible for overseeing product development as well as assisting our Chief Executive Officer in executing the overall business strategies, facilitating business development, and managing the operations of our Group. Mr Xia joined our Group in March 2008 as Daqing Dairy's general manager, a position he currently holds. He was also appointed, at the time of its establishment, and still is the general manager of Changqing Dairy. Mr Xia is a senior food engineer (食品高級工程師). He graduated from 東北財經大學 (Dongbei University of Finance and Economics) with an Executive Master of Business Administration (高級管理人員工商管理碩士) in January 2007. He has approximately 22 years of experience in the dairy industry. He was the deputy general manager of 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd*), a dairy company in the PRC between July 1987 and June 2004. From June 2004 till March 2008, he was the deputy general manager of 西安銀橋生物科技有限公司 (Xi'an Yinqiao Biological Science and Technology Co. Ltd), also a dairy company in the PRC. Mr Xia was nominated as one of the "Ten Outstanding Technology Persons" in the Chinese dairy processing industry (首屆中國乳品加工業 "十大傑出科技人物") on 7 August 2004 by the Chinese Dairy Technology Committee (中國乳業科技大會組委會) and the China's Livestock Products Research Association (中國畜產品加工研究會).

- ***Production***

  Mr Zhang Bing (張兵) is the assistant general manager (production) of Daqing Dairy's production department primarily responsible for managing the Daqing production facilities. He joined our Group in March 2009 as the deputy assistant general manager of Daqing Dairy's production department before his promotion to his current position in September 2009. He received tertiary education from 佳木斯市聯合職工大學 (Jiamusi Employee University*) in disciplines relating to Food Engineering between September 1990 and July 1993. He has over eight years of experience in the dairy industry.

- ***Operations and business development***

Mr Fu is our Executive Director and Chief Operations Officer. He is primarily responsible for the overall operations, strategic and business development of our Group. He graduated from 內蒙古師範大學 (Inner Mongolia Normal University) with a Master of Science degree on 9 June 1990 and a Bachelor of Science degree on 10 July 1987. Mr Fu joined our Group in July 2009 as an assistant general manager of the strategic planning of Daqing Dairy prior to his appointment as our Director. During his term with 內蒙古伊利實業集團股份有限公司 (Inner Mongolia Yili Industrial Group Co., Ltd.), a dairy company in the PRC, from July 1995 to July 2005, Mr Fu held various managerial positions including general manager of development department, general manager of information centre, chief information officer, general manager of the group's key customers, assistant general manager of its sales centre and member of the group's strategies management committee.

For further details on our management team, please refer to the section headed "Directors, Senior Management and Employees" in this prospectus.

Our Directors believe that our senior management team has the requisite knowledge and experience to steer the continued growth of our Group.

BUSINESS STRATEGIES

Our overall business objective is to become a leading vertically integrated producer of dairy products in China with a broad range of product offerings and a strong focus on medium-to-premium priced milk formula products. To achieve this objective, we have formulated the following major business objectives:

Expand our product offerings

The dairy industry in the PRC is still developing and demands for dairy products in the PRC are expected to grow. Our current product offerings comprise various milk formula products and whole milk powder products, each designed to address specific customer preferences and needs. Our Directors intend to continue improving and expanding our product offerings by launching new products with an emphasis on new paediatric milk formula products, which are suitable for infants and children at different growth stages. We have recently developed and launched a new series of milk formula products, which aim at consumers of premium-priced milk formula products, namely three new milk formula products for infants at different growth stages under our Shi Jia Jia You Bao Bao Series 仕加嘉友寶寶系列 and two new milk formula products for post-natal women under our Shi Jia S'Plan Series 仕加斯普恩系列.

Our Directors believe that the expansion of our product portfolio will build on the success of our existing product offerings by targeting consumers' new or changing needs and broadening our target consumer base. In addition, our Directors expect that our new paediatric milk formula products targeting customers of premium-priced milk formula products will yield a higher profit margin compared to our other existing products.

Enhance our brand recognition nationwide

Our Directors believe that our longstanding history in the PRC has contributed to our positive brand recognition and reputation, which have been instrumental to the success and growth of our business. Our Directors also believe that our commitment to providing quality products has generated brand loyalty among a segment of the consumer population, which further enhances the prospective success and growth of our business. In recent years, this strong brand recognition established us as a reputable producer of milk formula products and whole milk powder products in various provinces throughout China, primarily northeastern China (including Heilongjiang, Liaoning and Jilin provinces).

To tap into the successful product positioning of our Emilon Series 愛美樂配方奶粉系列 and to leverage the success of our regional brand recognition, our Directors intend to enhance our brand recognition nationwide by conducting direct advertising campaigns on nationwide and local television channels, newspapers, magazines, internets and other media as well as participating in product promotional activities. Our Directors also plan to increase the frequency and reach of our promotional activities and seminars.

Reinforce and expand our distribution network in the PRC

Our Directors intend to explore opportunities in areas of the PRC where there will be demand for our products, which are not currently covered by our distribution network. To accomplish this, we intend to focus on appointing more distributors throughout the PRC. In addition, we intend to increase our product coverage through our distributors by expanding sales through different retail sales channels, with a particular focus on children's and parenting specialty stores.

To support our plan to expand our distribution network in China, our Directors also intend to increase the headcount of sales and marketing staff who serve as a point of contact between us and our distributors. Our Directors believe this expansion will enable us to penetrate further the milk formula market in the PRC.

Furthermore, while we managed to expand our distribution network from 67 distributors as at 31 December 2009 to 120 distributors as at 30 June 2010, such expansion was mainly implemented through our continued appointment of new distributors. With the recent launch of our products under the Shi Jia Series, we intend to market these products in the second- and third-tier municipalities in the PRC, particularly the eastern coastal cities and explore the sale of these products in the first-tier cities through new distribution network activities which are expected to involve more expenses. Based on our preliminary plan and estimate, we intend to allocate approximately 25.5% (or approximately

HK$258.1 million) of the net proceeds from the Global Offering for undertaking the following new distribution network expansion activities to implement the above strategy over the next three years:

- establishing new distribution channels to distribute our products under our Shi Jia S'Plan Series through health supplement chain stores;
- establishing new distribution channels through children's and parenting speciality stores, maternity stores and other women related channels to distribute our products under the Shi Jia Jia You Bao Bao Series in first-, second- and third-tier municipalities, particularly eastern coastal cities of the PRC, based on joint promotion activities with owners of these channels such as membership programmes which enable consumers of our products to enjoy various benefits for purchasing our products at these distribution channels;
- increasing our presence in each sales region by setting up logistics distribution centres and after sales service centres to conduct product training courses for our distributors;
- conducting joint promotion activities on print and traditional media, road shows and other activities to support our distributors in new sales regions in order to expansion the reach of our distribution channels; and
- attending trade shows to secure more distributors.

Evaluate integration opportunities to expand our business upstream into raw milk production

Our Directors believe that in the wake of several contamination scandals - with the public's greater focus on quality, with tightening government regulation and with the PRC Government's policies encouraging consolidation in the dairy industry, the milk formula and milk powder industry will experience consolidation. This consolidation could benefit us but may also create more formidable competitors. To position ourselves better in this evolving competitive environment, our Directors intend to evaluate integration opportunities to expand our business upstream in raw milk production by investing in cattle farms.

We intend to pursue a two-stage strategy to realise our vertical integration plan. The first stage of our vertical integration plan involves our plan to construct a cattle farm designed to raise dairy cows. Based on our preliminary plan and estimate, we expect that the total capital expenditures we require for the implementation of the first stage of our vertical integration plan will be approximately RMB350.0 million, comprising RMB150.0 million for the purchase mature and productive female dairy cows, RMB 180.0 million for the construction of cattle sheds, milking stations and ancillary facilities, and RMB20.0 million as working capital for the first year operations of the first stage of the above plan. We intend to allocate approximately 34.7% (or approximately HK$350.9 million) of the net proceeds from the Global Offering for implementing the above first stage of our integration strategy and use our internal cash flows to fund the remaining portion of the required capital expenditures. We will review and evaluate the results of the implementation of the first stage of our vertical integration plan before determining the timing and scale of the second stage of our vertical integration plan.

In the second stage of our vertical integration plan, we intend to provide capital, management expertise and implement new technologies to develop the following facilities:

- cattle ranches, including heating in winter and cooling in summer to allow the cattle to be kept in optimal temperatures of nine to 17 degrees;

- sanitation and waste treatment facilities;

- veterinary services;

- milk collection and delivery services; and

- centralised import of brood stock and purchase of cattle feed and other materials to achieve economies of scale.

While we intend to implement the first stage of our vertical integration plan by ourselves, we plan to involve the People's Government of Daqing Municipality (大慶市人民政府) and existing farmers in the vicinity of Daqing municipality as part of the second stage of the above vertical integration plan. Pursuant to a letter of intent of 19 August 2010 between Daqing Dairy and the People's Government of Daqing Municipality (大慶市人民政府), the People's Government of Daqing Municipality (大慶市人民政府) has indicated in principle that it will (i) provide us with lands (including grasslands) in the vicinity of Daqing municipality and other facilities to assist us in the construction of a cattle farm, (ii) lease or procure the leasing of cattle farms to us to the exclusion of other dairy product enterprises, and (iii) provide loan guarantees to dairy farmers so that they are able to secure bank loans for the purchase of high quality cattle brood stocks. Furthermore, the involvement of dairy farmers enables them to tend cattle herd within our centralised facilities and increase their yield and efficiency through the use of modern cattle husbandry techniques and technologies. This will allow us to have access to suitable pasture lands while enable us to shift risks associated with ownership of cattle brood stocks to dairy farmers.

The Daqing Development Area Committee views our continued growth as an impetus to the development of the local agriculture and animal husbandry product processing industry in Daqing municipality and has confirmed that it will introduce various policies which will support our future growth.

Furthermore, the People's Government of Wuchang Municipality (黑龍江省五常市人民政府) has, on 5 August 2010, also indicated in principle that it will support our future plan to undertake the vertical integration strategy.

Given the importance of raw milk in our production chain, the melamine incident in 2008 and the recent incident relating to hormone-tainted milk formula products in China, our Directors believe that our ability to control the reliability and safety of the source of raw milk will increasingly become a critical success factor in the dairy product market in the PRC. Our Directors further believe that while this vertical integration strategy is currently not expected to create a stand-alone business segment within our Group, it is expected that this should enable us to produce raw milk we require for our production internally and eliminate our need to rely on external sources for raw milk in the future. This, in turn, provides an opportunity for us to better control over the quality of the raw milk we use, the stability and sufficiency of the supply of raw milk and the price of raw milk, so as to enhance our competitiveness in terms of pricing and costs of sale and ensure our continued success in the PRC dairy industry.

We do not have any experience in running and managing cattle farms. As such, we have appointed Gao Feng (高峰) as an executive officer of our Group primarily responsible for developing our dairy farm business. Mr Gao is a senior veterinarian. He received tertiary education from 黑龍江八一農墾大學 (Heilongjiang Bayi Agricultural University) in disciplines relating to veterinary. He also completed an Advanced Livestock Management training at the same university in December 1994. Prior to joining our Group, Mr Gao held various positions as veterinarian, head of cattle production and head of animal husbandry in 黑龍江省八五一一農場 (Heilongjiang Province 8511 Farm*) in China between August 1981 and December 1994. From January 1995 to November 1996, he was the assistant head of the cattle farm with 黑龍江省和平牧場 (Heilongjiang Province Heping Farm*) and head of the dairy factory of 黑龍江省和平乳品廠 (Heilongjiang Province Heping Dairy Factory*). In April 1997, Mr Gao was also appointed as assistant head of 黑龍江省八五八農場 (Heilongjiang Province 858 Farm*). Thereafter, Mr Gao was a general manager at 黑龍江農墾完達山牧業有限公司 (Heilongjiang Agricultural Wondersun Livestock Co., Ltd.*), a subsidiary of 黑龍江完達山哈爾濱乳品有限公司 (Heilongjiang Wondersun Harbin Dairy Co., Ltd.), a dairy company in the PRC. In that capacity, Mr Gao was charged with the management and the day to day operations of 黑龍江農墾完達山牧業有限公司 (Heilongjiang Agricultural Wondersun Livestock Co., Ltd.*), which is responsible for the establishment and management of cattle farms, the production and supply of raw milk and cattle feed for the group of companies of 黑龍江完達山哈爾濱乳品有限公司 (Heilongjiang Wondersun Harbin Dairy Co., Ltd*). If we develop a dairy farm business, our Directors believe that Mr Gao has the requisite knowledge and experience to successfully contribute to the development of such business.

We believe that the implementation of this vertical integration strategy may, to a certain extent, reduce cost of sales as we will no longer require to purchase raw milk from external sources. However, our profit margin and/or return on equity is/are affected by the then various prevailing factors such as the scale of our operations, our cost of production as compared to our cost of purchases of raw milk if we were to source the raw milk supply externally, and the above risks associated with this vertical integration strategy. In view of this, our profit margin and/or return on equity may not necessarily increase. Please refer to the section headed “Risk Factors - We intend to evaluate integration opportunities to expand our business upstream into raw milk production, which may fail to yield benefits and could negatively impact our existing business” in this prospectus for the risks associated with this strategy.

As at the Latest Practicable Date, we had not identified any potential cattle farms for acquisition and had not entered into any legally binding agreement or arrangement in respect of any investment in cattle farms. We plan to pursue this vertical integration strategy and seek suitable upstream investment opportunities after the Listing.

PRODUCTS

Overview

We are one of the top ten local brand milk powder companies in the PRC market [Note 1]. We are principally engaged in the production, marketing, and sale of medium-to-high and premium-priced milk formula products in China. Our dairy products are classified into the following two main categories:

- milk formula products; and

- whole milk powder products.

Our milk formula products and whole milk powder products accounted for 89.2% and 7.0% of our revenue, respectively, for the six months ended 30 June 2010.

Our milk formula products and whole milk powder products include a full range for infants and children.

Our main product category, milk formula products, comprises the Shi Jia Series 仕加配方奶粉系列, the Emilon Series 愛美樂配方奶粉系列 and the Daqing Series 大慶牌配方奶粉系列. The products in our Shi Jia Series 仕加配方奶粉系列 are designed for consumers of premium-priced milk formula products while the products in our Emilon Series 愛美樂配方奶粉系列 are designed for consumers of medium-to-high priced milk formula products. The products in our Daqing Milk Formula Series 大慶牌配方奶粉系列 are designed for consumers of low-to-medium priced milk formula products.

We launched our Shi Jia Series 仕加配方奶粉系列 in June 2010.

Within our milk formula product category, our Emilon Series 愛美樂配方奶粉系列 was the largest contributor to our revenue, generating 65.9% of the total revenue for the six months ended 30 June 2010.

Note:

(1) According to the Euromonitor International Report, we ranked ninth among the local brand owners in the Milk Powder market in China with a 1.5% of market share and 15th among the brand owners in the Milk Powder market in China (which comprised both foreign and local brand owners) with a 1.5% of market share in terms of sales value in 2009. We have commissioned Euromonitor International, an Independent Third Party, to prepare the Euromonitor International Report.

The table below sets out our revenue by product segment for the periods indicated:

Daqing Dairy Group (Note 1)

	Year ended 31 December 2007 (Note 2)		Period from 1 January 2008 to 24 July 2008		Year ended 31 December 2008		Year ended 31 December 2009		Six months ended 30 June 2009		Six months ended 30 June 2010	
	Revenue		Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue
Milk formula products	221,859	72.6	207,258	87.8	366,482	84.6	431,605	84.6	173,022	81.6	333,508	89.7
Shi Jia Series 仕加配方奶粉系列	–	–	–	–	–	–	–	–	–	–	28,703	7.7
Emilon Series 愛美樂配方奶粉系列	157,525	51.5	158,204	67.0	277,234	64.0	308,669	60.5	113,658	53.6	246,404	65.9
Daqing Series 大慶牌配方奶粉系列	64,078	21.0	49,054	20.8	89,248	20.6	122,936	24.1	59,364	28.0	60,401	16.1
Others (Note 3)	256	0.1	–	–	–	–	–	–	–	–	–	–
Whole milk powder products	83,604	27.4	28,689	12.2	65,034	15.0	61,671	12.1	32,063	15.1	26,100	7.0
Others (Note 4)	–	–	–	–	1,800	0.4	16,759	3.3	7,107	3.3	12,259	3.3
Total	**305,463**	**100.0**	**235,947**	**100.0**	**433,316**	**100.0**	**510,035**	**100.0**	**212,192**	**100.0**	**373,867**	**100.0**

The Group (Notes 1 and 5)

	Period from 8 October 2007 to 31 December 2007		Year ended 31 December 2008		Year ended 31 December 2009		Six months ended 30 June 2009		Six months ended 30 June 2010	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue	RMB (thousands)	% of total revenue
Milk formula products	–	–	159,224	80.7	431,605	84.6	173,022	81.6	335,508	89.7
Shi Jia Series 仕加配方奶粉系列	–	–	–	–	–	–	–	–	28,703	7.7
Emilon Series 愛美樂配方奶粉系列	–	–	119,030	60.3	308,669	60.5	113,658	53.6	246,404	65.9
Daqing Series 大慶牌配方奶粉系列	–	–	40,194	20.4	122,936	24.1	59,364	28.0	60,401	16.1
Others (Note 3)	–	–	–	–	–	–	–	–	–	–
Whole milk powder products	–	–	36,345	18.4	61,671	12.1	32,063	15.1	26,100	7.0
Others (Note 4)	–	–	1,800	0.9	16,759	3.3	7,107	3.3	12,259	3.3
Total	**–**	**–**	**197,369**	**100.0**	**510,035**	**100.0**	**212,192**	**100.0**	**373,867**	**100.0**

Notes:

(1) Global Milk Singapore acquired the entire equity interest in Daqing Dairy on 25 July 2008 pursuant to an equity transfer agreement dated 26 December 2007 entered into between Mr Pan, Mr Xu, Mr Du and Global Milk Singapore. The operating results of the Daqing Dairy Group before the completion of the acquisition and of our Group after the completion of the acquisition are not directly comparable as they are two separate entities from an accounting perspective. The table above contains financial information from the accountants' report of our Group and the accountants' report of the Daqing Dairy Group, which are included as Appendix IA and Appendix IB to this prospectus, respectively.

(2) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

(3) Revenue from the sale of other products in 2007 includes the sale of the remaining inventory, such as our Mei Er Si Te Series 美爾斯特 and our Qiao Fu Series 巧芙, which were discontinued in 2007. We undertook a strategic review of our existing brands of "Daqing", Mei Er Si Te Series and Qiao Fu Series in early 2007. Pursuant to the review, we decided that having two milk formula product brands without a clearly defined market segment was inefficient in terms of brand promotion and development. As such, our management decided to discontinue the brands under Mei Er Si Te Series and Qiao Fu Series and instead developed the new brand of 愛美樂 "Emilon" to replace the brands of Mei Er Si Te Series and Qiao Fu Series. The "Daqing" brand was retained to focus on consumers of low-to-medium priced milk formula products while the "Emilon" brand was then positioned to target consumers of medium-to-high priced milk formula products.

(4) Revenue from the sale of other products in 2008, 2009 and the six months ended 30 June 2009 and 2010 represents the sale of our ice cream products. We produce a variety of ice cream products under our own brand 慶乳 "Qingru" with over 10 flavours. Our ice cream products are sold in different forms, such as ice cream cups, ice cream bars, ice cream cones and tubs of packaged ice cream, ranging from 75 g to 5 kg per pack. The shelf life of our ice cream products is normally 18 months. We sell our ice cream products directly to retail outlets in Daqing municipality and the areas in close proximity to Daqing municipality. We collect sales payments in cash when the ice cream products are delivered.

(5) Although Global Milk Singapore was incorporated on 15 September 2006, the financial information of the Group has only presented the financial information of the Group from 8 October 2007, which was the date Global Milk Singapore was acquired by the Controlling Shareholder. However, Global Milk Singapore did not commence its business operations until its acquisition of the entire equity interest of Daqing Dairy on 25 July 2008. As a result, the financial information of the Group relating to the period from 8 October 2007 to 31 December 2007 is not comparable to the financial years ended 31 December 2008 and 2009. Furthermore, the Group only had substantial business operations from 25 July 2008 which has a material effect on the comparability of the financial information of the Group for the financial year ended 31 December 2008 with the financial year ended 31 December 2009, which had business operations for the full year.

Milk Formula Products

Milk formula is milk powder blended with various ingredients to meet the nutritional needs of persons of different age groups.

Our infant and paediatric milk formula products aim to supply the balanced nutrition that an infant or a child needs in his or her first few months and throughout the various stages of childhood growth and development.

Our infant and paediatric milk formula products include various vitamins and essential minerals. In addition, certain of our infant and paediatric milk formula products include various combinations of precursors of docosahexaenoic acid (DHA) and arachidonic acid (ARA) (being alpha-linolenic acid (α-亞麻酸) and linoleic acid (亞油酸)), beta-carotene (β-胡蘿蔔素), nucleotides (核苷酸), galacto lactulose (低聚果糖), polyfructose (多聚果糖), choline (膽碱) and casein phosphopeptides (CPP) (酪蛋白磷酸肽). Such ingredients are intended to strengthen infants' and children's immune systems, support brain, vision and bone development and promote the growth of beneficial intestinal microflora.

For older children, adults, the elderly, pregnant and lactating women, we produce milk formula fortified with various combinations of calcium, zinc, iron and other ingredients to help facilitate bone growth in pre-adults and prevent osteoporosis later in life, strengthen the immune system, support general growth and development, and provide supplements in meeting nutritional requirements.

We sell three brands of milk formula, namely 仕加 "Shi Jia", 愛美樂 "Emilon" and 大慶牌 "Daqing".

Shi Jia Series 仕加配方奶粉系列

The products in our Shi Jia Series 仕加配方奶粉系列 are designed for consumers of premium-priced milk formula products. We have two different product lines catering for changing nutritional needs of growing infants and children, and providing nutritional supplements for post-natal women.

Shi Jia Jia You Bao Bao Series 仕加嘉友寶寶系列

Our Shi Jia Jia You Bao Bao Series 仕加嘉友寶寶系列 is divided into three stages for infants and toddlers:

- Stage 1 Infant Milk Formula is suitable for newborn infants up to six months of age;
- Stage 2 Follow-up Milk Formula is suitable for infants and toddlers from six to 12 months of age; and
- Stage 3 Growing-up Milk Formula is suitable for toddlers from 12 to 36 months of age.

Our Shi Jia Jia You Bao Bao Series 仕加嘉友寶寶系列 includes ingredients intended to form a balanced growing and immune system that strengthens infants and children's immune systems, enhances their digestive system and supports brain and vision development.

Shi Jia S'Plan Series 仕加斯普恩系列

Our Shi Jia S'Plan Series 仕加斯普恩系列 is divided into two stages for post-natal women:

- Stage 1 Post-natal Milk Formula is suitable for post-natal women from the date of giving birth up to 42 days after giving birth; and
- Stage 2 Post-natal Milk Formula is suitable for post-natal women for the period after 42 days of giving birth.

Our Shi Jia S'Plan Series 仕加斯普恩系列 includes ingredients intended to provide nutritional supplements for post-natal women which replenish their nutritional reserves, enhance the recovery of their immune system, the reproduction of body cells, support their brain and enhance their memory.

The table below sets out certain information relating to our Shi Jia Series:

	Package and weight				Suggested retail price (unit) (Note 1)		
Products	**Target customer group**	**Box**	**Can**	**Shelf life (months)**	**Box**	**Can**	**Main distinguishing ingredients**
Shi Jia Jia You Bao Bao Series 仕加嘉友寶寶系列							
Infant Milk Formula (Stage 1) 嬰兒配方奶粉	Newborn infants up to six months of age	—	900 g	18	—	RMB398	• DHA and ARA • Choline • Galato oligosaccharide and galato lactulose • Lutein (葉黃素) • ∝ - Lactabumin (∝ - 乳白蛋白) • Lactoferrin (乳鐵蛋白) • Structured fat (結構油脂)
Follow-up Milk Formula (Stage 2) 較大嬰兒配方奶粉	From six to 12 months of age	—	900 g	18	—	RMB398	• DHA and ARA • Choline • Galato oligosaccharide and galato lactulose • Lutein • ∝ - Lactabumin • Lactoferrin • Structured fat • CPP
Growing-up Milk Formula (Stage 3) 幼兒成長配方奶粉	From 12 to 36 months of age	—	900 g	18	—	RMB398	• DHA and ARA • Choline • Galato oligosaccharide and galato lactulose • Lutein • ∝ - Lactabumin • Lactoferrin • Structured fat • CPP
Shi Jia S'Plan Series 仕加斯普恩系列							
Post-natal women (Stage 1)	From the date of giving birth up to 42 days after giving birth	—	900 g	18	—	RMB398	• DHA • Choline • Niacin (烟酸) • Multi-vitamins
Post-natal women (Stage 2)	For the period after 42 days of giving birth	—	900 g	18	—	RMB398	• DHA • Choline • Galato lactulose and polyfructose • Red date powder (紅棗粉) • Multi-vitamins

Note:

(1) Represents the suggested unit retail price of the relevant product.

For the six months ended 30 June 2010, our revenue attributable to the sale of our Shi Jia Series was RMB28.7 million, which accounted for 7.7% of our total revenue. The sales volume of our Shi Jia Series for the six months ended 30 June 2010 was 190.4 tonnes.

Emilon Series 愛美樂配方奶粉系列

The products in our Emilon Series 愛美樂配方奶粉系列 are designed for consumers of medium-to-high priced milk formula products. We have three different product lines with different specifications and characteristics to cater for the changing nutritional needs of growing infants and children.

Emilon Shuang Neng Series 愛美樂雙能系列

Emilon Bei Cong Series 愛美樂倍聰系列

Emilon You Zhi Series 愛美樂優智系列

Our Emilon Shuang Neng Series 愛美樂雙能系列 is divided into three stages for infants and toddlers:

- Stage 1 Infant Milk Formula is suitable for newborn infants up to six months of age;

- Stage 2 Follow-up Milk Formula is suitable for infants and toddlers from six to 18 months of age; and

- Stage 3 Growing-up Milk Formula is suitable for toddlers from 12 to 36 months of age.

Our Emilon Shuang Neng Series includes ingredients intended to strengthen infants' and toddlers' immune systems and to enhance their digestive system.

Our Emilon Bei Cong Series 愛美樂倍聰系列 is divided into three stages for infants and children:

- Stage 1 Infant Milk Formula is suitable for newborn infants up to six months of age;

- Stage 2 Follow-up Milk Formula is suitable for infants and toddlers from six to 36 months of age; and

- Stage 3 Young Children Milk Formula is suitable for children from three years of age onwards.

In addition to providing for infants' and children's overall nutritional needs, the products in our Emilon Bei Cong Series include ingredients which are intended to support infants' and children's brain, vision and bone development and to enhance their memory.

Our Emilon You Zhi Series 愛美樂優智系列 is divided into three stages for infants and children:

- Stage 1 Infant Milk Formula is suitable for newborn infants up to six months of age;
- Stage 2 Follow-up Milk Formula is suitable for infants and toddlers from six to 36 months of age; and
- Stage 3 Young Children Milk Formula is suitable for children from three years of age onwards.

In addition to providing infants' and children's overall nutritional needs, the products in our Emilon You Zhi Series include ingredients which are beneficial to infants' and children's digestive systems, and are intended to support their brain, vision, bone and immune system development.

We have a special milk formula product, Emilon Mama 愛美樂媽媽奶粉 under our Emilon You Yun Xi Tong Series 愛美樂優孕系統配方系列, for pregnant and lactating women, designed to ensure a sufficient supply of nutrition for developing foetuses or breastfed infants and to provide nutritional supplements for post-natal women.

Emilon You Yun Xi Tong Series 愛美樂優孕系統配方系列

The table below sets out certain information relating to our Emilon Series:

	Package and weight				Suggested retail price (unit) (Note 1)		
Products	Target customer group	Box/bag	Can	Shelf life (months)	Box/bag	Can	Main distinguishing ingredients
Emilon Shuang Neng Series 愛美樂雙能系列							
Infant Milk Formula (Stage 1) 嬰兒配方奶粉	Newborn infants up to six months of age	400 g	900 g	18	RMB78	RMB198	• DHA and ARA • Alpha-whey protein (α-乳清蛋白) • Choline • Galacto lactulose and polyfructose • Five types of nucleotides (五種核苷酸) • L-carnitine (L-肉鹹) • Inositol (肌醇)
Follow-up Milk Formula (Stage 2) 較大嬰兒及幼兒配方奶粉	From six to 18 months of age	400 g	900 g	18	RMB78	RMB198	• DHA and ARA • Alpha-whey protein • Choline • Galacto lactulose and polyfructose • Five types of nucleotides • CPP
Growing-up Milk Formula (Stage 3) 幼兒成長配方奶粉	From 12 to 36 months of age	400 g	900 g	18	RMB78	RMB198	• DHA and ARA • Alpha-whey protein • Choline • Galacto lactulose and polyfructose • Five types of nucleotides • Beta-carotene • CPP
Emilon Bei Cong Series 愛美樂倍聰系列							
Infant Milk Formula (Stage 1) 嬰兒配方奶粉	Newborn infants up to six months of age	400 g	900 g	18	RMB65	RMB158	• DHA • Precursor of ARA • Enhanced Choline • Galacto lactulose and polyfructose • Five types of nucleotides • Beta-carotene • Taurine (牛磺酸)

Products	Package and weight: Target customer group	Box/bag	Can	Shelf life (months)	Suggested retail price (unit) (Note 1): Box/bag	Can	Main distinguishing ingredients
Follow-up Milk Formula (Stage 2) 較大嬰兒及幼兒配方奶粉	From six to 36 months of age	400 g	900 g	18	RMB65	RMB158	• DHA • Precursor of ARA • Enhanced Choline • Galacto lactulose and polyfructose • Five types of nucleotides • Beta-carotene • CPP
Young Children Milk Formula (Stage 3) 兒童成長配方奶粉	From three years of age onwards	400 g	900 g	18	RMB65	RMB158	• DHA • Precursor of ARA • Galacto lactulose and polyfructose • Beta-carotene • CPP • Taurine • Phospholipid (磷脂)
Emilon You Zhi Series 愛美樂優智系列							
Infant Milk Formula (Stage 1) 嬰兒配方奶粉	Newborn infants up to six months of age	400 g	900 g	18	RMB38	RMB128	• Galacto lactulose and polyfructose • Five types of nucleotides • Beta-carotene • Choline
Follow-up Milk Formula (Stage 2) 較大嬰兒及幼兒配方奶粉	From six to 36 months of age	400 g	900 g	18	RMB38	RMB128	• Galacto lactulose and polyfructose • Five types of nucleotides • Enhanced choline • CPP
Young Children Milk Formula (Stage 3) 兒童成長配方奶粉	From three years of age onwards	400 g	900 g	18	RMB38	RMB128	• Galacto lactulose and polyfructose • Beta-carotene • Phospholipid • CPP

	Package and weight				Suggested retail price (unit) (Note 1)		
Products	**Target customer group**	**Box/bag**	**Can**	**Shelf life (months)**	**Box/bag**	**Can**	**Main distinguishing ingredients**
Emilon You Yun Xi Tong Series 愛美樂優孕系統配方系列							
Emilon Mama (for pregnant and lactating women) 愛美樂媽媽奶粉	Pregnant and lactating women	400 g	900 g	18	RMB65	RMB188	• DHA • Alpha-whey protein • Enhanced Choline • Galacto lactulose and polyfructose • Folic acid (葉酸) and iron

Note:

(1) Represents the suggested unit retail price of the relevant product.

Emilon Milk Formula Fortified with Vitamins and Essential

	Package and weight				Suggested retail price (unit) (Note 1)		
Products	**Target customer group**	**Box**	**Can**	**Shelf life (months)**	**Box**	**Can**	**Main distinguishing ingredients**
Emilon Multi-Vitamin Hi-Calcium Milk Formula for the elderly and the middle-aged 愛美樂中老年多維高鈣奶粉	The middle-aged and the elderly	—	900 g	18	—	RMB98	• Calcium and multi-vitamins

Note:

(1) Represents the suggested unit retail price of the relevant product.

For the six months ended 30 June 2010, our revenue attributable to the sale of our Emilon Series was RMB246.4 million, which accounted for 65.9% of our total revenue. The sales volume of our Emilon Series for the six months ended 30 June 2010 was 3,426.8 tonnes.

Daqing Milk Formula Series 大慶牌配方奶粉系列

The products in our Daqing Milk Formula Series 大慶牌配方奶粉系列 are designed for consumers of low-to-medium priced milk formula products and are suitable for children, adults and the elderly.

Our Daqing Milk Formula Series for infants and children is divided into three stages:

- Stage 1 Infant Milk Formula is suitable for newborn infants up to six months of age;
- Stage 2 Follow-up Milk Formula is suitable for infants and toddlers from six to 36 months of age; and
- Stage 3 Young Children Milk Formula is suitable for children from three years of age onwards.

Our Daqing Milk Formula Series for infants and children includes ingredients intended to strengthen infants' and children's immune systems, to enhance their digestive system, to support their brain and vision development and to enhance their memory.

The other products in our Daqing Milk Formula Series are suitable for older children, adults and the elderly, and include ingredients that are intended to be used in meeting their nutritional requirements.

The table below sets out certain information relating to our Daqing Milk Formula Series:

	Package and weight				Suggested retail price (unit) (Note 1)		
Products	**Target customer group**	**Box/bag**	**Can**	**Shelf life (months)**	**Box/bag**	**Can**	**Main distinguishing ingredients**
Daqing Paediatric Milk Formula Series							
Infant Milk Formula (Stage 1) 大慶牌嬰兒配方奶粉	Newborn infants up to six months of age	400 g	900 g	18	RMB25	RMB98	• Precursors of DHA and ARA • Nucleotides • Beta-carotene • Choline • L-carnitine

Products	Package and weight: Target customer group	Box/bag	Can	Shelf life (months)	Suggested retail price (unit) (Note 1): Box/bag	Can	Main distinguishing ingredients
Follow-up Milk Formula (Stage 2) 大慶牌較大嬰兒及幼兒配方奶粉	From six to 36 months of age	400 g	900 g	18	RMB25	RMB98	• Precursors of DHA and ARA • Nucleotides • Beta-carotene • Galacto lactulose • L-carnitine
Young Children Milk Formula (Stage 3) 大慶牌兒童成長配方奶粉	From three years of age onwards	400 g	900 g	18	RMB25	RMB98	• Precursors of DHA and ARA • Taurine • Beta-carotene • Galacto lactulose • CPP
Daqing Milk Formula Fortified with Vitamins and Essential Minerals							
Daqing Milk Formula (with zinc) 大慶牌加鋅奶粉	Adults	350 g and 375 g	—	12	RMB14 for 350 g and RMB15.5 for 375 g	—	• Zinc
Daqing Milk Formula (with zinc, iron and calcium) 大慶牌鋅鐵鈣奶粉	Adults	375 g	—	12	RMB15.6	—	• Zinc, iron and calcium
Daqing Hi-Calcium and Hi-Iron Milk Formula for women 大慶牌女士高鈣高鐵奶粉	Women	400 g	—	18	RMB24	—	• Calcium
Daqing Instant Hi-Calcium Milk Formula 大慶牌全脂速溶高鈣奶粉	Adults	400 g	—	18	RMB21	—	• Calcium
Daqing Milk Formula (with vitamins A & D and calcium) 大慶牌AD鈣奶粉	Adults	400 g	—	18	RMB24	—	• Vitamins A and D
Daqing Multi-Vitamin Hi-Calcium Milk Formula (for the elderly and the middle-aged) 大慶牌中老年多維高鈣奶粉	The middle-aged and the elderly	400 g	—	18	RMB24	—	• Calcium and multi-vitamins

Note:

(1) Represents the suggested unit retail price of the relevant product.

For the six months ended 30 June 2010, our revenue attributable to the sale of our Daqing Milk Formula Series was RMB60.4 million, which accounted for 16.1% of our total revenue. The sales volume of our Daqing Milk Formula Series for the six months ended 30 June 2010 was 1,735.0 tonnes.

Whole Milk Powder Products

Whole milk powder is made from pasteurised milk after evaporation and drying, without the addition of other ingredients, other than in certain whole milk products with the addition of sucrose. Our Daqing whole milk powder 大慶牌全脂奶粉, packaged in 25 kg bags, is usually used as a raw material in dairy and other food products (such as milk formula, yoghurt, condensed milk, ice cream, biscuits and cakes). Our Daqing sweetened whole milk powder 大慶牌全脂甜奶粉 is made of our whole milk powder with the addition of sucrose which is suitable for all age groups (other than infants and toddlers below the age of three).

Our whole milk powder products are sold under the brand 大慶牌 "Daqing".

The table below sets out certain information relating to our whole milk powder products:

Products	Target customer group	Package and weight	Shelf life (months)	Suggested retail price (unit) (Note 1)
Daqing whole milk powder 大慶牌全脂奶粉	Food processing enterprises	25 kg bags	12	—
Daqing sweetened whole milk powder 大慶牌全脂甜奶粉	All age groups (other than infants and toddlers below the age of three)	350g and 375g (bag form)	12	RMB14 for 350g and RMB15.5 for 375g

Note:

(1) Represents the suggested unit selling price of the relevant product.

For the six months ended 30 June 2010, our revenue attributable to the sale of our whole milk powder products was RMB26.1 million, which accounted for 7.0% of our total revenue. The sales volume of our whole milk powder products for the six months ended 30 June 2010 was 1,059.8 tonnes.

SALES AND MARKETING

Branding and Product Positioning

Our Directors believe that our brand recognition and reputation have been vital to the success and growth of our business. Since the establishment of our production facility in Daqing in 1970, we have received various awards and certifications which have helped increase the brand recognition of our products. Some of our key awards and certifications include the following:

Awards/certifications	Year of award/ certification	Key issuing institution/authority
"Green" Food Product Certification	2007	China Green Food Development Centre (中國綠色食品發展中心)
National Quality Assurance Food Products (國家質量達標食品)	1999	China Food Industry Association (中國食品工業協會)
Provincial Advanced Enterprise on Quality Control Management (全省質量管理先進企業)	1999	Quality Control Management Association of Heilongjiang Province (黑龍江省質量管理協會)
Famous Trademark in Heilongjiang Province (黑龍江省著名商標)	1999	Heilongjiang Provincial Administration for Industry & Commerce (黑龍江省工商行政管理局)
Famous Brand in Heilongjiang Province for the Year 1996 (Daqing Milk Powder) (1996年黑龍江知名品牌產品 (大慶牌奶粉))	1996	Heilongjiang Quality Supervision and Inspection Association (黑龍江省質量監督檢驗協會), Heilongjiang Quality Control Management Association (黑龍江省質量管理協會) and the Consumers' Association of Heilongjiang Province (黑龍江省消費者協會)
National Advanced Enterprise (Quality and Efficiency Type in food industry) (全國食品行業質量效益型先進企業)	1995	China Food Industry Association (中國食品工業協會)
Advanced Enterprise on Technical Supervision for the Year 1990 (1990年度技術監督先進單位)	1991	People's Government of Daqing Municipality (大慶市人民政府)

Our Directors have also adopted "'green', healthy and safe" as the principal themes of our product image, which our Directors believe encourages consumers to view our products as natural and high in quality.

We have divided our milk formula products into three brands. The products in our Shi Jia Series are designed for consumers of premium-priced milk formula products which are suitable for infants and children at different growth stages as well as post-natal women. We aim to target our Shi Jia Series at consumers in second- and third-tier municipalities, particularly eastern coastal cities of the PRC. The products in our Emilon Series are designed for consumers of medium-to-high priced milk formula products catering for the changing nutritional needs of growing infants and children. We aim to target our Emilon Series at consumers in second- and third-tier municipalities. The products in our Daqing Milk Formula Series are designed for consumers of low-to-medium priced milk formula products suitable for children, adults and the elderly. We aim to target our Daqing Milk Formula Series at consumers in villages and counties near second- and third-tier municipalities. Our Directors believe that this product differentiation has enabled us to highlight the unique aspects of our various milk formula products and raise their profile as quality products. In addition, our Directors believe that the product positioning of our Shi Jia Series, Emilon Series and Daqing Milk Formula Series aptly covers consumers in different geographical locations with different consumer purchasing power.

Sales and Distribution

Milk Formula Products and Whole Milk Powder Products

Sale through distributors

We mainly sell our milk formula products and whole milk powder products through an extensive network of 120 distributors in China which are Independent Third Parties. Our distributors sell our milk formula products to their sub-distributors or directly to retail outlets, such as department stores, shopping malls, supermarkets, and children's and parenting specialty stores, in 21 provinces and Chongqing municipality. We have at least one to three years of business relationship with our five largest distributors during the Track Record Period. Our Directors have confirmed that a majority of our current distributors with whom we have entered into the distribution agreements are privately-owned entities. Our Directors have further confirmed that the retail outlets are Independent Third Parties.

The map below shows the coverage of our distribution network as at the Latest Practicable Date:

The table below sets out the number of our distributors by provinces and municipalities in the PRC:

	Year ended 31 December			**Six months ended 30 June**	**As at the Latest Practicable**
	2007	**2008**	**2009**	**2010**	**Date**
Northeastern Region (Note 1)	14	14	33	41	41
Central Region (Note 2)	1	2	16	32	32
Southeastern Region (Note 3)	2	3	15	34	34
Southwestern Region (Note 4)	—	—	3	13	13
Total	**17**	**19**	**67**	**120**	**120**

Notes:

(1) Northeastern Region refers to Heilongjiang province, Jilin province and Liaoning province.

(2) Central Region refers to Hebei province, Shanxi province, Shaanxi province, Shandong province, Hunan province, Hubei province, Henan province and Tianjin municipality.

(3) Southeastern Region refers to Zhejiang province, Jiangxi province, Anhui province, Guangdong province, Guangxi province, Jiangsu province and Fujian province.

(4) Southwestern Region refers to Sichuan province, Chongqing municipality, Yunnan province, Guizhou province and Gansu province.

As part of our expansion plan in 2009 and 2010, we continued to focus and expand our existing distribution network in Heilongjiang province and increased our product coverage in other areas in the PRC which were not previously covered by our distribution network. Furthermore, we believe that our advertising campaign on China Central Television (CCTV) has also increased our brand recognition in these areas and enabled us to attract more distributors from these areas. This led to an expansion of our distribution network in 2009 and the first six months of 2010 in other provinces beyond Heilongjiang province and an increase in our distributors from 19 in 2008 to 67 and 120 in 2009 and the six months ended 30 June 2010, respectively.

For each of the financial years ended 31 December 2008 and 31 December 2009, and the six months ended 30 June 2010, approximately 71.7%, 69.1% and 85.3% of our sales, respectively, were made to our distributors. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, approximately 59.4% and 77.3% of the sales of the Daqing Dairy Group, respectively, were made to our distributors.

Our criteria for selecting distributors include the following factors: (a) creditworthiness and financial condition, (b) reputation, (c) distribution network and sales channel, (d) geographical coverage, (e) capabilities in warehousing and delivery of products, and (f) experience and capabilities in managing retail outlets in respect of product promotions, displays of products, stock take and inventory control. If our district sales managers are satisfied with the suitability of a prospective distributor, they must complete a new distributor form for the approval of the appointment by the head of our sales department.

We have non-exclusive distribution agreements with all of our current distributors. These agreements are generally for a term of one year. Under these agreements, our distributors may distribute other brands of dairy products. Our Directors consider that the non-exclusive nature of the distribution agreements enables us to select distributors with extensive experience in the distribution of international and domestic brand milk formula products and that such experience and credentials, in turn, facilitate the promotion of our milk formula products and whole milk powder products and provide broad coverage of the distribution network. Our distributors are only permitted to sell our milk formula products and whole milk powder products in their designated distribution areas under the distribution agreements. We monitor and ensure, through our district sales managers for each geographical region, that our distributors do not compete in the same designated distribution areas. If any of our distributors is in breach of the above term of the distribution agreements, we have the right to terminate the relevant distribution agreement.

Our PRC Legal Advisers have advised us that under PRC laws and regulations, neither our distributors nor us may terminate the non-exclusive distribution agreements within the term of the agreements by giving a prior notice to the other party unless such termination is based on (i) the grounds of termination stipulated in the distribution agreements, or (ii) the grounds of termination stipulated under the PRC Contract Law《中國人民共和國合同法》such as the occurrence of a force majeure event which renders it impossible to achieve the purpose of an agreement, a party delays and fails to perform its obligations within a reasonable period after a demand for performance by the other party or a party breaches the terms of an agreement which renders it impossible to achieve the purpose of the agreement. We have the right to terminate the relevant non-exclusive distribution agreement unilaterally if the distributor fails to meet the specified sales target for a consecutive period of six months or fails to comply with our requests in respect of product promotions and displays or product management. In addition, each party to the non-exclusive distribution agreement has the right to terminate the agreement unilaterally if the other party seriously breaches the agreement or is bankrupt or dissolved or if the agreement cannot be implemented due to the occurrence of any unforeseeable circumstances that prevent any of the parties to the agreement from performing the agreement. Our Directors have confirmed that we are able to appoint replacement distributors readily due to a sufficient number of potential distributors from which we can select. Please refer to the section headed "Risk Factors — We rely on our distributors to distribute and market our products, and their failure to perform to our expectations may here a material adverse effect on our business, financial condition and operating results" in this prospectus for further information. During the Track Record Period, the Company did not terminate any distribution agreements on these grounds.

In setting our pricing policy, we take into account current market trends, production costs, consumers' acceptable price range, the consumer groups at which the products are targeted, our competitors' prices, and the economic condition of the relevant regions. We provide our distributors with suggested wholesale and retail prices for our milk formula products and whole milk powder products. Depending on economic conditions, our distributors may, with our approval, increase the selling prices by 10% above our suggested selling prices. We will not adjust upwards the selling prices of our products to our distributors if such distributors increase the selling prices of the products by 10% above our suggested selling prices with our approval.

We have pre-set annual sales targets for our distributors. In each year, if the relevant distributor meets the pre-set annual sales target, we grant a sales rebate to the relevant distributor in an amount equivalent to 3% of the annual sales (including 17% VAT) from the relevant distributor (excluding the sales of our whole milk powder packaged in 25 kg bags). Although we do not have any quarterly sales target for our distributors, we grant quarterly sales rebates to our select distributors in an amount equivalent to 5% of the quarterly sales (including 17% VAT) from the relevant distributor. Our Directors have confirmed that it is the general industry practice to grant sales rebates to distributors and the sales rebate rates we grant to our distributors are generally in line with those other companies in the PRC dairy industry. The amounts of both quarterly and annual sales rebates are deducted from the purchase price payable by the relevant distributor in subsequent orders. The quarterly and annual sales rebates effectively mean that we offer our milk formula products and whole milk powder products (excluding the sales of our whole milk powder packaged in 25 kg bags) at a discount of 5% off our unit selling price (including 17% VAT) of our milk formula products and whole milk powder products to those distributors to which we grant such rebates and that an additional 3% discount is offered if our distributors meet our pre-set annual sales targets. Our Directors have confirmed that we did not pay any quarterly and annual sales rebates in cash or any cash commission to our distributors during the Track Record Period. Our Directors consider that the sales rebates incentivise our distributors to achieve their annual sales targets. The PRC Legal Advisers have advised us that such sales rebate arrangement is legal and valid.

In general, we require our distributors to pay the full purchase price before we deliver our products to them. Sales payments are normally settled through bank transfers. We recognise our sales to the distributors when we deliver our products to them and the title to such products passes to them without recourse.

We assign district sales managers for each geographical region to (a) assist our distributors in promoting our milk formula products and whole milk powder products, (b) evaluate their distribution activities and monitor their compliance with our product management policies, (c) exchange information relating to market developments and changes in consumer preferences and needs, (d) visit our distributors and their sub-distributors in order to monitor their inventory levels and carry out on-site inspections, and (e) solicit consumer feedback. We have set monthly sales targets for our district sales managers. If they meet their monthly sales targets and comply with our sales policy (including no excessive sales of our products to any distributor), they are entitled to commissions ranging from 0.01% to 0.03% of sales (including 17% VAT) to the distributors for which they are responsible. Our Directors consider that our direct distribution arrangements with experienced distributors having their own distribution networks and sales channels provide an efficient and effective distribution structure to us and at the same time offer a higher level of profit for the parties involved in the distribution chains, which, in turn, incentivises our distributors to increase sales of our milk formula products and whole milk powder products.

Direct sale

We also sell our whole milk powder (packaged in 25 kg bags) directly to our customers, such as food processing enterprises, and our milk formula products and other whole milk powder products directly to supermarkets and other retail chain stores in Daqing municipality and other customers who purchase from us on an ad hoc basis. We entered into non-exclusive agreements with these supermarkets and other retail chain stores. The direct sale of our milk formula products and whole milk powder products in Daqing municipality enables us to maximise our profitability where the additional costs involved to sell our milk formula products and whole milk powder products directly are relatively low.

In general, we grant credit terms of up to 30 days for direct sales of our milk formula products and whole milk powder products. Sales payments are normally settled through bank transfers. We do not offer any discount and rebates to these customers to whom we directly sell our products.

The table below sets out the number of the customers of our milk formula products and whole milk powder products during the Track Record Period and as at the Latest Practicable Date:

	Year ended 31 December			Six months ended 30 June	As at Latest Practicable
	2007	**2008**	**2009**	**2010**	**Date**
Distributors	17	19	67	120	120
Other customers (Note 1)	12	15	16	21	20

Note:

(1) These include supermarkets, retail chain stores and food processing enterprises to whom we directly sold our milk formula products and whole milk powder products. We also sold our milk formula products and whole milk powder

products to customers who purchased these products from us directly on an ad hoc basis. As the sales to these customers contributed only a small percentage of our total revenue for each of the financial years ended 31 December 2007 (approximately 0.3%), 2008 (approximately 0.3%), 2009 (approximately 0.7%) and the six months ended 30 June 2010 (approximately 0.1%), we do not keep a record of the number of these ad hoc customers.

Our top five customers during the Track Record Period comprised distributors, supermarkets and a food processing enterprise.

The table below sets out the revenue attributed to the sales of the milk formula products and whole milk powder products to the Daqing Dairy Group's customers for each of the financial years ended 31 December 2007 and 2008, and the Group's customers for the financial year ended 31 December 2009, and the six months ended 30 June 2010:

	Daqing Dairy Group				**The Group**			
	Year ended 31 December 2007		**Year ended 31 December 2008**		**Year ended 31 December 2009**		**Six months ended 30 June 2010**	
	Revenue		**Revenue**		**Revenue**		**Revenue**	
	RMB (thousand)	**% of total revenue**	**RMB (thousand)**	**% of total revenue**	**RMB (thousand)**	**% of total revenue**	**RMB (thousand)**	**% of total revenue**
Distributors	181,512	59.4	323,846	74.7	352,324	69.1	318,732	85.3
- Top five distributors	116,018	38.0	124,946	28.8	60,974	12.0	34,200	9.1
Other customers (Note 1)	123,951	40.6	107,670	24.9	140,952	27.6	42,876	11.5

Note:

(1) These include supermarkets, retail chain stores, food processing enterprises, and customers who purchased milk formula products and whole milk powder products from us directly on an ad hoc basis.

The table below sets out the revenue attributed to the sales of the milk formula products and whole milk powder products to our distributors during the Track Record Period by region:

	Year ended 31 December											
	2007			2008			2009			Six months ended 30 June 2010		
		Revenue			Revenue			Revenue			Revenue	
	No. of distributors	RMB (thousand)	% of total	No. of distributors	RMB (thousand)	% of total	No. of distributors	RMB (thousand)	% of total	No. of distributors	RMB (thousand)	% of total
Northeastern Region(1)	14	154,763	50.7	14	229,785	53.0	33	185,384	36.3	41	138,191	37.0
Central Region(2)	1	7,588	2.5	2	34,506	8.0	16	88,450	17.3	32	74,778	20.0
Southeastern Region(3)	2	19,160	6.3	3	59,555	13.7	15	63,502	12.5	34	76,704	20.5
Southwestern Region(4)	—	—	—	—	—	—	3	14,987	2.9	13	29,058	7.8
Total	**17**	**181,511**	**59.4**	**19**	**323,846**	**74.7**	**67**	**352,323**	**69.1**	**120**	**318,731**	**85.3**

Notes:

(1) Northeastern Region refers to Heilongjiang province, Jilin province and Liaoning province.

(2) Central Region refers to Hebei province, Shanxi province, Shaanxi province, Shandong province, Hunan province, Hubei province, Henan province and Tianjin municipality.

(3) Southeastern Region refers to Zhejiang province, Jiangxi province, Anhui province, Guangdong province, Guangxi province, Jiangsu province and Fujian province.

(4) Southwestern Region refers to Sichuan province, Chongqing municipality, Yunnan province, Guizhou province and Gansu province.

We appointed 77 new distributors during the six months ended 30 June 2010 and approximately 42.1% of our sales were made to these new distributors for the six months ended 30 June 2010. We normally evaluate the performance of our distributors before we renew the non-exclusive distribution agreements with our distributors which are generally for a term of one year. During the six months ended 30 June 2010, we did not renew the non-exclusive distribution agreements with some of our distributors that we appointed in 2009 as our evaluation of these distributors, based on the different criteria adopted by our newly appointed assistant general manager of the strategic planning, namely Mr Fu whom we appointed in July 2009, revealed that some of them did not perform well in the areas where they were appointed. Furthermore, some of these distributors have ceased to have strategic distribution and sales channels for the sales of our products.

We intend to continue selling our milk formula products and whole milk powder products in Heilongjiang province through our distributors and by way of direct sale, and in areas outside Heilongjiang province through our distributors.

Sales and Marketing Activities

Our district sales managers serve as a point of contact between us and our distributors. Our district sales managers regularly visit our distributors and their sub-distributors to collate from our distributors and their sub-distributors information on inventory levels and carry out on-site inspections in order to ensure that the distributors comply with our operational guidelines and procedures. Our district sales managers will prepare a report on their on-site inspections every quarterly. This enables us to monitor our distributors compliance with our operational guidelines and procedures more effectively. In addition, our district sales managers also exchange information with our distributors relating to market development and changes in consumer preferences and needs. We also put in place a toll-free customer service line which enables our customers to contact us directly on product-related enquiries. This enables us to obtain market information and feedback on consumer preferences and needs.

The sale of our products is subject to seasonality. We typically experience higher sales of milk formula products and whole milk powder products in the second half of the year compared to the first half. During the Track Record Period, the revenue we generated in the first half of the year was generally lower than revenue generated in the second half of the year.

Our Directors believe that this mainly reflects an increase in purchase orders made by our distributors in the second half of the year to increase inventories in advance of the Chinese New Year in anticipation of higher demand around the holiday period. It is also possible that our distributors increase their purchases in the second half of the year to meet their sales targets so that they qualify for annual sales rebates.

However, our Directors believe that this increase may not reflect an accumulation of inventory at the distributors' level because our distributors should have incentives to prevent accumulation of inventory as we generally collect full purchase price of our products before we deliver our products to them and do not have a refund or exchange of goods policy (except for defective goods caused by us or damaged goods due to packaging). Furthermore, distributors which accumulate inventory run the risk of suffering cash flow problem or incurring losses due to products reaching its expiry date before they manage to sell them to retail outlets. From time to time, we make visits to our distributors to monitor their inventory levels and are not aware of any significant instance of over-stocking of our products. For further information, please refer to the section headed "Risk Factors — Our operating results are subject to seasonal fluctuation and other variations" and "the section headed "Business — Seasonality" in this prospectus.

We have also appointed advertising and public relations companies (which are Independent Third Parties) to implement various promotion activities for our products to further penetrate the local milk formula market. During the Track Record Period, these advertising and public relations companies launched a number of promotional activities to generate publicity for, and increase awareness of, our products, including advertisements on Central China Television (CCTV) and various television channels in Heilongjiang and Shandong provinces, advertisements on buses, roadshows and participation in the Confectionery and Alcohol Convention in the PRC (糖酒會). Our Directors intend to increase the scope of our promotional activities to include direct advertising campaigns on nationwide and local television channels, newspapers, magazines, internets and other media as well as participation in product promotional activities.

Our advertising and promotion expenses represented approximately 1.5%, 2.2% and 4.1% of our revenue for each of the financial years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, respectively, and approximately 3.7% and 4.5% of the revenue of the Daqing Dairy Group for the financial year ended 31 December 2007 and the Predecessor Period in 2008, respectively.

Counterfeit Products

We have a unique bar code printed on each of our products. Our Directors have confirmed that we did not experience any known instances of counterfeiting of our products during the Track Record Period, and they believe that our anti-counterfeiting measures are currently appropriate and sufficient to protect our brands.

Interests in Our Five Largest Customers

For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, our single largest customer accounted for 6.4%, 4.0% and 2.1% of our total revenue, respectively, and our five largest customers, in aggregate, accounted for 28.9%, 16.2% and 9.2% of our total revenue, during those same periods. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the single largest customer of the Daqing Dairy Group accounted for 13.6% and 6.0% of the total revenue of the Daqing Dairy Group, respectively, and the five largest customers of the Daqing Dairy Group, in aggregate, accounted for 41.4% and 29.3% of the total revenue of the Daqing Dairy Group during those same periods. None of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective associates, had any interest in any of our five largest customers during the Track Record Period.

RAW MATERIALS AND SUPPLIERS

Raw Milk

Raw milk is the primary raw material for the production of our products. Our raw milk is sourced from selected milk collection centres which, in turn, collect raw milk from dairy farms and individual dairy farmers in proximity to Daqing municipality. We have at least one to two years of business relationship with our five largest raw milk suppliers during the Track Record Period. We have non-exclusive raw milk supply agreements with over 10 milk collection centres, which provide us with sufficient and stable supply of high quality raw milk. Our Directors have further confirmed that a majority of the current milk collection centres with whom we have entered into raw milk supply agreements are privately-owned entities. These agreements are generally for a term of one year. Both parties to the relevant non-exclusive raw milk supply agreement have the right to terminate the agreement if the agreement cannot be implemented due to the occurrence of any unforeseeable circumstances that prevent any of the parties to the agreement from performing the agreement. We test the content and quality of all raw milk delivered to us, which include the level of protein, fat, antibiotics and impurities, and acidity and reject it if it does not comply with the National Quality Standards for Raw Milk (中華人民共和國國家標準生鮮牛乳收購標準). Our Directors have confirmed that during the Track Record Period, we had rejected raw milk supplied to us which did not comply with the National Quality Standards for Raw Milk (中華人民共和國國家標準生鮮牛乳收購標準). Our Directors have confirmed that there are abundant milk collection centres in Daqing municipality. Our PRC Legal Advisers have advised us that under the Product Quality Law of the PRC《中華人民共和國產品質量法》, we are liable for losses and damage suffered by consumers of our products arising out of our defective products. Our agreements with our raw milk suppliers provide that we have the right to terminate the raw milk supply agreements if the raw milk supplied contains contaminants. Our PRC Legal Advisers have further advised us that if consumers of our products suffer losses and damage as a result of our defective products due to contaminants in the raw milk supplied to us, we have the right to claim against the relevant raw milk suppliers under the terms of the relevant raw milk supply agreements and in accordance with the PRC Contract Law《中國人民共和國合同法》, and the relevant raw milk suppliers will have to compensate us if the court decides in our favour.

At the milk collection centres, dairy cows are milked daily using milking equipment. To maintain freshness, milk collected from the cows is quickly stored and chilled at a temperature between 3°C and 6°C. Shortly thereafter, the milk collection centres arrange for trucks to deliver the stored and chilled raw milk to our production facilities. We normally process and use all raw milk delivered to us on the same day of delivery after we have tested and accepted to content and quality of the raw milk. We generally make payments in cash to the milk collection centres within 10 days after we have received the delivery of 10 days of accumulated raw milk supplies from the milk collection centres.

The price of the raw milk we purchase is subject to negotiation between the supplier and us at the time of purchase. The price of raw milk is influenced by a variety of factors, including seasonal factors and the overall demand for raw milk. For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, the cost of purchases of raw milk represented approximately 64.0%, 33.9% and 43.7% of our total cost of purchases, respectively. The decline in the cost of purchases of raw milk to 33.9% of our total cost of purchases in 2009 was due to (i) a reduction in the average cost of purchases of raw milk from RMB2,150 per tonne for the financial year ended

31 December 2008 to RMB1,880 per tonne for the financial year ended 31 December 2009, (ii) a reduction in the volume of raw milk we purchased as we produced more milk formula products which required less raw milk for their production as compared to the volume of raw milk required for the production of whole milk powder products, and (iii) our purchase of whole milk powder products from Jintianran Dairy and another third party instead of us producing all whole milk powder products which required more raw milk. The reduction in the average purchase cost of raw milk in 2009 as compared to 2008 was mainly due to a decline in the overall demand for raw milk in the PRC in 2009, which was in turn caused by the melamine incident in 2008 that affected consumers confidence in dairy products in the PRC. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the cost of purchases of raw milk represented approximately 53.0% and 58.2% of the total cost of purchases of the Daqing Dairy Group, respectively. The milk collection centres and, to the knowledge of our Directors, the individual dairy farmers and dairy farms, are Independent Third Parties. Currently, we do not own any milk collection centres or dairy farms. During the Track Record Period, we did not make any loan or provide any guarantee to milk collection centres, individual dairy farmers or dairy farms.

Our non-exclusive raw milk supply agreements specify the annual volume of raw milk that must be available to us and that we must purchase (subject to an upward or downward adjustment of 10%). Due to the suspension of our production and sales operations during the first quarter of 2007, we did not purchase any raw milk from our raw milk suppliers during this period. As a result, there was a shortfall of approximately 1,080 tonnes (approximately 2.0%) in our total cost of purchases of raw milk in 2007 compared to the aggregate annual volume of raw milk which we had contracted to purchase from our raw milk suppliers in 2007. The shortfall was within the specified range of downward adjustment under the raw milk supply agreements. During the Track Record Period, we did not experience any shortage of supply of raw milk that affected our normal operation.

Other Raw Materials

Apart from raw milk, we purchase other raw materials and packaging materials for the production of our dairy products.

The other raw materials include sucrose, whey powder (乳清粉), vegetable oil, mineral supplements, lactose, maltose, whey protein concentrate (乳清濃縮蛋白) and various flavourings. We carry out sampling tests on the quality of these raw materials delivered to us, including testing for bacteria content and both physical and chemical properties before we accept and store them for use at a later stage. As these raw materials generally have product expiry dates, we check the raw materials and their product expiry dates before we use them in our production.

Apart from whey powder, lactose and whey protein concentrate, which are imported into China through domestic suppliers, the other raw materials and packaging materials are sourced within China. Our Directors believe that our raw materials and packaging materials are generally available from numerous suppliers. In general, we have entered into framework supply agreements with suppliers of raw materials and packaging materials for a term of one year, and such agreements are renewable by agreement between both parties on a yearly basis. Our PRC Legal Advisers have advised us that under the Product Quality Law of the PRC 《中華人民共和國產品質量法》, we are liable for losses and damage suffered by consumers of our products arising out of our defective products. Our agreements with our raw material suppliers generally provide that our raw material suppliers shall compensate us for losses we suffer as a result of defective raw materials supplied to us. During the Track Record Period, we did not experience any shortage of supply of such raw materials and packaging materials that affected our normal operation. In general, the prices of the other raw materials are based on market prices and the prices of packaging materials are based on the agreed prices as stipulated in the framework supply agreements in respect of the packaging materials.

Interests in our Five Largest Suppliers

For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, our single largest supplier accounted for 9.0%, 13.6% and 18.1% of our total cost of purchases, respectively, and our five largest suppliers, in aggregate, accounted for 27.7%, 46.3% and 42.6% of our total cost of purchases during those same periods. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the single largest supplier of the Daqing Dairy Group accounted for 18.9% and 12.5% of the total cost of purchases of the Daqing Dairy Group, respectively, and the five largest suppliers of the Daqing Dairy Group, in aggregate, accounted for 42.1% and 36.2% of the total cost of purchases of the Daqing Dairy Group during those same periods. Save as disclosed below, none of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective associates, had any interest in any of our five largest suppliers during the Track Record Period.

Mr Xia, our Executive Director and Deputy Chief Executive Officer, directly controlled 30% of the equity interest eligible to vote at general meetings of Jintianran Dairy prior to 23 December 2008 and Mr Pan, the former executive director of Daqing Dairy, was the executive director and legal representative of Jintianran Dairy between 19 December 2008 and 26 December 2009. As a result, Jintianran Dairy was a connected person as defined under Rule 14A.11(4) of the Listing Rules. For the financial year ended 31 December 2009, Daqing Dairy purchased approximately RMB33.4 million worth of whole milk powder from Jintianran Dairy (the single largest supplier of the Daqing Dairy Group in 2009), representing approximately 13.6% of the total cost of purchases of the Daqing Dairy Group in the same year. Our Directors have confirmed that the above transaction between Daqing Dairy and Jintianran Dairy in the financial year ended 31 December 2009 was entered into on normal commercial terms. Mr Xia and Mr Pan are not interested in, and do not hold any position in, Jiantianran Dairy. Jintianran Dairy ceased to be such connected person as defined under Rule 14A.11(4) of the Listing Rules when Mr Xia disposed his entire interest in Jintianran Dairy on 23 December 2008 and Mr Pan resigned as executive director and legal representative of Jintianran Dairy on 26 December 2009.

PRODUCTION

Production Facilities

We have two production facilities in Daqing municipality and Wuchang municipality.

Our Daqing production facilities have a total area of approximately 188,447.35 sq.m. and 23 buildings (with a total gross floor area of approximately 40,174.61 sq.m.) for use such as production lines, warehouses, carports, offices, a research and development centre (including a quality testing room and a precision instrument analysis room), a boiler plant, a laundry room, a guardhouse, staff quarters, a conference centre and staff canteen. It houses three production lines for milk formula products and whole milk powder products and one production line for ice cream products.

Our Changqing production facility has a total area of approximately 60,000.00 sq.m. and eight buildings (with a total gross floor area of approximately 22,574.85 sq.m.) for use such as production lines, warehouses, offices, guardhouses, a research and development centre (including a quality testing room), a boiler plant and a staff canteen. It houses a production line for our milk formula products and whole milk powder products.

We have obtained various National Industrial Production Permits (全國工業產品生產許可證) in respect of the products Daqing Dairy produces and have also obtained the GMP certification in respect of the phase one production lines at our Daqing production facilities for the production of our milk formula products and whole milk powder products. As Daqing Dairy has obtained the National Industrial Production Permits (全國工業產品生產許可證), we need not apply for the same permits but have applied for the GMP certification for the phase two production line at our Daqing production facilities in respect of the production of our milk formula products and whole milk powder products. We expect to obtain this GMP certification in the fourth quarter of 2010. As we require the relevant National Industrial Production Permits (全國工業產品生產許可證) before we commence operations at the new production line at our Changqing production facility, we have applied for such permits which are expected to be issued in the fourth quarter of 2010. As an application for a GMP certification will only be considered after we have obtained such permits, we have not applied for the GMP certification in respect of the new production line at our Changqing production facility. We intend to apply for such GMP certification after we have obtained the relevant National Industrial Production Permits (全國工業產品生產許可證).

During the Track Record Period, we did not outsource any production to external contract manufacturers.

Global Milk Singapore acquired the entire equity interest in Daqing Dairy on 25 July 2008 pursuant to an equity transfer agreement dated 26 December 2007 entered into between Mr Pan, Mr Xu, Mr Du and Global Milk Singapore. Since entering into the equity transfer agreement, we have focused on promoting our milk formula products for infants and children. Our production and sales operations were suspended from June 2006 to March 2007 pending installation of new equipment and machinery at the production facility.

Our utilisation rate for our production lines for milk formula products and milk powder products reached a high in 2009 and the preceding months in 2010 before the commencement of operations of our new production line at our Daqing production facilities. Given the enlargement of our distribution network and the related increase in demand for our milk formula products and whole milk powder products in 2009 and the six months ended 30 June 2010, we sourced approximately 1,669 tonnes and 300 tonnes of whole milk powder (packaged in 25 kg bags) from Jintianran Dairy, respectively. Jintianran Dairy was a connected person at the material time for the purpose of the Listing Rules when we purchased the above products from Jintianran Dairy in 2009 and ceased to be such connected person prior to our purchase of the above products from Jintianran Dairy in March 2010. The externally sourced whole milk powder product was sold under our Daqing brand in order to free up milk powder production capacity to meet the demand for our milk formula products, which have a higher profit margin. The externally sourced whole milk powder product met our quality standards and requirements, and all of it was sold. In 2009, we produced approximately 1,293 tonnes of whole milk powder. Our Directors consider that, after our milk powder production capacity has been increased, this one-off measure in sourcing whole milk powder externally is not expected to recur.

We have recently constructed the phase two production line at our Daqing production facilities and the new production line at our Changqing production facility. Based on the Euromonitor International Report, while the year-on-year growth rate of the Milk Powder market in China is expected to slow down from 2011 in terms of retail sales value and is expected to slow down from 2012 in terms of retail sales volume, the retail sales value and the sales volume of the Milk Powder in China between 2010 and 2014 are expected to increase. Our Directors anticipate that these production lines will increase our milk powder production capacity from 35 tonnes per day to 106 tonnes per day, which enables us to meet an increase in demand of our milk formula products and whole milk powder products and, avoid sourcing whole milk powder products externally.

We repair and maintain our equipment and facilities on a regular basis. Save as disclosed above, during the Track Record Period, we did not experience any material interruption in our production.

Production Capacity

The table below sets out our design and actual production capacities, and their utilisation rates in 2007, 2008, 2009 and as at 31 August 2010:

Location	Products manufactured	Annual production capacity (tonnes) (Notes 4 , 5 and 6)						Production capacity (tonnes)(7)		Utilisation rate (%) (Note 10)			
		Year ended 31 December						As at 31 August		Year ended 31 December			As at 31 August
		2007		2008		2009		2010		2007	2008	2009	2010
		Design	Actual	Design	Actual	Design	Actual	Design	Actual				
Daqing production facilities													
Phase one													
Two production lines	Milk formula products and whole milk powder products	8,921 (Note 8)	8,128	10,337	8,816	10,337	8,801	6,882	5,791	91.1	85.3	85.1	84.1
Production line (Note 1)	Ice cream products	—	—	3,960 (Note 9)	400	11,680	3,667	7,776	3,696	—	10.1	31.4	47.5
Phase two													
Production line (Note 2)	Milk formula products and whole milk powder products	—	—	—	—	—	—	3,398	3,002	—	—	—	88.3

Location	Products manufactured	Annual production capacity (tonnes) (Notes 4 , 5 and 6)						Production capacity (tonnes)(7)		Utilisation rate (%) (Note 10)			
		Year ended 31 December						As at 31 August		Year ended 31 December			As at 31 August
		2007		2008		2009		2010		2007	2008	2009	2010
		Design	Actual	Design	Actual	Design	Actual	Design	Actual				
Changqing production facility													
Production line (Note 3)	Milk formula products and whole milk powder products	—	—	—	—	—	—	—	—	—	—	—	—

Notes:

(1) Our production line for ice cream products comprises four coloured ice cream machines (花色雪糕機), one ice cream filling machine (冰淇淋灌裝機), one ice cream extrusion production line (冰淇淋擠壓生產線) and two commercial size ice cream filling production lines (冰糕加侖機).

(2) Our phase two production line at our Daqing production facilities commenced operation on 3 May 2010.

(3) Our production line at our Changqing production facility has not begun operation.

(4) The Group's production lines are designed to handle fluid that flows through the production lines during the production process, that is raw materials such as raw milk and other raw materials such as whey powder, sucrose and other minerals which are blended with raw milk in the production of the Group's milk formula products and Daqing sweetened whole milk products. Due to such design constraint of the production lines, the Group computes the design and actual annual milk powder production capacity of its production lines in respect of the Group's milk formula products and whole milk powder products based on the following:

(a) the daily raw material processing capacity of a production line multiplied by 292 days per year. This raw material processing capacity refers to (i) in the case of the production of the Group's whole milk powder products, the processing of raw milk, and (ii) in the case of the production of Daqing sweetened whole milk powder and the milk formula products, the processing of raw milk and other raw materials with different compositions such as whey powder, sucrose and other minerals; and

(b) an evaporated yield rate (the "**Yield Rate**"), which represents the percentage of dry matter (幹物質) commonly found in raw milk and varies depending on the source and contents of raw milk and which the Group uses in calculating the amount of milk powder in tonnage that can be produced from a certain quantity of raw milk and other raw material used in its production process. The Group's Yield Rate is 11.8%, which is based on the average percentage of dry matter commonly found in raw milk it purchases in Heilongjiang province. The actual Yield Rate varies depending on the source and contents of raw milk.

(5) The annual production capacities are approximations and refer to (i) the milk powder production capacities of our milk formula products and whole milk powder products, and (ii) the raw material processing capacity of our ice cream products.

(6) Our design production capacity for (i) our production lines in respect of milk formula products and whole milk powder products is calculated based on 150 tonnes per production line (or in the case of phase two production line at the Daqing production facilities and the production line at the Changqing production facility, 300 tonnes per line) per day multiplied by 292 days per year and the Yield Rate of 11.8%; and (ii) our production line in respect of ice cream products is calculated based on 40 tonnes per production line per day multiplied by 292 days per year. The calculation of our design production capacity does not include time required for, among other things, maintenance, sanitation and public holidays. Assuming that all our production lines at our Daqing production facilities and Changqing production facility are in full operations since 1 January 2010, our total annual design production capacity in respect of milk formula products and whole milk powder products in 2010 is expected to be 31,011 tonnes, which include 10,337 tonnes for each of phase one and phase two production lines at our Daqing production facilities, and the production line at our Changqing production facility.

(7) Our design and actual production capacities in 2010 reflect only the production capacities for the period from 1 January 2010 up to and including 31 August 2010 (which excluded time required for, among other things, maintenance, sanitation and public holidays) (the "**Operation Period**"), which were calculated in the following manner;

(a) our design production capacity for each of the production lines in respect of milk formula products and whole milk powder products was calculated based on 10,337 tonnes multiplied by the ratio of the number of days in the Operation Period to 292 days (the "**Ratio**"). Our actual production capacity for each of these lines was calculated based on its actual production capacity during the Operation Period; and

(b) our design production capacity for the production line in respect of ice cream products was calculated based on 40 tonnes per production line multiplied by the Ratio. Our actual production capacity for this production line was calculated based on its actual production capacity during the Operation Period.

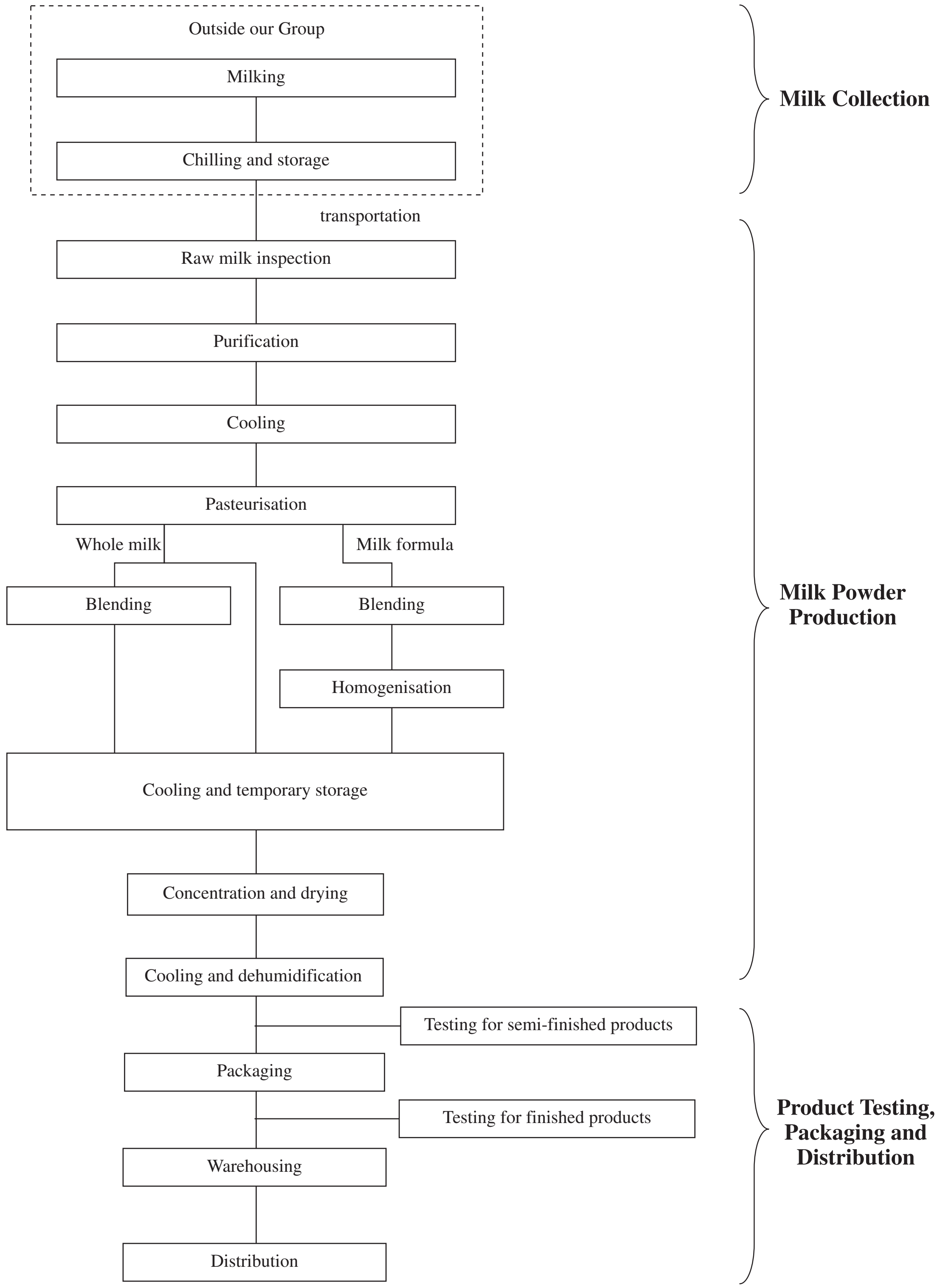
(8) This was calculated based on a production capacity of 150 tonnes per production line per day multiplied by 252 days and the Yield Rate of 11.8%, which took into account the commencement of our production on 10 April 2007 and excluded time required for, among other things, maintenance, sanitation and public holidays.

(9) This was calculated based on a raw material processing capacity of 40 tonnes per day multiplied by 97 days as we commenced production at this production line on 3 September 2008 and excluded time required for, among other things, maintenance, sanitation and public holidays.

(10) The utilisation rates of our production lines represent our average utilisation rates for a one-year period save for the utilisation rates in 2010, which reflect only the utilisation rates of our production lines during the Operation Period and were calculated based on the actual production volume divided by the design production volume.

Production Process

The diagram below illustrates, in a simplified way, the production process for our milk formula products and whole milk powder products.



Milk collection

At the milk collection centres, dairy cows are generally milked daily using milking equipment. To maintain freshness, milk collected from the cows is stored and chilled at a temperature between 3°C and 6°C. Shortly thereafter, the milk collection centres arrange for trucks to deliver the stored and chilled raw milk to our production facilities.

Milk processing

- Raw milk inspection: At our production facilities, all raw milk delivered to us is tested for content and quality before we process and transport it for storage.

- Purification: Physical impurities are separated from the raw milk by centrifugal force.

- Cooling: After centrifugation, which increase the temperature of the milk, the milk is cooled to a temperature between 4°C and 6°C to ensure that any milk quality variations are kept to a minimum.

- Pasteurisation: The milk is pasteurised by heating to a critical temperature for a specified amount of time to reduce the presence of micro-organisms.

- Blending: For the production of milk formula, the pasteurised milk is blended with various ingredients in different compositions. For the production of Daqing sweetened whole milk powder, sucrose is added during the blending process.

- Homogenisation: For the production of milk formula, milk fat particles are broken down to form a smooth, uniform texture.

- Cooling and temporary storage: The milk (including the blended milk for the production of Daqing sweetened whole milk and the blended and homogenised milk for the production of milk formula) is cooled to a temperature between 4°C and 6°C before it is temporarily stored for further processing.

- Concentration and drying: After the cooling and temporary storage process, the milk is heated to evaporate the water in the milk so as to form condensed milk and is kept in a condensed milk bunker. The condensed milk is dried in a heat chamber and sprayed as a fine mist. The mist dries into milk powder. The resulting milk powder in granular form is a semi-finished product, and its physical and chemical properties are subject to testing.

- Cooling and dehumidification: After the drying process above, the resulting milk powder is channelled into a vibrating fluid bed dryer where it is cooled and dehumidified by fans so as to reduce its temperature from 65˚C to a temperature between 20˚C and 35˚C before it is channelled into a milk powder bunker for packaging.

- Packaging: The milk powder is packaged in a bacteria-free environment using aseptic packaging materials. Packaging bags and cans for some of our products are filled with nitrogen gas to extend the shelf life of the products. After packaging, product samples are tested for compliance with the required quality standards.

- Warehousing and distribution: The finished dairy products are stored at our warehouses and subsequently distributed to our customers.

QUALITY CONTROL

As at 30 June 2010, we had approximately 29 employees engaged in quality control, of whom 27 were degree holders or had received tertiary education in disciplines mainly related to food science and technology or biotechnology.

We have appointed Ms Wang Li Ying (王麗穎) as the manager of our quality control and product development department with responsibility for our overall quality control. Ms Wang, aged 31, is a graduate of 東北農業大學 (Northeast Agricultural University) with a Bachelor of Science degree in Food Science and Engineering. Before joining us in 2008, she had over six years of experience in the food industry. In 2003, Ms Wang was appointed as a Food Sensory Evaluation Expert (食品感官品評專家) by 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd.*). In 2006, Ms Wang received her Qualification Certificate for Professional Post Holding in Heilongjiang Province (黑龍江省專業技術職務任職資格證書) as a food engineer issued by the Heilongjiang Province Human Resources Department (黑龍江省人事廳).

In addition, we have adopted a strict quality control system over our production, from the sourcing of raw milk to production. This was evidenced by the various awards and certifications issued to us, including the GMP certification for the phase one production lines at our Daqing production facilities in respect of the production of our milk formula products and whole milk powder products, which we obtained in 2007. For further details, please refer to the section headed "Business — Awards, permits and certifications" in this prospectus. In 2010, we obtained ISO9001:2008 certification for the design, production and sale of dairy products (milk powder and liquid milk), infant milk formula and cold beverages. This certification demonstrates that we have an effective quality management system that shows our commitment to quality and our ability to consistently provide products that meet customers' requirements.

Our quality control team monitors closely the implementation of our quality control system, which involves the following quality control measures:

- Raw milk: We test the content and quality of all raw milk delivered to us, which include the level of protein, fat, antibiotics and impurities, and acidity to ensure compliance with the National Quality Standard for Raw Milk (中華人民共和國國家標準生鮮牛乳收購標準) and also test the level of melamine in the raw milk to ensure compliance with the applicable quality standards in the PRC.

- Other raw materials: We carry out sampling tests on the quality of the other raw materials delivered to us, including testing for bacterial content and both physical and chemical properties before we accept and store them for use at a later stage.

- Product control: We test our semi-finished products for the water content and the level of fat and impurities in accordance with our internal quality standards. We also test on the content and quality of our finished products, which include the level of protein, fat, sucrose, impurities, bacteria, antibiotics and melamine to ensure compliance with the applicable quality standards.

- Sanitation control: Our production employees are required to wear disposable caps, masks and protective shoe covers, and change into production clothes.

- Training of personnel: We provide our quality control staff members with compliance training to ensure proper implementation of our quality control procedures.

- Equipment cleaning and maintenance: Almost all of the equipment and piping used in our milk processing plant are made from stainless steel, and we clean the inner surfaces of our milk processing equipment and piping system once a day using a CIP (cleaning in place) system to manage the circulation of cleaning materials automatically through our equipment and piping system without dismantling our equipment and piping system. We also have a team of employees dedicated to monitoring and maintaining our equipment to ensure proper functioning.

- Waste management and disposal: We maintain a water treatment plant at each of our production facilities to manage and dispose our waste water in accordance with national requirements.

Our Directors believe that contamination in our products may occur at various stages before and during the production of our products. Raw materials we purchase (including but not limited to raw milk) may be contaminated with bacteria and other contaminants which are harmful to human health and may further be exposed to other contaminants depending on the storage conditions and the holding period of these raw materials. In order to avoid such contamination, we have implemented various preventive measures through the above quality control system. As disclosed above, we test our raw materials before we accept them and store them for use at a later stage. We normally use all raw milk in our production on the same day of its delivery. Apart from testing all raw milk delivered to us at the time of delivery, all raw milk is purified, cooled and pasteurised during our production so as to separate any impurities and reduce the presence of any contaminants such as micro-organisms in the raw milk. We also test our semi-finished products and finished products in accordance with the above quality control measures.

The Melamine Incident

In July 2008, several infants in Gansu province in the PRC were diagnosed with kidney stones after consuming milk powder products produced by a milk formula producer in the PRC that were contaminated with melamine. This led to a nationwide investigation into dairy products, particularly milk formula, for traces of melamine. According to the investigation carried out by the AQSIQ in 2008 on the products of 109 milk formula product producers in the PRC, the products of 22 milk formula product producers in the PRC (which did not include us) were found to have been contaminated with melamine. The AQSIQ has subsequently also carried out random sampling tests on the content of melamine in the products of various dairy product producers in the PRC, including us, which revealed that (i) our Daqing Hi-Calcium and Hi-Iron Milk Formula for women (400 g per box) and Daqing Multi-Vitamin Hi-Calcium Milk Formula (for the elderly and the middle-aged) (400 g per box) under our Daqing Milk Formula Series, and (ii) our Follow-up Milk Formula (Stage 2) under our Emilon Series (400 g per box), which were subject to the tests, passed the melamine tests. The incident caused the death of a few infants in the PRC and left thousands of infants in the PRC hospitalised due to the development of kidney stones and kidney failure caused by the consumption of the milk formula products that were contaminated with melamine. The PRC Government has subsequently taken stringent measures to ensure safety of dairy products such as recalling, taking off from retail shelves and destroying the milk formula products that were contaminated with melamine. The AQSIQ has also sent officers to quality control departments of the milk formula product producers in the PRC to monitor their production processes and inspect the quality and safety of the finished products.

The melamine scandal in 2008 undermined consumers' confidence in paediatric milk formula produced by milk powder sourced domestically, which was reflected in the significant drop in such purchases and resulted in a decrease in production volume and led to more consumers in the PRC shifting their purchase of infant milk formula from domestically sourced infant milk formula to internationally sourced infant milk formula. According to the Euromonitor International Report, the retail sales volume of the Milk Powder market in China dropped by 3.2% in 2008 from 678,580 tonnes in 2007 to 656,600 tonnes in 2008.

Our Directors believe that the common ways in which our products may be contaminated with melamine are (i) the use of melamine-contaminated cattle feed to feed the dairy cows which form the source of the raw milk supplied to us, and (ii) the addition of melamine by third parties into raw milk at the milk collection centres or prior to the delivery of raw milk to us, or the addition of melamine during the production process of our products. Our Directors have confirmed that during the Track Record Period, (i) we did not add any melamine into our products, (ii) none of our products contains any melamine, and (iii) we did not experience any product dispute, product recall or return of products which may have had a material adverse effect on our financial condition or operating results. Our Directors have further confirmed that during the Track Record Period, none of our products had been subject to any government sanctions relating to quality.

Our Emilon Series of milk formula products, which are targeted at consumers of the middle-to-high income group in the second- and third-tier municipalities in China, has been negatively affected by the melamine incident. This led some consumers within this target customer group, which generally have stronger purchasing power, to switch to imported brands of milk formula. While this slowed the rate of our revenue growth of the Emilon Series, sales of our Emilon Series still increased despite the difficult market conditions. On the other hand, our Daqing Milk Formula Series recorded faster revenue growth as a result of the melamine incident. The melamine incident led certain players in China that were affected by the melamine incident to exit the market. As consumers in the counties and villages in rural areas in China generally have a lower purchasing power, they were not able to switch to imported brands which are generally higher-priced products. As a result, the consumers in these areas switched to other local brand products such as our Daqing Milk Formula Series, which are targeted at consumers in villages and counties near second- and third-tier municipalities in the PRC.

The gross profit margin of the Daqing Dairy Group decreased from 49.9% for the financial year ended 31 December 2008 to 46.9% for the financial year ended 31 December 2009, primarily due to a decrease in the gross profit margin of the Daqing Dairy Group for our milk formula products, which was partially offset by an increase in the gross profit margin of the Daqing Dairy Group for our whole milk powder products. The gross profit margin of the Daqing Dairy Group for our milk formula products declined 3.8% from 57.3% for the financial year ended 31 December 2008 to 53.5% for the financial year ended 31 December 2009. The decline in the gross profit margin of the Daqing Dairy Group for our milk formula products was primarily due to the decline in the gross profit margin of the Emilon Series milk formula by 3.7%, as a result of changes in the sales mix of the Emilon Series product offerings with more of the lower margin Emilon Bei Cong Series being sold compared to the higher margin Emilon Shuang Neng Series as target consumers in the higher priced market segment were more affected by the melamine incident.

The gross profit margin of the Daqing Dairy Group increased to 51.2% for the six months ended 30 June 2010 primarily due to the introduction of our Shi Jia Series with relatively higher gross profit margin of 71.4% and the shift in product mix in favour of the higher gross profit margin milk formula products from 84.6% of revenue in the year ended 31 December 2009 to 89.7% of revenue in the six months ended 30 June 2010.

The tests conducted by an external testing centre on some of our milk formula products and whole milk powder products in 2008 and 2009 on a sampling basis, and the tests conducted by two external testing centres on all of our milk formula products and whole milk powder products in 2010, confirmed that these products did not contain melamine. These external testing centres are Independent Third Parties. Furthermore, the various internal melamine tests carried out by us on the raw milk supplied to us and some of our finished products in 2008 and 2009 confirmed that these raw milk and finished products did not contain any melamine.

The Hormone-Tainted Milk Formula Incident

In August 2010, three infants in Hubei province in the PRC were reported to have experienced pubescent development, which was allegedly caused by the content of estrogen hormones found in a particular local brand milk formula products they consumed. This resulted in the Ministry of Health of the PRC launching an investigation into the above alleged claims. The clinical investigation conducted by the Ministry of Health of the PRC on the residue of milk powder consumed by these infants revealed that the milk formula products involved did not contain estrogen hormones such as diethylstilbesterol (乙烯雌酚), medroxy progesterone acetate (醋酸甲孕酮), estradiol (雌二醇) and progesterone (孕酮) that caused these infants' pubescent development.

Our enquiries with the National Dairy Product Testing Centre of the PRC (國家乳品檢測中心), the Ministry of Agriculture of the PRC, various external testing centres in Heilongjiang province and a testing centre in Guangzhou, a PRC government agency operated by the PRC municipal government confirm that presently, there are no requirements and applicable standards on testing of the content of estrogen hormones in dairy products in the PRC. To the best of the knowledge of the Directors, our discussions with the testing centre in Guangzhou have also confirmed that as the PRC Government has not adopted any formal applicable standards for testing the content of estrogen hormones, the testing centre in Guangzhou will not issue any appraised report on its testing results with legal force. In view of this, any report that the testing centre in Guangzhou may issue on the testing results will indicate only the existence of hormones in the products tested and such report is for reference only. An external testing centre outside the PRC, which is an Independent Third Party, was appointed to carry out a sampling test on the content of various hormones, including the above estrogen hormones, in some of our products. The external testing centre confirmed that based on the minimum detectable limits of the testing equipment used to carry out the tests, the tests did not detect any of the above estrogen hormones in the sample products that were tested. Our Directors consider that the test results from the above testing centre outside the PRC on the content of estrogen hormones in some of our products are sufficient indications that our milk formula products do not contain estrogen hormones. If the PRC Government imposes any requirements and applicable standards on testing of the content of estrogen hormones in dairy products, we will carry out such tests on our products in compliance with the applicable requirements and standards.

We carry out tests on the content and quality of raw milk delivered to us and our finished products in accordance with the applicable quality standards in the PRC. Our Directors have confirmed that as there are no requirements and applicable standards in the PRC on the testing of the content of estrogen hormones in dairy products, including raw milk, we do not put in place a quality control measure to test the content of estrogen hormones in raw milk delivered to us and our products. Our Directors have further confirmed that we do not add any estrogen hormones into our products.

While our Directors believe that the above alleged hormone-tainted milk formula incident does not have a material adverse effect on our sales of milk formula products since the incident, the incident may undermine consumers' confidence in domestic milk formula products, in particular, paediatric milk formula products and consumers may avoid their purchase of local brand milk formula products in the PRC. This may, in turn, have an impact of the sales of local brand milk formula products in the PRC. Please refer to the section headed "Risk Factors — Adverse publicity concerning milk formula and other dairy products may affect our business performance or damage our reputation, and their societal impact may lead to additional government regulations" in this prospectus for further information.

INVENTORY CONTROL AND LOGISTICS

Our sales department formulates our annual, quarterly and monthly sales plans. Our production department uses that information to develop its monthly and quarterly production plans taking into account (a) the latest information on the volume of raw milk supplied, (b) the inventory levels of raw materials and finished products and (c) the volume of sales orders. Our production department then provides its monthly and quarterly production plans for its raw milk needs to our purchase department.

Our inventory comprises mainly raw materials, packaging materials and finished products. As raw milk is perishable, our normal holding period for raw milk is 24 to 48 hours. However, we normally use the raw milk in our production on the same day of its delivery and do not maintain stocks of raw milk. On the other hand, our normal holding period for other raw materials is normally less than six months from the date of receipt of these raw materials to buffer any contingencies in supply and those of our finished products is normally one month after production of these finished products. We review our inventories based on inventory ageing analysis as well as the expected usage of raw materials and the expected sales of finished products in order to determine if an impairment of inventory should be made. Our other raw materials and finished products generally have shelf life between 12 and 24 months. In managing our inventory, we identify and use earlier batches of these raw materials using a first in, first out method. Furthermore, we perform an inventory count on a monthly basis and will treat an inventory which exceeds its shelf life (if any) as obsolete and destroy such inventory immediately. For each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, the Group did not make any provision for impairment of inventory. For each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, the Daqing Dairy Group did not make any provision for impairment of inventory.

We engage logistics companies, which are Independent Third Parties, to deliver our milk formula products and whole milk powder products to our customers' designated places. We use our own vehicles and transportation team to deliver our ice cream products to our customers and to deliver our milk formula products to our customers to whom we sell our products directly in Daqing municipality. We bear the cost of delivering our products to our customers.

SEASONALITY

Sales of our products are subject to seasonality. We typically experience higher sales of milk formula products and whole milk powder products in the second half of the year compared to the first half. Our Directors believe that this seasonality factor mainly reflects an increase in purchase orders made by our distributors in the second half of the year to increase their inventories in advance of the Chinese New Year in anticipation of higher demand around the holiday period.

PRODUCT DEVELOPMENT

As at 30 June 2010, we had approximately six employees engaged in product development who were degree holders or had received tertiary education in disciplines related to food science and technology. We appointed Mr Xia as our Executive Director and Deputy Chief Executive Officer on 10 October 2010. He is primarily responsible for overseeing product development as well as assisting our Chief Executive Officer in executing the overall business strategies, facilitating business development and managing the operations of our Group. Mr Xia joined our Group in March 2008 as Daqing Dairy's general manager, a position he currently holds. He was also appointed, at the time of its establishment, and still is the general manager of Changqing Dairy. Mr Xia is a senior food engineer (食品高級工程師). He graduated from 東北財經大學 (Dongbei University of Finance and Economics) with an Executive Master of Business Administration (高級管理人員工商管理碩士) in January 2007. He has approximately 22 years of experience in the dairy industry. He was the deputy general manager of 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd*), a dairy company in the PRC between July 1987 and June 2004. From June 2004 till March 2008, he was the deputy general manager of 西安銀橋生物科技有限公司 (Xi'an Yinqiao Biological Science and Technology Co. Ltd), also a dairy company in the PRC. Mr Xia was nominated as one of the "Ten Outstanding Technology Persons" in the Chinese dairy processing industry (首屆中國乳品加工業"十大傑出科技人物") on 7 August 2004 by the Chinese Dairy Technology Committee (中國乳業科技大會組委會) and the China's Livestock Products Research Association (中國畜產品加工研究會). For further details on Mr Xia's work experience and educational qualifications, please refer to the section headed "Directors, Senior Management and Employees — Directors" in this prospectus.

Our product development team is dedicated to the following objectives and functions:

- formulating and implementing product development proposals;
- conducting tests on products and be responsible for product developments;
- collating, analysing, processing and storing technical information of the dairy industry;
- conducting research on product developments and upgrading our existing products;
- organising and promoting technical collaboration;
- assessing technology programmes; and
- organising research and development on relevant technological skills.

In furtherance of the above objectives, we have entered into a co-operation agreement with the College for Food Science at 黑龍江八一農墾大學食品學院 (the College of Food Science at Heilongjiang Bayi Agricultural University). Through this co-operation agreement, we have a three year collaborative arrangement with the university to train professionals, resolve production and technical issues, and develop new products, technology, equipment and processes to achieve economic efficiency.

We have recently developed and launched new milk formula products which aim at consumers of premium-priced milk formula products, namely three new milk formula products for infants at different growth stages under our Shi Jia Jia You Bao Bao 仕加嘉友寶寶系列 and two new milk formula products for post-natal women under our Shi Jia S' Plan Series 仕加斯普恩系列.

For each of the financial years ended 31 December 2007, 2008 and 2009, and the six months ended 30 June 2010, our annual research and development expenses, which mainly comprised the salary of our product development staff, were RMB36,000, RMB74,000, RMB104,000 and RMB58,000, respectively.

AWARDS, PERMITS AND CERTIFICATIONS

Over the past years, we have received various awards, permits and certifications in respect of the quality and reputation of our products, among which are the following:

Awards, permits and certifications	Date of award, permit or certification	Issuing institution/ authority	Expiry date
ISO9001:2008 for the design, production and sale of dairy products (milk powder and liquid milk), infant milk formula and cold beverages (乳製品 (乳粉、液體乳)、嬰幼兒配方乳粉、冷凍飲品的設計、生產和銷售)	13 March 2010	World Standards Certification Center (北京世標認證中心)	12 March 2013
National Industrial Production Permit for dairy products (milk powder (whole milk powder, skimmed milk powder, sweetened whole milk powder, flavoured milk powder and special formula milk powder) and liquid milk (yoghurt)) (全國工業產品生產許可證) 乳製品 (乳粉 (全脂乳粉,、脱脂乳粉、全脂加糖乳粉、調味乳粉、特殊配方乳粉)、液體乳(酸乳))	13 January 2010	Quality and Technical Supervision Bureau of Heilongjiang Province (黑龍江省質量技術監督局)	16 January 2013
National Industrial Production Permit for infant formula milk powder (method of wet mixing) (全國工業產品生產許可證) 嬰幼兒配方乳粉 (濕法工藝)	23 September 2009	Quality and Technical Supervision Bureau of Heilongjiang Province (黑龍江省質量技術監督局)	22 September 2012
Hygiene Registration Certificate (衛生註冊證書)	11 June 2008	Certification and Accreditation of the PRC (國家認證認可監督管理委員會)	10 June 2011
National Industrial Production Permit for cold beverages (ice cream, milk ice, ice frost, ice lolly, edible ice and sweet ice) (全國工業產品生產許可證) 冷凍飲品 (冰淇淋、雪糕、雪泥、冰棍、食用冰、甜味冰)	14 April 2008	AQSIQ	13 April 2011
Certificate for Daqing instant whole milk powder as a "green" food product (綠色食品 - 大慶牌全脂速溶奶粉)	18 October 2007	China Green Food Development Centre (中國綠色食品發展中心)	October 2010
Certificate of GMP for Health Food of Health Department of Heilongjiang Province (黑龍江省衛生廳保健食品良好生產規範 (GMP) 證書)	24 September 2007	Department of Health of Heilongjiang Province (黑龍江省衛生廳)	18 September 2011
Food Hygiene Permit (食品衛生許可証)	19 September 2007	Department of Health of Heilongjiang Province (黑龍江省衛生廳)	18 September 2011

Awards, permits and certifications	Date of award, permit or certification	Issuing institution/ authority	Expiry date
ISO9001:2000 for the design, production and sale of dairy products (milk powder), infant milk formula (method of wet mixing) and cold beverages (乳製品 (乳粉)、嬰幼兒配方乳粉 (濕法工藝)、冷凍飲品的設計、生產和銷售)	15 March 2007	World Standards Certification Center (北京世標認證中心)	14 March 2010
ISO22000:2005 for the design, production and sale of dairy products (milk powder), infant milk formula (method of wet mixing) and cold beverages and related food product safety management activities (乳製品 (乳粉) 嬰幼兒配方乳粉 (濕法工藝)、冷凍飲品的設計、生產和銷售及其所涉及的相關食品安全管理活動)	15 March 2007	World Standards Certification Center (北京世標認證中心)	14 March 2010
Advanced Enterprise on Work Safety in the District for the Year 2002 (2002年度全區安全生產先進單位)	28 March 2003	Working Committee of the Daqing High-Tech Industrial Development Zone (中共大慶高新技術產業開發區工作委員會) and the Daqing Development Area Committee	—
Advanced Enterprise on Maintaining Consumers' Lawful Rights for the Year 2001 (2001年度維護消費者合法權益先進單位)	1 March 2002	Daqing Municipal Administration for Industry & Commerce (Long Feng branch) (大慶市工商行政管理局龍鳳分局) and Consumers' Association of Daqing Municipality (Long Feng district) (大慶市龍鳳區消費者協會)	—
Accreditation for "Daqing" ("大慶") as a famous trademark in Heilongjiang province (黑龍江省著名商標)	December 1999	Heilongjiang Provincial Administration for Industry & Commerce (黑龍江省工商行政管理局)	December 2002
National Quality Assurance Food Products (for instant whole milk powder, whole milk powder, milk powder for infants, young children, students, the elderly and the middle-aged, whole milk formula with zinc, milk formula with low fat and high calcium, milk formula with vitamins A & D, whole milk with high calcium, lecithin powder, milk powder with low sugar content, and industrial milk powder) (國家質量達標食品 (全脂速溶奶粉, 全脂淡奶粉, 嬰兒、幼童、中小學生、中老年奶粉, 全脂加鋅、低脂高鈣、AD鈣、全脂高鈣、卵磷脂奶粉、降糖奶粉, 工業奶粉等奶粉系列))	26 October 1999	China Food Industry Association (中國食品工業協會)	—

Awards, permits and certifications	Date of award, permit or certification	Issuing institution/ authority	Expiry date
Provincial Advanced Enterprise on Quality Control Management (全省質量管理先進企業)	September 1999	Quality Control Management Association of Heilongjiang Province (黑龍江省質量管理協會)	—
Quality Assurance Food Products (for sweetened whole milk powder, whole milk powder, milk formula series for infants, milk powder with low sugar content, Daqing whole milk formula with zinc, and milk powder for the elderly, the middle-aged and students) (質量合格達標食品 (全脂甜奶粉, 全脂淡奶粉, 嬰兒配方系列, 降糖奶粉、大慶牌全脂加鋅奶粉、中老年奶粉、中小學生奶粉))	8 February 1999	China Food Industry Association (中國食品工業協會)	—
Product Exemption from Quality Surveillance Inspection in Heilongjiang province for Daqing sweetened whole milk powder (大慶牌全脂甜奶粉黑龍江省免檢產品)	December 1997	Heilongjiang Provincial Bureau of Technical Supervision (黑龍江省技術監督局)	31 December 1998
Accreditation for Daqing milk powder as a famous brand in Heilongjiang province in 1996 (1996年黑龍江知名品牌產品 (大慶牌奶粉))	October 1996	Heilongjiang Quality Supervision and Inspection Association (黑龍江省質量監督檢驗協會), Heilongjiang Quality Control Management Association (黑龍江省質量管理協會) and Consumers' Association of Heilongjiang Province (黑龍江省消費者協會)	—
National Advanced Enterprise (Quality and Efficiency Type in food industry) (全國食品行業質量效益型先進企業)	November 1995	China Food Industry Association (中國食品工業協會)	—
Advanced Enterprise on Technical Supervision for the Year 1990 (1990年度技術監督先進單位)	1 February 1991	The People's Government of Daqing Municipality (大慶市人民政府)	—

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we registered certain trademarks and had applied for the registration of certain trademarks in Hong Kong and the PRC. We also have registered certain design patents in the PRC and certain domain names. These trademarks, patents and domain names are important to our business. Please refer to the section headed "Further information about our business — Intellectual property rights of our Group" set out in Appendix VI to this prospectus for further information.

EMPLOYEES

As at 30 June 2010, we had over 500 full-time employees. The following table sets out a breakdown of our personnel by function as at 30 June 2010:

Management, finance and administration	74
Production	221
Sales, marketing and logistics	160
Procurement	11
Quality control	29
Product development	6
Total	501

We offer to our new employees training relating to our Group and its structure. In addition, we provide in-house training to our employees to enhance their knowledge of our products, production methods, production safety and corporate culture.

Please refer to the section headed "Directors, Senior Management and Employees" in this prospectus for further information.

INSURANCE AND WELFARE CONTRIBUTIONS

We maintain insurance on our properties, machinery, equipment, inventories and motor vehicles. However, we do not maintain third party liability, product liability or business interruption insurance. Our Directors have confirmed that it is not the general industry practice in the PRC to maintain such insurance. Our Directors consider that the cost of taking up product liability insurance in the PRC is high. We have strict quality control system over our production. Please refer to the section headed "Business — Quality Control" in this prospectus for further details on our quality control system. In addition, our Directors have confirmed that during the Track Record Period, we did not experience any product dispute, product recall or return of products which may have had a material adverse effect on our financial condition or operating results. Our Directors have further confirmed that during the Track Record Period, none of our products had been subject to any government sanctions relating to quality. For the above reasons, our Directors do not consider it necessary to maintain product liability insurance.

In accordance with relevant PRC laws and regulations, we contribute to social welfare insurance for our full-time employees in the PRC, including basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. Please refer to the section headed "Regulatory Overview — Laws and regulations relating to labour matters" in this prospectus for further information. Prior to April 2010, Daqing Dairy did not register with the relevant authority in respect of the housing provident fund or make any contributions to the housing provident fund. Since its incorporation, Changqing Dairy has not registered with the relevant authority in respect of the housing provident fund or made any contributions to the housing provident fund. Please refer to the section headed "Risk Factors — We did not comply with PRC regulations relating to the housing provident fund" in this prospectus for further information.

LAND AND BUILDINGS

As at the Latest Practicable Date, we owned three parcels of land (with a total site area of approximately 248,447.35 sq.m.) and 31 buildings (with a gross floor area of approximately 62,749.46 sq.m.) mainly for use as our production facilities and offices. In addition, as at the Latest Practicable Date, we owned a unit, with a gross floor area of approximately 98.2 sq.m., in a building for commercial use. Our PRC Legal Advisers have advised us that we have valid land and building title to all of these properties.

As at the Latest Practicable Date, we did not lease any properties.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We may be involved in legal proceedings in the ordinary course of our operations. As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance. In addition, our Directors are not aware of any litigation, arbitration or claim pending or threatened by or against us which may have a material adverse effect on our business, financial condition or operating results.

Compliance

Our PRC Legal Advisers have advised us that we have obtained all licences, permits or certificates required for the operation of our business and that we complied with all relevant PRC laws, rules and regulations that are applicable to our business during the Track Record Period.

Environmental matters

We are subject to applicable PRC environmental laws and regulations relating to air, water, noise and solid waste pollution. For further information on the laws and regulations to environmental protection applicable to us, please refer to the section headed “Regulatory Overview — Laws and regulations relating to environmental protection” in this prospectus.

Our Directors have confirmed that our operations do not generate material levels of pollution to the environment other than some air and water pollutants, noise and solid waste such as cardboards, packaging materials for our products and boiler slag (which is a by-product generated from the use of coal as a fuel in our production).

Our quality control team formulates and monitors and the implementation of our quality control systems, including our waste water treatment plant at each of our production facilities, which manages and disposes our waste water in accordance with national standards. We also sell solid waste from our production such as boiler slags to a concrete mixing plant. As our operations do not generate material levels of pollution to the environment, we regularly inspect and maintain our production facilities as well as our waste water treatment plant at each of our production facilities to prevent and minimise noise and other pollutions to the environment in the course of our operations as opposed to engaging new technology or carrying out research and development to reduce the impact of our operations to the environment.

Our main expenses relating to compliance with applicable environmental protection laws and regulations are depreciation cost and electricity running cost of our waste water treatment plant at each of our production facilities. For each of the financial years ended 31 December 2007, 2008 and 2009, and the six months ended 30 June 2010, our depreciation cost and electricity running cost relating to our waste water treatment plant at our Daqing production facilities were less than RMB0.2 million.

Our Directors have confirmed that we did not receive any notice of non-compliance with environmental laws and regulations during the Track Record Period. In addition, based on the confirmations issued by the local environmental protection bureau, our PRC Legal Advisers have advised us that we did not violate any national, provincial or municipal environmental laws and regulations of the PRC during the Track Record Period.

Workplace safety

We are subject to various PRC laws and regulations relating to workplace safety. For further information on the laws and regulations to production safety applicable to us, please refer to the section headed "Regulatory Overview - Laws and regulations relating to production safety." Our production team is mainly responsible for monitoring our compliance with workplace safety related laws and regulations. We have also adopted a handbook on workplace safety which provides our own workplace safety rules and requires that all employees follow such rules. In addition, we provide in-house training to our employees to strengthen their knowledge on workplace safety.

Our Directors have confirmed that during the Track Record Period we were not involved in any accident causing death or serious bodily injury in the course of our operations. Based on the letter of confirmation dated 3 March 2010 from the Daqing Work Place Safety Supervision Bureau, our PRC Legal Advisers have advised us that we complied with the applicable PRC laws and regulations on workplace safety during the Track Record Period.

Welfare contributions

In the PRC, we are required to comply with various national and local labour and social welfare laws and regulations. Please refer to the section headed "Regulatory Overview — Laws and regulations relating to labour matters" in this prospectus for further information. Prior to April 2010, Daqing Dairy did not register with the relevant authority or maintain accounts with a designated bank in respect of the housing provident fund, or make any contributions to the housing provident fund. Since its incorporation, Changqing Dairy has not registered with the relevant authority or maintained an account with a designated bank in respect of the housing provident fund, or made any contributions to the housing provident fund.

On 14 April 2010, we obtained a written confirmation from the housing provident fund management centre (住房公積金管理中心) of Daqing municipality regarding unpaid contributions during the period from 3 April 1999 (being the effective date of the implementation of the Regulation on Management of the Housing Provident Fund《住房公積金管理條例》) to 14 April 2010. According to such written confirmation, the housing provident fund management centre (住房公積金管理中心) will not require Daqing Dairy to make any contribution payment in respect of the above unpaid contributions nor will any penalty or other form of administrative penalties be imposed on Daqing Dairy for the unpaid contributions to the housing provident fund.

The letter of confirmation issued by the housing provident fund management centres of Daqing municipality (大慶市住房公積金管理中心) dated 11 June 2010 confirms that since the effective date of the Regulations on Management of the Housing Provident Fund《住房公積金管理條例》, the housing provident fund management centre of Daqing Municipality (大慶市住房公積金管理中心) has been progressively implementing the regulations on private enterprises, foreign-invested enterprises and other non State-owned enterprises in Daqing municipality and notes that a substantial number of these enterprises have not set up and contributed towards the housing provident funds and are currently taking steps to set up and contribute towards the housing provident funds. Given the progressive implementation approach of the housing provident fund management centre of Daqing municipality (大慶市住房公積金管理中心), while our legal department oversees and ensures our continued compliance with the regulations, Daqing Dairy did not register with the relevant housing provident fund management centre (住房公積金管理中心) in respect of the housing provident fund immediately upon the effective date of these regulations. Since April 2010, Daqing Dairy and Changqing Dairy have registered with the relevant housing provident fund management centres (住房公積金管理中心) and maintained accounts with designated banks in respect of the housing provident funds, and made contributions to the relevant housing provident funds. Please refer to the section headed "Risk Factors — We did not comply with PRC regulations relating to the housing provident fund" in this prospectus for further information.

According to our PRC Legal Advisers, should the relevant local administrative authorities require us to settle the unpaid contributions in the future and we fail to do so within the stipulated time limit, the relevant local administrative authorities have the right to apply for court orders to demand payment. We may be subject to a fine in the amount of between RMB10,000 and RMB50,000 for failure to register with the housing provident fund management centres (住房公積金管理中心) or maintain accounts with a designated bank. Based on the above letters of confirmation issued by the relevant housing provident fund management centres (住房公積金管理中心), our PRC Legal Advisers have advised us that there is a low likelihood the relevant housing provident fund management centres (住房公積金管理中心) will either order Daqing Dairy and Changqing Dairy to compensate for the outstanding housing provident fund contributions which they have failed to pay or impose penalties on Daqing Dairy and Changqing Dairy for the above non-compliance.

COMPETITION

We face competition in many aspects of our business. Our Directors consider that we compete against domestic and international producers of milk formula products and milk powder products based on product range, brand recognition and reputation, product quality and price, as well as the coverage and effectiveness of the sales and distribution network.

According to the Euromonitor International Report, leading global brands, such as Mead Johnson, Dumex, Nestle, Wyeth and Abbot, are market leaders and collectively account for almost 40% of the total market share by sales value in the market in China in 2009. Local brands, such as Yili (伊利), Wondersun (完達山), Beingmate (貝因美) and Synutra (聖元) are attempting to gain greater market share in the Milk Powder market in China.

Our Directors believe that, as consumers have become more conscious of the quality of milk formula products and milk powder products following various contamination scandals in recent years, competition in the milk formula and milk powder market has been shifting away from price, making quality and brand reputation increasingly important.

Our Directors further consider that, as the PRC Government has tightened regulation of the dairy industry in the wake of the contamination scandals, the barriers to entry have grown and the market has become less fragmented. Our Directors consider that new market entrants face substantial barriers to entry, including acquiring significant start-up capital, meeting demanding production requirements and standards, and securing reliable and affordable sources of quality raw milk, as well as securing an effective distribution network. Our Directors believe that with the greater consumer focus on quality, the tightening regulation and the higher barriers to entry, as well as the PRC Government's policies encouraging consolidation in the dairy industry, the milk formula product and milk powder industry will experience consolidation, especially among small-scale enterprises with low productivity, poor quality and poor brand recognition. This consolidation may increase on average the production capacity of larger, more technologically advanced enterprises, which could benefit us but could also create more formidable competitors.

Our Directors believe that this consolidation will create an industry in which the production and distribution of milk formula and milk powder will be dominated by a few market leaders with large production capacity, strong brand recognition and reputation and extensive sales and distribution networks. In addition, our Directors believe that those producers that control their own sources of raw milk will be better positioned for fast growth because of the reliability of supply, the relative stable prices and the ability to better control the quality of raw milk used to make their products.

Our Directors consider that we are well-positioned to compete effectively in the PRC market and that our strengths will distinguish us from our competitors. Our Directors also believe that our position and competitive advantage over some players, such as our longstanding history in the milk formula and whole milk powder market in the PRC, and our access and proximity to the strategic and unique geographic conditions in Daqing, will enable us to capture an increasing portion of the market shares in the PRC, which will reinforce our market position and increase our returns. Furthermore, our intention to evaluate integration opportunities for upstream expansion will further enhance our position in relation to our competitors. While the market has yet to see a local Milk Powder manufacturer capable of overriding the leading global brand producers, our Directors believe this will provide us with opportunities to grow, to increase our market share and to further enhance our position in the PRC market. Please refer to the sections headed "Business — Competitive strengths" and "Industry Overview" in this prospectus for further information.

CONTROLLING SHAREHOLDER

Immediately after completion of the Capitalisation Issue and the Global Offering, Mr Zhao, the Controlling Shareholder, will control the exercise of voting rights of more than 30% of the Shares eligible to vote at general meetings of the Company (assuming the Over-allotment Option is not exercised). Save and except for his interest in the Group, none of Mr Zhao nor any of his associates had interests in any other companies which, as at the Latest Practicable Date, directly or indirectly, held interest in a business that may, directly or indirectly, compete with our business.

NON-COMPETITION UNDERTAKING

The Controlling Shareholder has entered into the Deed of Non-competition in favour of the Group, pursuant to which the Controlling Shareholder has undertaken to the Company (for itself and for the benefit of our subsidiaries) that he would not, and would procure that his associates (except any members of the Group) would not, during the term of the Deed of Non-competition set out below, directly or indirectly, either on his own accounts, or in conjunction with, or on behalf of, or through, any person, firm or company, carry on, participate or be interested, or be engaged in, or otherwise be involved in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise and whether for profit, reward or otherwise) any business which is or may be in competition with the business of any member of the group from time to time (the "**Restricted Business**").

Such non-competition undertaking does not apply to:

(a) any Restricted Business, regardless of value, which has been offered or made available to our Group and our Company has, after review and approval by a majority of our independent non-executive Directors, confirmed in writing that we do not wish to be engaged and provided that the principal terms on which the Controlling Shareholder (or his relevant associate(s)) invests, participates or engages in such Restricted Business are substantially the same as or not more favourable than those disclosed to our Company; or

(b) investments in and operations of companies which are engaging in the Restricted Business in which the Controlling Shareholder (and his associates) were already, directly or indirectly, interested as at the date of this prospectus and details of which have been specifically disclosed in this prospectus; and

(c) interests in shares or securities in a company which conducts or is engaged in any Restricted Business (other than the Group) which shares are listed on a recognised stock exchange and either:

    (i) the relevant Restricted Business (and assets relating thereto) accounts for less than 5% of the relevant company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

(ii) the total number of the shares or securities held by the Controlling Shareholder and/or his associates in aggregate or in which they are together interested does not amount to more than 5% of the respective issued shares or securities of that class of the company in question, provided that the Controlling Shareholder and his associates, whether acting individually or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there is a holder of such shares or securities holding (together, where appropriate, with its associates) a larger percentage of the shares or securities in question than the Controlling Shareholder and his associates together.

The obligations of the Controlling Shareholder in the Deed of Non-competition are conditional upon the Listing taking place and will cease to have any effect whatsoever on, whichever occurs first: (i) the date on which Listing is withdrawn; or (ii) the date on which the Controlling Shareholder and his associates cease to be entitled to individually or jointly exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company.

CONNECTED TRANSACTIONS OF THE GROUP

Summary

During the Track Record Period and prior to the Listing, we entered into various transactions with certain parties which are/were or which we consider to be connected persons as defined under the Listing Rules after the Listing Date, all of which other than as disclosed in the section headed "Connected Transactions — Exempt continuing connected transaction" of this prospectus have been discontinued prior to the Listing Date. We set out below details of our relationship with these connected persons and the details of these connected transactions.

Connected persons as defined under the Listing Rules

Sino Construction and its subsidiaries

Mr Zhao CW, our Executive Director and Chairman, and the father of Mr Zhao, our Chief Executive Officer, is the executive chairman of Sino Construction. Sino Construction was listed on the official list of the Singapore Exchange Securities Trading Limited on 12 June 2008 and Mr Zhao CW indirectly controls more than 30% of the shares eligible to vote at general meetings of Sino Construction. He stepped down from the position as the chief executive officer of Sino Construction in April 2010. 大慶市大正建築安裝有限公司 (Daqing City Dazheng Building Installation Co., Ltd.*) ("**Dazheng Building**") and 大慶市百信源商品混凝土有限公司 (Daqing City Baixinyuan Concrete Products Co., Ltd.*) ("**Daqing Baixinyuan**") are wholly owned by Sino Construction through its direct wholly-owned subsidiary, 大慶鑫源建築安裝有限公司 (Da Qing Xinyuan Construction Planning Co. Ltd.*) (formerly known as 大慶鑫源建築策劃有限公司 (Da Qing Xinyuan Construction Planning Co. Ltd. *)), and 大慶鑫源建築投資有限公司 (Da Qing Xinyuan Construction Investment Co. Ltd*) ("**Daqing Xinyuan**"). Mr Zhao CW is also the legal representative and the sole director of Daqing Xinyuan, Dazheng Building and Daqing Baixinyuan. As a result, each of Sino Construction, Daqing Xinyuan, Dazheng Building and Daqing Baixinyuan is our connected persons as defined under Rule 14A.11(4) of the Listing Rules.

大慶市大正房地產開發有限公司 (Daqing City Dazheng Real Estate Development Co., Ltd.) ("**Dazheng Real Estate**")*

Mr Zhao CW is the legal representative and the sole director of and directly controls 20% of the equity interest eligible to vote at general meetings of Dazheng Real Estate. As a result, we consider Dazheng Real Estate a connected person as defined under Rule 14A.11(4) the Listing Rules.

黑龍江金天然乳業有限責任公司 (Heilongjiang Jintianran Dairy Co., Ltd.) (formerly known as 黑龍江星球乳業有限責任公司 (Heilongjiang Xingqiu Dairy Co., Ltd.*)) ("**Jintianran Dairy**")*

Mr Xia, an Executive Director and our Deputy Chief Executive Officer, directly controlled 30% of the equity interest eligible to vote at general meetings of Jintianran Dairy prior to 23 December 2008 and Mr Pan, the former executive director of Daqing Dairy, was the executive director and legal representative of Jintianran Dairy between 19 December 2008 and 26 December 2009. As a result, we consider that Jintianran Dairy was a connected person as defined under Rule 14A.11(4) of the Listing

Rules. Mr Xia disposed all his interest in Jintianran Dairy to Mr Gong Yu Jiang (弓玉江) ("**Mr Gong**"), an Independent Third Party, in order to remove any potential conflict of interest in view of his appointment with our Group. Mr Xia was not related to Mr Gong and his associates nor was there any understanding or written agreement between Mr Xia and Mr Gong to (i) hold any portion of the equity interest in Jintianran Dairy in favour of Mr Xia and/or his nominee; and/or (ii) to transfer back any such interest to him or his nominees. Upon the execution of the equity transfer agreement dated 16 November 2009 for Daqing Dairy to acquire Changqing Dairy from Mr Pan, Mr Pan undertook not to be interested in any business that may be in competition with our Group on 16 November 2009 and pursuant to this undertaking, Mr Pan resigned from the position of legal representative and executive director of Jintianran Dairy after Jintianran Dairy decided on a suitable replacement.

Changqing Dairy

Mr Pan was formerly a director of Daqing Dairy between 6 April 2007 and 28 December 2009. He was also the sole shareholder, executive director and legal representative of Changqing Dairy from 7 August 2008 (the incorporation date of Changqing Dairy) until 16 November 2009 (when Mr Pan transferred his entire equity interest in Changqing Dairy to Daqing Dairy). Changqing Dairy was an associate of Mr Pan and therefore a connected person of our Company before it became our indirect wholly-owned subsidiary on 16 November 2009.

大慶市萬隆久盛經貿有限公司 (Daqing Wan Long Jiu Sheng Trading Co., Ltd) ("**Daqing Wanlong**")*

Ms Cao Yan Xia (曹硯霞) and Mr Li Zhan Jun (李戰軍) directly controlled 100% of the equity interest eligible to vote at general meetings of Daqing Wanlong, as to 2% and 98%, respectively. Ms Cao Yan Xia is the sister of Madam Cao Yan Ming who is the mother of Mr Zhao, our Controlling Shareholder, Executive Director and Chief Executive Officer, and Mr Li Zhan Jun is Ms Cao Yan Xia's husband. As a result, we consider that Daqing Wanlong is a connected person as defined under Rule 14A.11(4) the Listing Rules.

DISCONTINUED CONNECTED TRANSACTIONS

1. *"Daqing" trademark assignment and licensing*

Daqing Dairy assigned the "Daqing" trademark to Dazheng Real Estate for a consideration of RMB200,000 pursuant to a trademark assignment agreement dated 1 August 2006 made between Daqing Dairy as assignor and Dazheng Real Estate as assignee. On the same day, Dazheng Real Estate licensed the use of the "Daqing" trademark to Daqing Dairy from 1 August 2006 till 30 July 2010 pursuant to a trademark licensing agreement made between them. Under this trademark licensing agreement, Daqing Dairy agreed to pay Dazheng Real Estate a trademark licensing fee of 5% of Daqing Dairy's profit after taxation. The amount of trademark licensing fees we paid to Dazheng Real Estate under this agreement for each of the financial years ended 31 December 2007, 2008 and 2009 were RMB4.4 million, RMB5.9 million and nil, respectively.

Pursuant to a trademark assignment agreement and its supplemental agreement dated 18 January 2009 made between Daqing Dairy as assignee and Dazheng Real Estate as assignor, Dazheng Real

Estate assigned and retransferred the "Daqing" trademark to Daqing Dairy for a consideration of RMB200,000. Under this agreement, Dazheng Real Estate and Daqing Dairy agreed that the re-transfer and assignment of "Daqing" trademark to Daqing Dairy shall take effect from the date of the agreement, or the date of completion of registration of change of trademark owner. We filed an application to notify this retransfer and assignment of the "Daqing" trademark with the Trademark Office of SAIC (中華人民共和國國家工商行政管理總局商標局) (the "**PRC Trademark Office**") on 27 March 2009 and the PRC Trademark Office has certified our notification on 14 September 2009, which date was the effective date of the re-transfer and assignment of "Daqing" trademark to Daqing Dairy. During the period when the "Daqing" trademark was owned by Dazheng Real Estate, this trademark was not used for any other business other than Daqing Dairy's business.

2. *Provision of building construction and civil engineering works and services by Dazheng Building to Daqing Dairy*

Daqing Dairy awarded six building contracts to Dazheng Building between 2 September 2007 and 13 July 2008. Under these contracts, Dazheng Building agreed to provide building construction and civil engineering works and services to Daqing Dairy in relation to the construction of the phase two production line at our Daqing production facilities, office building and certain other ancillary facilities. We paid an aggregate of RMB109.9 million to Dazheng Building during the Track Record Period. Pursuant to each of these building contracts Dazheng Building had furnished warranties to Daqing Dairy for the works and services it had rendered under the respective contracts for periods ranging between two and five years depending on the type of works and services rendered.

3. *Sale of boiler slag (爐渣) by Daqing Dairy to Daqing Baixinyuan*

Daqing Dairy agreed to sell 3,388 cubic metres of boiler slag to Daqing Baixinyuan for an aggregate consideration of approximately RMB251,000 pursuant to an agreement dated 5 December 2008. The boiler slag sold by Daqing Dairy was a by-product generated from the use of coal as a fuel for its boiler. Under the agreement, Daqing Baixinyuan agreed to collect the boiler slag from the premises of Daqing Dairy within two days of the date of the agreement and to pay Daqing Dairy within three days of such collection.

4. *Leasing of vehicles by Dazheng Real Estate to Daqing Dairy*

Dazheng Real Estate leased 12 vehicles in the PRC to Daqing Dairy for an aggregate daily rental of RMB5,600 pursuant to a vehicle leasing agreement dated 10 April 2007 (the "**Vehicle Leasing Agreement**"). The aggregate value of the 12 vehicles amounted to RMB3.3 million (the "**Vehicle Costs**"). Pursuant to the Vehicle Leasing Agreement, Dazheng Real Estate agreed to (a) assign the legal titles of the 12 vehicles to Daqing Dairy when the aggregate leasing fees paid by Daqing Dairy exceeds the Vehicle Costs; and (b) commence the transfer of vehicle registration in favour of Daqing Dairy when Daqing Dairy has paid 80% or more of the aggregate leasing fees.

Dazheng Real Estate and Daqing Dairy signed a supplemental agreement on 10 November 2008 (the "**Supplemental Agreement**") pursuant to which the parties confirmed that the total leasing fees paid by Daqing Dairy had reached 95% of the Vehicle Costs and Dazheng Real Estate has completed the assignment of legal titles of 10 vehicles in favour of Daqing Dairy in accordance with the terms of the Vehicle Leasing Agreement. The parties further acknowledged that Daqing Dairy would no longer be required to pay the remaining leasing fees of RMB100,000 to Dazheng Real Estate as Daqing Dairy has agreed to relinquish the right to acquire one of the vehicles and Dazheng Real Estate has agreed to lease such vehicle to Daqing Dairy on a no-charge basis for six months from the date of the Supplemental Agreement.

Our PRC Legal Advisers have advised us that as the Vehicle Leasing Agreement and the Supplemental Agreement were entered into outside the permitted business scope of Dazheng Real Estate, the Vehicle Leasing Agreement and the Supplemental Agreement could be rendered invalid under the applicable PRC laws and regulations. Our PRC Legal Advisers have further advised us that as all the rights and obligation under the Vehicle Leasing Agreement and the Supplemental Agreement had been fully performed, and the vehicles under the Vehicle Leasing Agreement and the Supplemental Agreement had been transferred to Daqing Dairy, the rights of Daqing Dairy to the vehicles would not be affected. According to our PRC Legal Advisers, as a lessee under these arrangement, Daqing Dairy does not contravene the relevant laws and regulations. Furthermore, Dazheng Real Estate has undertaken with Daqing Dairy that in the event that the relevant authority seeks to impose any such administrative and financial liabilities upon Daqing Dairy or any other member of our Group, Dazheng Real Estate will indemnify and keep us harmless from such liabilities. Based on the above advice from our PRC Legal Advisers and the indemnity from Dazheng Real Estate, we have not made any provision for the above potential administrative and financial liabilities.

5. *Provision of a corporate guarantee by Dazheng Building in connection with a loan granted to Changqing Dairy*

Dazheng Building provided a corporate guarantee in favour of Daqing City Commercial Bank on 31 August 2009 as security for a loan of RMB40 million granted to Changqing Dairy by Daqing City Commercial Bank Co., Ltd. The duration of the loan is for the period commencing on 31 August 2009 and expiring on 25 August 2010. The term of the corporate guarantee commenced on the date of the loan agreement and will be in effect for two years after the expiry of the loan or until the full repayment by Changqing Dairy under the loan agreement. The loan was repaid and the corporate guarantee has been released. We do not intend to rely on Dazheng Building to furnish any guarantees or other securities to secure our future bank borrowings.

6. *Provision of a pledge of assets by Daqing Baixinyuan in connection with a loan granted to Daqing Dairy*

Daqing Baixinyuan provided a pledge over its property located at No. 94-2, Wan Feng Lu, Long Feng District, Daqing, PRC in favour of China Construction Bank Corporation Limited (Daqing Branch) as security for a loan of RMB100 million granted to Daqing Dairy by China Construction Bank Corporation Limited (Daqing Branch) pursuant to an undated agreement between the parties. The term of the loan is for one year commencing from 22 January 2009 until 21 January 2010. We have repaid this loan and the pledge has been released. We do not intend to rely on Daqing Baixinyuan to furnish any guarantees or other securities to secure our future bank borrowings.

7. *Purchase of whole milk powder from and sale of raw materials to Jintianran Dairy by Daqing Dairy*

In 2009, Daqing Dairy purchased approximately RMB33.4 million worth of whole milk powder products from Jintianran Dairy and it sold approximately RMB17.0 million worth of flavouring essence and generic package materials mainly for use in the production of ice cream products to Jintianran Dairy. Save for the above transactions in 2009, we have not entered into any other transactions with Jintianran Dairy when it was a connected person as defined under the Listing Rules. After Mr Xia, our Executive Director and Deputy Chief Executive Officer, disposed all his interest in Jintianran Dairy to an Independent Third Party on 23 December 2008 and Mr Pan, a former director of Daqing Dairy, resigned as executive director and legal representative of Jintianran Dairy on 26 December 2009, Jintianran Dairy ceased to be a connected person as defined by the Listing Rules. In March 2010, Daqing Dairy purchased approximately RMB6.0 million worth of whole milk powder products from Jintianran Dairy.

8. *Transfer of entire equity interest in Changqing Dairy from Mr Pan to Daqing Dairy*

Pursuant to an equity transfer agreement dated 16 November 2009 made between Mr Pan and Daqing Dairy, Mr Pan transferred the entire equity interest in Changqing Dairy to Daqing Dairy for a consideration of RMB10 million.

9. *Provision of loan by Daqing Dairy to Changqing Dairy*

Pursuant to a loan agreement dated 30 August 2008 (the "**Loan Agreement**") made between Daqing Dairy and Changqing Dairy, Daqing Dairy agreed to provide a loan in the sum of RMB250 million to Changqing Dairy, the full amount of which was repayable by Changqing Dairy by 31 October 2011. Under the Loan Agreement, the loan amount is subject to an interest rate, which shall be the bank lending rates over the same period and interests shall be calculated based on the actual utilisation of the loan amount and the duration. Changqing Dairy shall pay the loan interest for the preceding year to Daqing Dairy at the end of each full year during the tenure of the loan. As at 31 December 2008, Daqing Dairy had disbursed an aggregate loan amount of RMB150.0 million to Changqing Dairy and the outstanding balance of the loan amount was RMB150.0 million as at 31 December 2008. During the period from 1 January 2009 to 16 November 2009 (the date of the acquisition of Changqing Dairy by Daqing Dairy and when Changqing Dairy ceased to be a connected person), Daqing Dairy had further disbursed an additional loan amount of RMB52.5 million to Changqing Dairy and the outstanding balance of the loan amount was RMB202.5 million as at 16 November 2009. After 16 November 2009 Daqing Dairy had disbursed further loan amount of approximately RMB48.2 million. During the Track Record Period, Daqing Dairy had disbursed an aggregate loan amount of approximately RMB250.7 million to Changqing Dairy and the aggregate interest accrued under the loan was RMB 9.6 million. By a letter of confirmation dated 1 July 2010 entered into between Daqing Dairy and Changqing Dairy, the loan amount as at 30 June 2010 was approximately RMB250.7 million and the parties agreed that the excess portion of the loan amount of approximately RMB0.7 million will be dealt with in accordance with the Loan Agreement and the supplemental agreement dated 7 August 2009. Pursuant to the supplemental agreement dated 7 August 2009 and a further supplemental agreement dated 28 July 2010, both entered into between Daqing Dairy and Changqing Dairy, the parties agreed to waive all interests on the loan amounts disbursed by Daqing Dairy to Changqing Dairy and to capitalise the principal amount of the loan, being approximately RMB250.7 million.

10. *Provision of loan by Daqing Wanlong to Daqing Dairy*

Pursuant to a loan agreement dated 9 April 2010 made between Daqing Wanlong and Daqing Dairy, Daqing Wanlong agreed to provide a non-interest bearing loan in the sum of RMB50.0 million to Daqing Dairy for its working capital purposes. Daqing Wanlong and Daqing Dairy agreed that the loan amount shall be repaid by Daqing Dairy within 15 business days of Daqing Wanlong's demand for repayment provided that Daqing Wanlong shall not make such a repayment demand within 90 days from the date on which the loan is made. Daqing Wanlong disbursed the entire loan amount of RMB50.0 million to Daqing Dairy in April 2010 and Daqing Dairy had repaid the entire loan in the end of July 2010. We had procured the loan from Daqing Wanlong purely as a precautionary measure against any unanticipated operational cash requirement whilst we undertook restructuring of our loans and we do not intend to procure any loan from Daqing Wanlong in the future.

EXEMPT CONTINUING CONNECTED TRANSACTION

We entered into an agreement with Global Dairy Canada, Mr Zhao and Madam Cao Yan Ming ("**Madam Cao**") which will, upon the Listing, constitute an exempt continuing connected transaction of our Company. Madam Cao, Mr Zhao's mother, and Mr Zhao, our Executive Director and Chief Executive Officer, are directors of Global Dairy Canada and Madam Cao controls all the shares eligible to vote at general meetings of Global Dairy Canada. As a result, Global Dairy Canada is our connected person as defined under Rule 14A.11(4) the Listing Rules. Pursuant to a collaboration agreement entered into between our Company, Global Dairy Canada, Mr Zhao and Madam Cao dated 28 April 2010, Global Dairy Canada agreed to irrevocably and unconditionally licence to our Group the right to use its name exclusively and on a perpetual basis on, among others, new dairy products to be developed and manufactured by us for a nominal consideration of HK$1.00. Pursuant to this agreement, Madam Cao has further undertaken that she shall not and Mr Zhao has undertaken to procure that Madam Cao shall not dispose of her interest in Global Dairy Canada other than to Mr Zhao or such other person as may be approved in writing by the Company. Our Directors believe that the terms of the collaboration agreement enables the Company to have an effective control over any disposal of Global Dairy Canada and the risk of losing the right to use the name of Global Dairy Canada is minimal. In order to safeguard further our interest in this regard, Madam Cao as the sole shareholder of Global Dairy Canada has granted a call option in favour of the Company on 17 August 2010 which gives the Company a right to acquire the entire shareholding in Global Dairy Canada from Madam Cao. We used the name of Global Dairy Canada on the packaging of the products in our Shi Jia Series. Global Dairy Canada was initially established with a view of seeking dairy-related opportunities in Canada but, since its incorporation, it has not commenced business. Our Directors have confirmed that the above transaction was made on normal commercial terms and no further fees or expenses are payable by us to Global Dairy Canada under this agreement. Accordingly, the above transaction falls under the de minimis provision set out in Rule 14A.33(3)(a) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

Mr Zhao, being our Controlling Shareholder and a director of Global Dairy Canada, has entered into the Deed of Non-competition in favour of our Group, pursuant to which Mr Zhao has undertaken to our Company (for itself and for the benefit of our subsidiaries) that he would not, and would procure that his associates (including but not limited to Madam Cao Yan Ming, his mother and the sole shareholder of Global Dairy Canada, and except any members of the Group) would not, during the term of the Deed of Non-competition set out below, directly or indirectly, either on its/his/her own accounts, or in conjunction with, or on behalf of, or through, any person, firm or company, carry on, participate or be interested, or be engaged in, or otherwise be involved in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise and whether for profit, reward or otherwise) any business which is or may be in competition with the business of any member of the group from time to time. Please refer to the paragraph headed "Non-Competition Undertaking" in the section headed "Relationship with the Controlling Shareholder" in this prospectus for further details regarding the Deed of Non-competition.

DIRECTORS

Save as disclosed, each of our Directors has confirmed with respect to him that: (a) he has not held any directorships, current or past, since the beginning of the Track Record Period up to the date of this prospectus in any public companies, the securities of which are listed on any securities market in Hong Kong and/or overseas; (b) he is not related to any other Director, senior management or substantial Shareholder of the Company or Controlling Shareholder; (c) there is no information to be disclosed for him pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; (d) there are no other matters that need to be brought to the attention of holders of securities of the Company; and (e) all the requirements under Rule 13.51(2) of the Listing Rules have been fulfilled.

Executive Directors

Zhao Chuan Wen (趙傳文), aged 56, was appointed as our Executive Director and Chairman on 10 October 2010. He is responsible for formulating our Group's business strategies. Mr Zhao CW has been Daqing Dairy's honorary director since June 2006 and has played a pivotal role in the growth and expansion of Daqing Dairy over the years. Mr Zhao CW is also a well-regarded Daqing businessman, having listed Sino Construction on the official list of the Singapore Exchange Securities Trading Limited on 12 June 2008. He indirectly owns a controlling stake in Sino Construction and he is the legal representative and sole director of its subsidiaries, namely 大慶大正建築安裝有限公司 (Daqing City Dazheng Building Installation Co., Ltd.*), 大慶市百信源商品混凝土有限公司 (Daqing City Baixinyuan Concrete Products Co., Ltd.*) and 大慶鑫源建築安裝有限公司 (Da Qing Xinyuan Construction Planning Co., Ltd.*). He stepped down from the position as the chief executive officer of Sino Construction in April 2010. In addition, he is also the legal representative and the sole director of 大慶市大正房地產開發有限公司 (Daqing City Dazheng Real Estate Development Co., Ltd.*), a company involved in the real estate business in Daqing. Mr Zhao CW graduated from 大慶石油學院 (Daqing Petroleum Institute*) (now known as 東北石油大學 (Northeast Petroleum University)) majoring in Civil Construction on 15 July 1979.

Mr Zhao CW is the father of Mr Zhao. Other than serving as the executive chairman of Sino Construction which was listed on the official list of the Singapore Exchange Securities Trading Limited on 12 June 2008, Mr Zhao CW has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Zhao Yu (趙宇), aged 24, was appointed as our Director on 15 October 2009 and he is our Executive Director and Chief Executive Officer, responsible for executing the overall business strategies, facilitating business development and managing the operations of our Group. Mr Zhao obtained his Canadian citizenship in October 2003 through an application for immigration on the basis of investments into Canada which was funded by Mr Zhao CW. He has been with our Group since October 2007 and he is currently the sole executive director and legal representative of Daqing Dairy and Changqing Dairy, since December 2009 and November 2009, respectively and he is, according to PRC laws and regulations, the highest executive authority of these two companies. Notwithstanding that Mr Zhao does not have any permanent residence in China, he had devoted substantial portion of his time in Daqing municipality to firstly acquire further knowledge and expertise in running the principal operations of our Group when he was first appointed as Mr Pan's assistant in August 2008 and since his appointment as Daqing Dairy's sole executive director in December 2009, when he was involved in formulating the overall business strategies, business development and managing the operations of Daqing Dairy with the input of and guidance from Mr Zhao CW. Prior to joining our Group, Mr Zhao was the chief executive officer of 上海騰源廣告有限公司 (Shanghai Teng Yuan Advertising Co., Ltd.*) ("Shanghai Teng Yuan") between August 2007 and May 2008. During his prior appointment with Shanghai Teng Yuan, Mr Zhao was responsible for the overall operational and business strategies and for overseeing the operations of this company. Shanghai Teng Yuan, a Chinese domestic enterprise which was established in August 2007 in Shanghai, Song Jiang District (松江區), was engaged in the advertising and promotion business in the PRC and save that Mr Zhao was the chief executive officer of Shanghai Teng Yuan, Shanghai Teng Yuan did not and does not currently have any business or other relationship with Mr Zhao, Daqing Dairy or any other members of our Group. Shanghai Teng Yuan's existing shareholders namely 李楊立 Li Yang Li (who is also its current sole executive director) and 陳斌 Chen Bin and the previous shareholder and sole executive director namely 孫博文 Sun Bo Wen are not related to Mr Zhao or any of his associates (including but not limited to Mr Zhao CW).

Save that Mr Zhao is the son of Mr Zhao CW, Mr Zhao is not related to the other members of the Board and senior management of our Group. Mr Zhao has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Xia Yuan Jun (夏元軍), aged 47, was appointed as our Executive Director and Deputy Chief Executive Officer on 10 October 2010. He is primarily responsible for overseeing product development as well as assisting our Chief Executive Officer in executing the overall business strategies, facilitating business development, and managing the operations of our Group. Mr Xia joined our Group in March 2008 as Daqing Dairy's general manager, a position he currently holds. He was also appointed, at the time of its establishment, and still is the general manager of Changqing Dairy. Mr Xia is a senior food engineer (食品高級工程師). He graduated from 東北財經大學 (Dongbei University of Finance and Economics) with an Executive Master of Business Administration (高級管理人員工商管理碩士) in January 2007. He has approximately 22 years of experience in the dairy industry. He was the deputy general manager of 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd*), a dairy company in the PRC between July 1987 and June 2004. From June 2004 till March 2008, he was the deputy general manager of 西安銀橋生物科技有限公司 (Xi'an Yinqiao Biological Science and Technology Co. Ltd), also a dairy company in the PRC. Mr Xia was nominated as one of the "Ten Outstanding Technology Persons" in the Chinese dairy processing industry (首屆中國乳品加工業 "十大傑出科技人物") on 7 August 2004 by the Chinese Dairy Technology Committee (中國乳業科技大會組委會) and the China's Livestock Products Research Association (中國畜產品加工研究會).

Mr Xia has not been a director of any other publicly listed company during the three years preceding the date of this Prospectus.

Fu Chong (付翀), aged 44, was appointed as our Executive Director and Chief Operations Officer on 10 October 2010. He is primarily responsible for the overall operations, strategic and business development of our Group. He graduated from 內蒙古師範大學 (Inner Mongolia Normal University) with a Master of Science degree on 9 June 1990 and a Bachelor of Science degree on 10 July 1987. Mr Fu joined our Group in July 2009 as an assistant general manager of the strategic planning of Daqing Dairy prior to his appointment as our Director. During his term with 內蒙古伊利實業集團股份有限公司 (Inner Mongolia Yili Industrial Group Co., Ltd.), a dairy company in the PRC, from July 1995 to July 2005, Mr Fu held various managerial positions including general manager of development department, general manager of information centre, chief information officer, general manager of the group's key customers, assistant general manager of its sales centre and member of the group's strategies management committee. From April 2006 until May 2009, he was a director of 北京清大華智投資擔保公司 (Beijing Tsingda Hua Zhi Investment Guarantee Co., Ltd.*).

Mr Fu has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Fong Pin Jan (方秉權), aged 36, was appointed as our Executive Director and Chief Financial Officer on 10 October 2010. He is primarily responsible for the overall financial affairs and management of our Group, including financial reporting and internal controls, strategic review of potential investments, corporate finance and fund raising and tax structuring. Mr Daniel Fong is also a director of our Singapore subsidiary, Global Milk Singapore since 30 June 2009. Prior to joining our Group, Mr Daniel Fong was appointed as the chief financial officer of Sino Construction between July 2009 and April 2010. Between October 2007 and December 2008, Mr Daniel Fong was the chief financial officer of 雀氏(福建)實業發展有限公司 (Chiaus (Fujian) Industrial Development Co., Ltd.), a company incorporated in the PRC. From July 1998 to September 2007, Mr Daniel Fong was employed as a professional auditor in Ernst & Young. He was also the senior manager in Ernst & Young's IPO team. He graduated from Nanyang Technological University in Singapore with a degree of Bachelor of Accountancy (Second Class Honours (Upper Division)) on 4 July 1998 and is a member of the Institute of Certified Public Accountants of Singapore.

Other than his appointment as a non-executive director of Sino Construction, which was listed on the official list of the Singapore Exchange Securities Trading Limited, on 23 April 2010, Mr Daniel Fong has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Independent non-executive Directors

Cheung Hok Fung Alexander (張學鋒), aged 45, was appointed as our independent non-executive Director on 10 October 2010. He is currently a Barrister-at-Law practising in Hong Kong. He started his accountancy career in the Tax Department of Ernst & Young, Hong Kong in April 1989. He subsequently moved over to Coopers & Lybrand, Singapore before leaving the firm in 1992 as a Senior Tax Associate. He then joined M.C. Packaging (Hong Kong) Limited, the then largest metal and plastic food and beverage packaging manufacturing group in Asia, in December 1992. He worked in the group's corporate development function and was responsible for negotiation, setting-up and control of various sino-foreign joint venture subsidiaries as well as compliance with the Listing Rules. He left the group to start his own public accounting and financial advisory practice in 1994. In 1995, he was instrumental in the listing of Ng Fung Hong Limited on the Stock Exchange, acting as its company secretary and senior finance manager. He has over 20 years of experience in corporate governance, auditing, tax planning and compliance. He is a Certified Public Accountant in Hong Kong (since February 1994), a Chartered Accountant of New Zealand (since February 2005) and a member of The Chartered Association of Certified Accountants (since November 1993). He switched to law in 2006. He holds a Professional Diploma in Company Secretaryship and Administration from Hong Kong Polytechnic (awarded in November 1988), a Master and a Bachelor degree of Laws from the University of New England, Australia, awarded in April 2009 and October 2003, respectively.

Mr Cheung served as an independent non-executive director of Asia Silk Holdings Limited (stock code: 5GP) from February 2007 till August 2010. He currently serves as the lead independent director and audit committee's chairman of Combine Will International Holdings Limited (stock code: F4I). Both Asia Silk Holdings Limited and Combine Will International Holdings Limited are companies listed on the Singapore Exchange Securities Trading Limited. Other than the above, Mr Cheung has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Chan Wah Man Carman (陳華敏), aged 41, was appointed as our independent non-executive Director on 10 October 2010. Ms Chan graduated from Bemidji State University in the State of Minnesota, the United States with a degree of Bachelor of Science in August 1993 and obtained a degree of Master of Accounting from Curtin University of Technology, Australia in February 2000. She is also a member of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant in Australia. Ms Chan has over 16 years of experience in private equity, corporate finance and financial advisory. She is licensed to conduct Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. From March 1996 until February 1998, she was employed by Seapower Financial Services Group. She left the group as an assistant manager of its corporate finance department. Between March 1998 and August 2001, she was an assistant director at Baring Capital (China) Management Limited, ING Group and between January 2002 and December 2003, she was an associate director at Suez Asia (Hong Kong) Limited. From January 2004 until January 2008, she was employed in various companies involving in fund raising activities and assisted these companies in the preparation of initial public offerings. From February 2008 to April 2009, she was an associate director at Rabobank International Hong Kong Branch, handling mergers and acquisitions and corporate advisory deals. She is currently the head of private equity department at Wallbanck Brothers Securities (Hong Kong) Limited.

Save that Ms Chan is an independent non-executive director of Man Wah Holdings Limited (stock code: 01999), a company listed on the Main Board of the Stock Exchange, Ms Chan has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Zhang Zhou (張舟), aged 47, was appointed as our independent non-executive Director on 10 October 2010. Mr Zhang graduated from 北京師範大學 (Beijing Normal University) with a Bachelor degree in Economics in July 1985 and obtained a Master degree in Economics from 復旦大學 (Fudan University) in July 1994. He is an associate professor specialising in International Trade and Finance. From July 1985 until July 2002, he was a lecturer and an associate professor at 內蒙古大學經濟管理學院 (School of Economics and Management, Inner Mongolia University). Since August 2002, Mr Zhang has been an associate professor at 哈爾濱工業大學(威海) (Harbin Institute of Technology at

Weihai) where he speaks on, among other subjects, marketing, brand strategy management, advertising, relationship marketing and integrated marketing communications. From April 2004 to April 2005, Mr Zhang was employed as the general manager of brand management department at 內蒙古伊利實業集團股份有限公司 (Inner Mongolia Yili Industrial Group Co., Ltd.).

Mr Zhang has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

SENIOR MANAGEMENT

Our senior management comprises our Executive Directors, our company secretary and the following persons:

Name	Age	Position
Ma Zhan Jun (馬占軍)	36	Financial Controller
Du Wei (杜偉)	38	Assistant General Manager (Sales and Logistics)
Zhang Bing (張兵)	40	Assistant General Manager (Production)
Shi Ji Yu (石繼瑜)	40	Assistant General Manager (Purchasing)
Gao Feng (高峰)	46	Executive Officer
Zhao Jin Xiang (趙金祥)	38	Deputy Assistant General Manager (Production)

Ma Zhan Jun (馬占軍), aged 36, is the financial controller of Daqing Dairy primarily responsible for managing the financial operations of Daqing Dairy. He joined our Group in October 1996 after he graduated from 佳木斯工學院 (Jiamusi Institute of Technology*) majoring in Accounting on 10 July 1996. Mr Ma has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Du Wei (杜偉), aged 38, is Daqing Dairy's assistant general manager (sales and logistics) and primarily responsible for managing the sales and logistics operations of Daqing Dairy. He joined our Group in January 1996. Mr Du graduated from 中共哈爾濱市委黨校 (Harbin Party School of The Communist Party of China*) majoring in Economic Management on 10 January 2000. Mr Du has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Zhang Bing (張兵), aged 40, is currently the assistant general manager (production) of Daqing Dairy's production department and is primarily responsible for managing our Daqing production facilities. He joined our Group in March 2009 as the deputy assistant general manager of Daqing Dairy's production department before his promotion to his current position in September 2009. He received tertiary education from 佳木斯市聯合職工大學 (Jiamusi Employee University*) in disciplines relating to Food Engineering between September 1990 and July 1993. He has over eight years of experience in the dairy industry. Prior to joining our Group, he held management positions at various dairy products companies. From February 2001 until January 2007, he was the manager of the production department at 黑龍江省完達山乳業股份有限公司 (Heilongjiang Wondersun Dairy Co., Ltd*). Between February 2007 and August 2007, he was employed as consultant at 上海得丁企業管理咨詢有限公司 (Shanghai Denton Management Consultancy Ltd*) where he was responsible for providing consultancy services in relation to dairy production. From September 2007 until December 2008, he was the manager of 雅士利集團龍江分公司 (Yashily Group Longjiang Branch*). Mr Zhang Bing has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Shi Ji Yu (石繼瑜), aged 40, is Daqing Dairy's assistant general manager (purchasing) and primarily responsible for managing the raw material purchasing and milk procurement operations of Daqing Dairy. Between August 2008 and October 2009, he was also the assistant general manager of Changqing Dairy. Mr Shi joined our Group in August 2006. He received tertiary education from 大慶職工大學 (Daqing Employee University*) in disciplines relating to Mining Machinery between August 1993 and July 1996. Prior to joining the Group, he worked at 大慶石油第四採油廠 (Fourth Oil Production Factory of Daqing Oil Field*) from 1999 to 2006. Mr Shi has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Gao Feng (高峰), aged 46, is an executive officer of our Group primarily responsible for developing our dairy farm business. He joined our Group in March 2010. Mr Gao is a senior veterinarian. He received tertiary education from 黑龍江八一農墾大學 (Heilongjiang Bayi Agricultural University) in disciplines relating to veterinary. He also completed an Advanced Livestock Management training at the same university in December 1994. Prior to joining our Group, Mr Gao held various positions as veterinarian, head of cattle production and head of animal husbandry in 黑龍江省八五一一農場 (Heilongjiang Province 8511 Farm*) in China between August 1981 and December 1994. From January 1995 to November 1996, he was the assistant head of the cattle farm with 黑龍江省和平牧場 (Heilongjiang Province Heping Farm*) and head of the dairy factory of 黑龍江省和平乳品廠 (Heilongjiang Province Heping Dairy Factory*). In April 1997, Mr Gao was also appointed as assistant head of 黑龍江省八五八農場 (Heilongjiang Province 858 Farm*). Thereafter, Mr Gao was a general manager at 黑龍江農墾完達山牧業有限公司 (Heilongjiang Agricultural Wondersun Livestock Co., Ltd.*), a subsidiary of 黑龍江完達山哈爾濱乳品有限公司 (Heilongjiang Wondersun Harbin Dairy Co., Ltd*), a dairy company in the PRC. In that capacity, Mr Gao was charged with the management and the day to day operations of 黑龍江農墾完達山牧業有限公司 (Heilongjiang Agricultural Wondersun Livestock Co., Ltd.*), which is responsible for the establishment and management of cattle farms, the production and supply of raw milk and cattle feed for the group of companies of 黑龍江完達山哈爾濱乳品有限公司 (Heilongjiang Wondersun Harbin Dairy Co., Ltd*).

Mr Gao has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Zhao Jin Xiang (趙金祥), aged 38, is the deputy assistant general manager of Daqing Dairy's production department primarily responsible for assisting our assistant general manager of production department in formulating production plan and managing the production. He has been with our Group since December 1989. Between September 1993 and July 1997, he studied at 黑龍江大學 (Heilongjiang University) and majored in Economic Management.

Mr Zhao Jin Xiang has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

COMPANY SECRETARY

Ho Wing Yan (何詠欣), aged 29, was appointed as the company secretary of our Company with effect from 14 April 2010. Ms Queenie Ho obtained a degree in bachelor of business administration (applied economics) from Hong Kong Baptist University in November 2004 and a master degree of corporate governance from The Open University of Hong Kong in June 2009. She is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms Queenie Ho has extensive experiences in the company secretarial field for listed companies. Prior to joining our Group, Ms Queenie Ho was a company secretarial officer with Climax Management Company Limited between September 2007 and April 2009. Subsequently she commenced her employment with BMI Corporate Services Limited ("**BMI**") in July 2009 as a senior company secretarial officer and she is currently still employed by BMI.

AUDIT COMMITTEE

We established an audit committee on 10 October 2010 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to provide our Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Board. The Audit Committee consists of three independent non-executive Directors, Ms Carman Chan (being the chairman of the Audit Committee and a Hong Kong Certified Public Accountant), Mr Alexander Cheung and Mr Zhang.

REMUNERATION COMMITTEE

We established a remuneration committee on 10 October 2010 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The primary duties of the Remuneration Committee include (but without limitation): (a) making recommendations to our Directors on our policy and structure for all remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (b) determining the terms of the specific remuneration package of our Directors and senior management; (c) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time; and (d) considering and approving the grant of share options to eligible participants under the Share Option Scheme. The Remuneration Committee consists of five members, of whom three are independent non-executive Directors, being Mr Zhang (as the chairman of the Remuneration Committee), Mr Alexander Cheung and Ms Carman Chan, Mr Zhao, our Executive Director and Chief Executive Office, and Mr Zhao CW, our Executive Director and Chairman.

NOMINATION COMMITTEE

We established a nomination committee on 10 October 2010 with written terms of reference as recommended in paragraph A4.5 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to formulate the nomination procedures and standards for candidates for Directors and senior management, to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and senior management and to recommend suitable candidates for Directors and senior management to our Board. The Nomination Committee currently comprises one Executive Director, namely Mr Zhao, and three independent non-executive Directors, namely Mr Alexander Cheung, Ms Carman Chan and Mr Zhang. Mr Alexander Cheung is the chairman of the Nomination Committee.

COMPLIANCE ADVISER

We have appointed, Quam Capital Limited, as our compliance adviser under Rule 3A.19 of the Listing Rules to advise us on the following matters in accordance with Rule 3A.23 of the Listing Rules:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry of us of unusual movements in the price or trading volume of our listed securities or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we send our financial results as required under Rule 13.46 of the Listing Rues for the first full financial year commencing after the Listing Date.

DIRECTORS' REMUNERATION

Each of the Executive Directors has entered into a service agreement with us commencing from the Listing Date for a maximum period of three years, respectively, which may be terminated by either party by serving on the other party a prior written notice of not less than a month expiring not earlier than the end of the first year after the Listing Date. Under the service agreements, the Executive Directors are entitled to an aggregate annual basic salary of approximately RMB3.8 million (or its equivalent in other currencies). Each of the Executive Directors is also entitled to a discretionary bonus as determined by the Remuneration Committee by reference to the performance of our Group. Particulars of the terms of the above service contracts are set out in the section headed "Further information about the Directors — Directors' service contracts" in Appendix VI to this prospectus.

In respect of each of the financial years ended 31 December 2008 and 2009, no remuneration was paid to our Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors for each of the financial years ended 31 December 2008 and 2009 for the loss of office as 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. None of our Directors waived any emoluments for the financial years ended 31 December 2008 and 2009.

In respect of each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, no remuneration was paid to the directors of the Daqing Dairy Group as an inducement to join or upon joining the Daqing Dairy Group. No compensation was paid to, or receivable by, the directors of the Daqing Dairy Group or past directors of the Daqing Dairy Group for the Predecessor Track Record Periods for the loss of office as director of the Daqing Dairy Group or of any other office in connection with the management of the affairs of the Daqing Dairy Group. None of the directors of the Daqing Dairy Group waived any emoluments for the Predecessor Track Record Periods.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our Directors for the financial year ending 31 December 2010 will be approximately RMB0.8 million.

The five highest paid individuals of our Group included one Director for the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010 who have been included in the aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits-in-kind and contributions to pension schemes of our Directors above. Excluding such Director, the aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits-in-kind and contributions to pension schemes to the five highest paid individuals by our Group in respect of each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010 was RMB106,681, RMB253,171 and RMB134,047, respectively.

In respect of each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, no remuneration was paid to the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by such individuals for each of the three financial years for the loss of any office in connection with the management of the affairs of any member of our Group.

The five highest paid individuals of the Daqing Dairy Group included two former directors of the Daqing Dairy Group for the financial year ended 31 December 2007 and one former director of the Daqing Dairy Group for the Predecessor Track Record Period in 2008 who have been included in the aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits-in-kind and contributions to pension schemes of the director of the Daqing Dairy Group. Excluding such former director of the Daqing Dairy Group, the aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits-in-kind and contributions to pension schemes to the five highest paid individuals by the Daqing Dairy Group in respect of the financial year ended 31 December 2007 and the Predecessor Track Record Periods was RMB101,452 and RMB121,271, respectively.

In respect of each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008, no remuneration was paid to the five highest paid individuals of the Daqing Dairy Group as an inducement to join or upon joining the Daqing Dairy Group. No compensation was paid to or receivable by such individuals for the Predecessor Track Record Periods for the loss of any office in connection with the management of the affairs of the Daqing Dairy Group.

Save as disclosed above, no other payments have been paid or are payable in respect of each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010 to our Directors by our Group.

Save as disclosed above, no other payments have been paid or are payable in respect of each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008 to the directors of the Daqing Dairy Group by the Daqing Dairy Group.

EMPLOYEES

As at 30 June 2010, we had over 500 full-time employees. The following table sets out a breakdown of our personnel by function as at 30 June 2010:

Management, finance and administration	74
Production	221
Sales, marketing and logistics	160
Procurement	11
Quality control	29
Product development	6
Total	501

Our relationship with employees

Our Directors believe that our employees are among the most valuable assets of our Group and have contributed to the success of our Group. We offer training on our Group and its structure to new employees. We also provide in-house training to our employees to enhance their knowledge of our products, production methods, production safety and corporate culture.

During the Track Record Period, we did not experience any significant turnover of staff or any disruption to our business operations due to labour disputes. Our Directors consider that we have maintained a good relationship with our employees.

Employee benefits

In the PRC, in accordance with the relevant national and local labour and social welfare laws and regulations, we are required to pay in respect of our employees in the PRC various social security funds including basic pension insurance (基本養老保險), basic medical insurance (基本醫療保險), unemployment insurance (失業保險), work-related injury insurance (工傷保險), and maternity insurance (生育醫療保險). According to the current applicable local regulations, the percentages of the various insurances applicable to us are set out below:

Social security funds	Percentage of the relevant employees' monthly salary
Basic pension insurance	20.0
Basic medical insurance	6.0
Unemployment insurance	2.0
Work-related injury insurance	1.0-1.5
Maternity insurance	0.6-1.0

The contributions paid by us for each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010 were approximately RMB0.6 million (equivalent to approximately HK$0.7 million), RMB1.8 million (equivalent to approximately HK$2.0 million) and RMB0.9 million (equivalent to approximately HK$1.1 million), respectively.

The contributions paid by the Daqing Dairy Group for each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008 were approximately RMB0.8 million (equivalent to approximately HK$0.9 million) and RMB0.9 million (equivalent to approximately HK$1.0 million), respectively.

During the Track Record Period, we did not make any contributions to the housing provident fund. Please refer to the section headed "Risk Factor — We did not comply with the PRC regulations relating to the housing provident fund" in this prospectus for further details.

Save as disclosed in this prospectus, our PRC Legal Advisers have advised us that based on the letter of confirmation dated 5 March 2010 from the Daqing Labour Security Supervision Bureau, we are in compliance with the applicable PRC laws and regulations on labour and social welfare.

Staff costs

The staff costs (including staff welfare expenses but excluding director remuneration, which are set out in the section headed "Directors' remuneration" above) paid by us for each of the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010 were approximately RMB3.2 million (equivalent to approximately HK$3.7 million), RMB8.3 million (equivalent to approximately HK$9.6 million) and RMB4.9 million (equivalent to approximately HK$5.6 million), respectively.

The staff costs (including staff welfare expenses but excluding director remuneration, which are set out in the section headed "Directors' remuneration" above) paid by the Daqing Dairy Group for each of the financial year ended 31 December 2007 and the Predecessor Track Record Period in 2008 were approximately RMB3.1 million (equivalent approximately to HK$3.5 million) and RMB3.7 million (equivalent to approximately HK$4.2 million), respectively.

Share Option Scheme

We conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix VI to this prospectus.

Pursuant to the Regulations on the Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) which were promulgated by the State Council and became effective on 29 January 1996, and amended on 14 January 1997 and 1 August 2008, the Measures for Individual-related Foreign Exchange Administration (《個人外匯管理辦法》), which were promulgated by the PBOC on 25 December 2006 and became effective 1 February 2007, the Implementing Rules for the Measures for Individual related Foreign Exchange Administration (《個人外匯管理辦法實施細則》), which were promulgated by SAFE on 5 January 2007 and became effective 1 February 2007, if any of our PRC employees intends to participate in the Share Option Scheme after the Listing, they must, through their employer company or such employer company's agent in the PRC, make necessary registration with and obtain prior approval by SAFE. However, prior to the Listing, the PRC employees are not required to register with or obtain approval from SAFE for participating in the Share Option Scheme. Under the Share Option Scheme, the Company will not grant options if doing so would cause the Company to be in breach of any relevant laws or regulations. In addition, for an employee who is a PRC resident, the employee may not exercise options unless (i) the employee is in compliance with PRC legal or regulatory restrictions or conditions on such issue, and (ii) the employee represents and warrants to the Company that he or she satisfies the relevant legal and regulatory requirements on foreign exchange control in exercising such options.

SHARE CAPITAL

Our Company's authorised and issued share capital immediately following the Capitalisation Issue and the Global Offering will be as follows:

Authorised share capital:		*HK$*
38,000,000,000	Shares	380,000

Issued and to be issued, fully paid or credit as fully paid, upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised)

757,879	Shares in issue as at the date of this prospectus	7.58
757,122,121	Shares to be issued under the Capitalisation Issue	7,571.22
252,620,000	Shares to be issued pursuant to the Global Offering	2,526.20
1,010,500,000	Total	10,105.00

Issued and to be issued, fully paid or credited as fully paid, upon completion of the Global Offering (assuming that the Over-allotment Option is exercised in full)

757,879	Shares in issue as at the date of this prospectus	7.58
757,122,121	Shares to be issued under the Capitalisation Issue	7,571.22
290,513,000	Shares to be issued pursuant to the Global Offering	2,905.13
1,048,393,000	**Total**	10,483.93

Assumptions

The above table assumes that the Capitalisation Issue and the Global Offering have become unconditional. It takes no account of any Shares (a) which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or (b) which may be allotted and repurchased by our Company pursuant to the Issue Mandate and Repurchase Mandate as described below.

Ranking

The Offer Shares will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned in this prospectus, and will qualify in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus other than participation in the Capitalisation Issue.

CAPITALISATION ISSUE

Under the written resolutions of our Shareholders passed on 10 October 2010, our Directors were authorised to allot and issue a total of 757,122,121 Shares credited as fully paid at par to the Shareholder(s) whose name(s) appear(s) on the register of members of our Company at the close of business on 9 October 2010 by way of capitalisation of the sum of approximately HK$7,571.22 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued under this resolution shall rank *pari passu* in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with a total nominal value of not more than the sum of:

(a) 20% of the aggregate nominal value of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration of any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); and

(b) the aggregate nominal value of Shares repurchased by us pursuant to the Repurchase Mandate.

Our Directors may, in addition to the Shares which they are authorised to issue under the Issue Mandate, allot, issue and deal in the Shares pursuant to a rights issue, or any scrip dividend shares or similar arrangements providing for allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association.

The Issue Mandate will expire:

— at the conclusion of our Company's next annual general meeting;

— upon the expiry of the period within which our Company is required by applicable laws or the Articles of Association to hold its next annual general meeting; or

— when varied or revoked by an ordinary resolution of its Shareholders in general meeting,

whichever occurs first.

For further information on the Issue Mandate, please refer to the section headed "Further information about the Group — Written resolutions of our Shareholders passed on 10 October 2010" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with nominal value of not more than 10% of the total nominal value of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration of any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

The Repurchase Mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Further information about the Group — Repurchase of our Shares" in Appendix VI to this prospectus.

The Repurchase Mandate will expire:

— at the conclusion of our Company's next annual general meeting;

— upon the expiry of the period within which our Company is required by applicable laws or the Articles of Association to hold its next annual general meeting; or

— when varied or revoked by an ordinary resolution of its Shareholders in general meeting,

whichever occurs first.

For further information on the Repurchase Mandate, please refer to the section headed "Further information about the Group — Repurchase of our Shares" in Appendix VI to this prospectus.

You should read the following discussion and analysis in conjunction with the Group's audited consolidated financial information and the audited consolidated financial information of the Daqing Dairy Group and the summary financial data, in each case, together with the accompanying notes thereto included elsewhere in this prospectus. The Group's financial information and the Daqing Dairy Group's financial information have been prepared in accordance with IFRS. You should read the whole of the accountants' reports included as "Appendix IA — Accountants' Report of the Group" and "Appendix IB — Accountants' Report of the Daqing Dairy Group" to this prospectus and not rely merely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance which involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results reported in future periods could differ materially from those discussed below. Factors that could cause or contribute to such differences include those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this prospectus.

The discussion of financial information for the Track Record Period contained in this section headed "Financial Information" is based on the financial information of the Daqing Dairy Group. Except where the context indicates otherwise, when we refer to "our revenues," "our sales," "our cost of sales," and other financial data and operating statistics for the Track Record Period, we mean the consolidated revenues, sales, and cost of sales and other financial data and statistics of the Daqing Dairy Group.

OVERVIEW OF OUR OPERATIONS

We are one of the top ten local brand milk powder companies in the PRC market [(Note 1)]. We are principally engaged in the production, marketing, and sale of medium-to-high and premium-priced milk formula products in China. Our dairy products are classified into the following two main categories:

- milk formula products; and
- whole milk powder products.

Our milk formula products and whole milk powder products include a full range for infants and children. Our infant and paediatric milk formula products aim to supply the balanced nutrition that an infant or a child needs in his or her first few months and throughout the various stages of childhood growth and development. In addition, we have milk formula products fortified with various vitamins

Note:

(1) According to the Euromonitor International Report, we ranked ninth among the local brand owners in the Milk Powder market in China with a 1.5% of market share and 15th among the brand owners in the Milk Powder market in China (which comprised both foreign and local brand owners) with a 1.5% of market share in terms of sales value in 2009. We have commissioned Euromonitor International, an Independent Third Party, to prepare the Euromonitor International Report.

and essential minerals that aim to provide supplements in meeting special nutritional requirements for older children, adults, the elderly, pregnant and lactating women. Our Directors believe that our broad range of products enables us to better target consumers across different income groups with different product value propositions, thereby satisfying their particular needs.

Our main product category, milk formula products, comprises the Shi Jia Series 仕加配方奶粉系列, the Emilon Series 愛美樂配方奶粉系列 and the Daqing Series 大慶牌配方奶粉系列. The products in our Shi Jia Series are designed for consumers of premium-priced milk formula products which are suitable for infants and children at different growth stages as well as post-natal women. We aim to target our Shi Jia Series at consumers in second- and third-tier municipalities, particularly eastern coastal cities of the PRC. The products in our Emilon Series are designed for consumers of medium-to-high priced milk formula products catering for the changing nutritional needs of growing infants and children. We aim to target our Emilon Series at consumers in second- and third-tier municipalities. The products in our Daqing Milk Formula Series are designed for consumers of low-to-medium priced milk formula products suitable for children, adults and the elderly. We aim to target our Daqing Milk Formula Series at consumers in villages and counties near second- and third-tier municipalities. Our whole milk powder products are sold under the brand 大慶牌 "Daqing". In addition, we produce a variety of ice cream products under our own brand 慶乳"Qingru" with over 10 flavours.

We mainly sell our milk formula products and whole milk powder products through an extensive network of 120 distributors in China which are Independent Third Parties. Our distributors sell our milk formula products and whole milk powder products to their sub-distributors or directly to retail outlets, such as department stores, shopping malls, supermarkets, and children's and parenting specialty stores, in 21 provinces and Chongqing municipality. We have non-exclusive agreements with all of our current distributors. These agreements are generally for a term of one year. Our Directors have confirmed that a majority of our current distributors with whom we have entered into the distribution agreements are privately-owned entities. We sell our milk formula products and Daqing sweetened whole milk powder directly to supermarkets and other retail chain stores in Daqing municipality and other customers who purchase from us on an ad hoc basis and our whole milk powder (packaged in 25 kg bags) directly to our customers such as food processing enterprises. We sell our ice cream products directly to retail outlets in Daqing municipality and the areas which are in close proximity to Daqing municipality.

According to the Euromonitor International Report, we ranked ninth among the local brand owners in the Milk Powder market in China with a 1.5% of market share and 15th among the brand owners in the Milk Powder market in China (which comprised both foreign and local brand owners) with a 1.5% of market share in terms of sales value in 2009.

Since the establishment of our production facility in Daqing in 1970, we have received various awards and certifications which have helped increase the brand recognition of our products.

We source raw milk, the primary raw material for the production of our products, from selected milk collection centres which, in turn, collect raw milk from dairy farms and individual dairy farmers in proximity to Daqing municipality.

We have two production facilities in Daqing municipality and Wuchang municipality. Our current design annual milk powder production capacity of our milk formula products and whole milk powder products is approximately 31,011 tonnes.

We have adopted a strict quality control system over our production, from the sourcing of the raw milk to production, and have adopted stringent quality standards which comply with the applicable PRC government standards. This was evidenced by the various awards and certifications we received, including the GMP certification for the phase one production lines at our Daqing production facilities in respect of the production of our milk formula products and whole milk powder products, which we obtained in 2007. For further details, please refer to the section headed "Business — Awards, permits and certifications" in this prospectus. In 2010, we obtained ISO9001:2008 certification for the design, production and sale of dairy products (milk powder and liquid milk), infant milk formula and cold beverages. We ensure that all raw milk supplied to us is tested and analysed on-site for its content before we use them in our production. We conduct periodical inspection on our finished products to ensure compliance with the applicable quality standards in the PRC. As far as our Directors are aware, our products have not been cited for quality issues by either government entities or the media in the PRC.

BASIS OF PRESENTATION

This prospectus includes two accountants' reports as Appendix IA and Appendix IB, respectively:

- the Accountants' Report of the Group, which includes the consolidated financial information of the Group for the period from 8 October 2007 to 31 December 2007, the two financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2009 and 2010; and

- the Accountants' Report of the Daqing Dairy Group, which includes the consolidated financial information of the Daqing Dairy Group for the financial year ended 31 December 2007, the Predecessor Track Record Period in 2008, the two financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2009 and 2010.

We have included in this prospectus separate accountants' reports and summary financial data for both the Group and the Daqing Dairy Group because, in accordance with IFRS, the transaction comprising the acquisition of the entire equity interest of Daqing Dairy by Global Milk Singapore did not occur until 25 July 2008 and has been accounted for using the purchase accounting method. Please refer to the section headed "History, Reorganisation and Group Structure — Reorganisation — Acquisition of the entire equity interest in Daqing Dairy by Global Milk Singapore" in this prospectus for further information. Accordingly the consolidated financial information of the Group for the financial year ended 31 December 2008 did not incorporate the financial information of the Daqing Dairy Group during the period from 1 January 2008 to 24 July 2008. Therefore, in order to help you gain an understanding and increase the comparability of the historical results and related financial condition of our business for the entire Track Record Period, we have included in this prospectus the consolidated financial information of the Daqing Dairy Group for the financial year ended 31

December 2007, the Predecessor Track Record Period in 2008, the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2009 and 2010. However, the consolidated financial information of the Group differs from the consolidated financial information of the Daqing Dairy Group in the following principal respects:

- The fair value of Daqing Dairy upon acquisition by Global Milk Singapore was determined by calculating Daqing Dairy's carrying amount before the combination, which was RMB279.7 million, and making certain fair value adjustments of RMB44.3 million (inclusive of deferred tax impact of RMB19.0 million). As a result of the fair value adjustments, the Group's net assets at acquisition were approximately RMB44.3 million greater than Daqing Dairy's net assets as at 24 July 2008. The following table and the accompanying footnotes below set out the fair value adjustments.

	Daqing Dairy's carrying amount before combination	Fair Value Adjustments	Fair Value of the Daqing Dairy Group post acquisition
		RMB (thousands)	
Property, plant and equipment	118,599	17,267 (Note 1)	135,866
Intangible assets — trademark	—	15,000 (Note 2)	15,000
Prepaid lease payments	6,536	25,164 (Note 3)	31,700
Deposits for acquisition of property, plant and equipment	56,367	—	56,367
Deferred tax assets	4,734	—	4,734
Inventories	51,796	5,875 (Note 4)	57,671
Trade and other receivables	13,281	—	13,281
Bank balances and cash	93,150	—	93,150
Trade and other payables	(22,254)	—	(22,254)
Obligations under finance lease	(820)	—	(820)
Income tax liabilities	(11,663)	—	(11,663)
Bank borrowings	(30,000)	—	(30,000)
Deferred tax liabilities	—	(18,988) (Note 5)	(18,988)
	279,726	44,318	324,044
Discount on acquisition			(5,268) (Note 6)
Total consideration recorded as payable			318,776 (Note 7)

Notes:

(1) This was a result of differences between the carrying value of property, plant and equipment and its fair value based on the estimated loss on the planned disposal of the standby production line for the Daqing plant.

(2) This was a fair value adjustment in recognition of Daqing Dairy's "Emilon" trademark. The intangible asset value of the trademark is amortised by the Group on a straight line basis over a period of 10 years and is recognised as an amortisation expense within the administration expenses in its consolidated statement of comprehensive income.

(3) The carrying value of Daqing Dairy's prepaid lease payments reflect the value of the land use rights at the time they were prepaid. This was a fair value adjustment to reflect the increase in valuation of land use rights of our Daqing plant from its carrying value.

(4) This was a fair value adjustment for Daqing Dairy's inventories assumed on the date of the acquisition by the Group based on the estimated selling price of these inventories less the estimated cost to sell those inventories in the ordinary course of business.

(5) This was a fair value adjustment for the deferred tax liabilities arising from changes in the fair values of net assets acquired as well as withholding tax on undistributed profits of Daqing Dairy assumed from the acquisition.

(6) The discount on acquisition of RMB5.3 million was recognised as a one-off gain recorded within other gains and losses for the Group's consolidated statement of comprehensive income for the financial year ended 31 December 2008. Please refer to the section headed "— Operating Results — Other Gains and Losses" in this prospectus for further information.

(7) While the acquisition was recognised as at 25 July 2008, the consideration was not settled until the financial year ended 31 December 2009.

- The acquisition and its fair value adjustments have several affects on the Group's consolidated statement of comprehensive income. First, the discount on acquisition of RMB5.3 million was recognised as part of other gains and losses for the financial year ended 31 December 2008. As a result of the Group's fair value adjustment of property, plant and equipment, the Group recognised a greater depreciation expense than the Daqing Dairy Group. For the financial year ended 31 December 2009 and six months ended 30 June 2010, the Group's depreciation of property, plant and equipment was RMB19.2 million and RMB12.7 million, respectively, whereas the Daqing Dairy Group's depreciation of property, plant and equipment for the same period was RMB15.7 million and RMB11.9 million respectively. Also, the RMB15.0 million fair value adjustment for the Emilon trademark is amortised on a straight line basis over a period of 10 years. Amortisation of trademarks, which is recognised as part of the administration expenses, for the Group was RMB0.6 million and RMB1.5 million and RMB0.8 million for the financial years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, respectively, whereas the Daqing Dairy Group's amortisation of trademark for the financial year ended 31 December 2009 was RMB20,000. As a result of the fair value adjustment for inventories, the Group's gross profit differed from that of the Daqing Dairy Group's gross profit for the financial year ended 31 December 2008 in part due to the actual selling price and cost of sales versus the estimated selling price and cost of sales used in the fair value adjustment. For the financial year ended 31 December 2009 and the six months ended 30 June 2010, the Group's release of prepaid lease payments was RMB0.7 million and RMB0.3 million, respectively, whereas the Daqing Dairy Group's release of prepaid lease payments for the same periods were RMB135,000 and RMB68,000, respectively, as a result of changes in the fair value of the prepaid lease payments for land use rights. For the financial year ended 31 December 2009, the Group's income tax expense was RMB61.9 million, whereas the Daqing Dairy Group's income tax expense for the financial year ended 31 December 2009 was RMB56.8 million, as a result of the Group's recognition of RMB5.1 million in deferred taxation in the financial year ended 31 December 2009 as part of the Group's fair value adjustment for deferred taxation. For the six months ended 30 June 2010, the Group's tax expenses were RMB41.0 million, which was approximately RMB0.4 million less than that of the Daqing Dairy Group due to a deferred tax asset being recognised for the above fair value adjustment. Please refer to the sections headed "Connected Transactions" and "— Operating results — Administrative Expenses" and the footnotes in the table above in this prospectus for further information.

- The level of debt at the Daqing Dairy Group level only reflects a portion of the total debt of the Group, which is fully consolidated at the Group level. Please refer to the section headed "— Liquidity and Capital Resources" in this prospectus for further information.

The consolidated financial information of the Daqing Dairy Group during the Track Record Period represented the consolidated financial information of Daqing Dairy for the three years ended 31 December 2009 and the six months ended 30 June 2010 and of Changqing Dairy from the effective date of acquisition by Daqing Dairy on 16 November 2009 to 30 June 2010. However, the consolidated financial information of our Group incorporated the financial information of our Company and Global Milk Singapore from15 October 2009 and 8 October 2007, respectively, and also the consolidated financial information of the Daqing Dairy Group from 25 July 2008 to 30 June 2010. The financial information of our Group and the Daqing Dairy Group have been prepared on different basis and length of periods and accordingly, the financial information of the Group and the Daqing Dairy Group are not directly comparable.

In addition, although Global Milk Singapore was incorporated on 15 September 2006, the financial information of the Group has presented the financial information of the Group from 8 October 2007, which was the date Global Milk Singapore was acquired by the Controlling Shareholder. However, Global Milk Singapore did not commence its business operations until its acquisition of the entire equity interest of Daqing Dairy on 25 July 2008. As a result, the financial information of the Group relating to the period from 8 October 2007 to 31 December 2007 found in the section headed "Appendix IA — Accountants' Report of the Group" of this prospectus has not been discussed in this section headed "Financial Information". Furthermore, while the financial information of the Group for the financial year ended 31 December 2008 is discussed in some detail in this section headed "Financial Information" the Group only had substantial business operations from 25 July 2008 and as such has a material effect on that year's comparability with the Group's financial year ended 31 December 2009, which had business operations for the full year.

FACTORS AFFECTING OUR OPERATING RESULTS AND FINANCIAL POSITION

Our business, financial position and operating results, as well as the period-to-period comparability of our operating results, have been and will continue to be affected by a number of factors, some of which are beyond our control, including those set out below.

Demand for Our Products

We generate our revenue mainly from the sale of milk formula products and whole milk powder products, with medium-to-high priced and low-to-medium priced milk formula products as our major products. In general, demand for our products reflects demand for milk powder products in China and in particular demand for milk formula products. This in turn depends on factors such as China's economic conditions, the rate of urbanisation, the rate of increase in household disposable income and the number of newborns each year in China. However, we can also be affected by these factors on smaller regional or economic scales because some of our products target consumers in different geographic locations with different consumer purchasing power.

Production Capacity

Our sales volume is dependent on our production capacity. We have two production facilities in Daqing municipality and Wuchang municipality. All the milk formula products and whole milk powder products sold to our consumers in the PRC are manufactured in our productions plants under a strict quality control system. Please refer to the section headed "Business — Production" in this prospectus for further information. We have recently completed the construction of the phase two production line at our Daqing production facilities and the production line at our Changqing production facility, which should increase our milk powder production capacity from 35 tonnes per day to 106 tonnes per day. The Changqing production facility was acquired as part of the acquisition of Changqing Dairy by the Daqing Dairy Group pursuant to an equity transfer agreement dated 16 November 2009. We have not begun operation at our Changqing production facility. As the volume of raw milk supply we require in 2010 depends on the demand of our products in 2010 and there is a sufficient number of raw milk collection centers in Heilongjiang province from which we can purchase raw milk, our Directors believe that we will be able to source sufficient raw milk for our production in 2010.

Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery. The table below sets out our sales volume and revenue of each major product line for the periods indicated:

	The Daqing Dairy Group							
	Year ended 31 December						Six months ended 30 June	
	2007 (Note 1)		2008		2009		2010	
	Volume	Revenue	Volume	Revenue	Volume	Revenue	Volume	Revenue
	(tonnes)	RMB (thousands)	(tonnes)	RMB (thousands)	(tonnes)	RMB (thousands)	(tonnes)	RMB (thousands)
Milk formula products (Note 2)	3,937.1	221,859	5,955.0	366,482	7,906.1	431,605	5,352.2	335,508
Whole milk powder products	3,841.7	83,604	2,866.3	65,034	2,829.8	61,671	1,059.8	26,100
Others (Note 3)	—	—	331.5	1,800	3,659.3	16,759	2,940.0	12,259

Notes:

(1) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

(2) Revenue from the sale of milk formula products in 2007 includes the sale of the remaining inventory, such as our Mei Er Si Te Series and our Qiao Fu Series, which were discontinued in 2007. We undertook a strategic review of our existing brands of "Daqing", Mei Er Si Te Series and Qiao Fu Series in early 2007. Pursuant to the review, we decided that having two milk formula product brands without a clearly defined market segment was inefficient in terms of brand promotion and development. As such, our management decided to discontinue the brands under Mei Er Si Te Series and Qiao Fu Series and instead developed the new brand of 愛美樂 "Emilon" to replace the brands of Mei Er Si Te Series and Qiao Fu Series. The "Daqing" brand was retained to focus on consumers of low-to-medium priced milk formula products while the "Emilon" brand was then positioned to target consumers of medium-to-high priced milk formula products.

(3) Revenue from the sale of other products in 2008, 2009 and the six months ended 30 June 2009 and 2010 represents the sale of our ice cream products.

Our milk formula product sales volume increased by 51.3% from 3,937.1 tonnes for the financial year ended 31 December 2007 to 5,955.0 tonnes for the financial year ended 31 December 2008, as a result of our change in product strategy and the reallocation of existing production facilities to milk formula production and the fact that our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at our production facility. Our milk formula products sales volume has further increased by 32.8% to 7,906.1 tonnes in the financial year ended 31 December 2009 as a result of the expansion of our sales distribution network. For further details of our production facilities, please refer to the section headed "Business — Production."

Given the enlargement of our distribution network and the related increase in demand for our milk formula products and whole milk powder products in aggregate in 2009 and the six months ended 30 June 2010, we sourced approximately 1,669 tonnes and 300 tonnes, of whole milk powder (packaged in 25 kg bags) from Jintianran Dairy, respectively. Jintianran Dairy was a connected person at the material time for the purpose of the Listing Rules when we purchased the above products from Jintianran Dairy in 2009 and ceased to be such connected person prior to our purchase of the above products from Jintianran Dairy in March 2010. The externally sourced whole milk powder product was sold under our Daqing brand in order to free up our milk powder production capacity to meet the demand for our milk formula products, which have a higher profit margin. Please refer to the section headed "Connected Transactions" in this prospectus for further information.

Pricing of Our Products

Market forces of supply and demand generally determine the pricing of our products. Our gross profits are principally derived from the price difference between the costs of the raw milk, packaging materials, other raw materials and production costs we incur and the price at which we are able to sell our products to our customers.

The following table sets out our average sales revenue per tonne we have obtained for our products for the periods indicated:

	The Daqing Dairy Group				
	Year ended 31 December			Six months ended 30 June	
	2007 (Note 1)	2008	2009	2009	2010
	RMB (thousands) per tonne				
Milk formula products (Note 2)	56.4	61.5	54.6	50.0	62.7
Whole milk powder products	21.8	22.7	21.8	23.2	24.6
Others (Note 3)	—	5.4	4.6	4.4	4.2

Notes:

(1) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

(2) Revenue from the sale of milk formula products in 2007 includes the sale of the remaining inventory, such as our Mei Er Si Te Series and our Qiao Fu Series, which were discontinued in 2007. We undertook a strategic review of our existing brands of "Daqing", Mei Er Si Te Series and Qiao Fu Series in early 2007. Pursuant to the review, we decided that having two milk formula product brands without a clearly defined market segment was inefficient in terms of brand promotion and development. As such, our management decided to discontinue the brands under Mei Er Si Te Series and Qiao Fu Series and instead developed the new brand of 愛美樂 "Emilon" to replace the brands of Mei Er Si Te Series and Qiao Fu Series. The "Daqing" brand was retained to focus on consumers of low-to-medium priced milk formula products while the "Emilon" brand was then positioned to target consumers of medium-to-high priced milk formula products.

(3) Revenue from the sale of other products in 2008, 2009 and the six months ended 30 June 2009 and 2010 represents the sale of our ice cream products.

We price our Emilon Series and Daqing Series milk formula products differently. In setting our pricing policy, we take into account current market trends, production costs, consumers' acceptable price range, the consumer groups at which the products are targeted, our competitors' prices, and the economic condition of the relevant regions. We provide our distributors with suggested wholesale and retail prices for our milk formula products and whole milk powder products. Depending on economic conditions, our distributors may, with our approval, increase the selling prices by 10% above our suggested selling prices. We will not adjust upwards the selling price of our products to our distributors if such distributors increase the selling prices of the products by 10% above our suggested selling prices with our approval. In general, our Emilon Series products have a higher average selling price and higher profit margins as they are designed for consumers of the medium-to-high priced milk formula products while those in our Daqing Series products are designed for consumers of low-to-medium priced milk formula products. The average sales revenue of our milk formula products declined from RMB61,500 per tonne for the financial year ended 31 December 2008 to RMB54,600 per tonne for the financial year ended 31 December 2009 primarily due to higher sales growth rate of 37.7% of our Daqing Series, which has a lower average selling price, as compared with the sales growth rate of 11.3% of our Emilon Series. Our average selling price per tonne of milk formula products increased to RMB62,700 primarily due to the introduction of our Shi Jia Series in the six months ended 30 June 2010. Please refer to the section headed "Financial Information - Review of Historical Operating Results" in this prospectus for further information.

Product Mix

The mix of products that we sell affects our operating results. Our product mix affects our gross profit margins as different products have different selling prices and cost of sales. Our Directors believe that consumers have diverse needs and a preference for a wide selection of product offerings. In recognition of our consumers' interests, our product offerings include a wide range of products designed to meet the diverse consumer preferences and needs. Since entering into the equity transfer agreement with Global Milk Singapore, we have focused on promoting our milk formula products for infants and children. We have recently developed and launched our Shi Jia Series of milk formula products which aim at customers of premium priced milk formula products.

The mix of products demanded by our customers varies depending on factors such as general economic conditions and consumer preferences. Our products are classified into the following two main categories: milk formula products and whole milk powder products. Our milk formula products and whole milk powder products accounted for 89.7% and 7.0% of our revenue, respectively, for the six months ended 30 June 2010. Our milk formula products and whole milk powder products include a full range for infants and children. Our main product category, milk formula products, comprises the Shi Jia Series, the Emilon Series and the Daqing Series. The products in our Shi Jia Series are designed for consumers of premium-priced milk formula products. The products in our Emilon Series are designed for consumers of medium-to-high priced milk formula products while those in our Daqing Series are designed for consumers of low-to-medium priced milk formula products. Our whole milk powder products are sold under the brand "Daqing". Our Daqing whole milk powder, packaged in 25 kg bags, is usually used as a raw material in dairy and other food products. In addition, we sell Daqing sweetened whole milk powder, which is suitable for all age groups (other than infants and toddlers below the age of three).

For each of the financial years during the Track Record Period, our product mix mainly comprised the following categories:

- our milk formula products which comprised:

  (a) the Shi Jia Series, which included Shi Jia Jia You Bao Bao Series 仕加嘉友寶寶系列 milk formula products for growing infants and children and S'Plan Series 仕加斯普恩系列 milk formula products for post-natal women;

  (b) the Emilon Series, which included Emilon Shuang Neng Series 愛美樂雙能系列, Emilon Bei Cong Series 愛美樂倍聰系列 and Emilon You Zhi Series 愛美樂優智系列 milk formula products for growing infants and children, Emilon You Yun Xi Tong Series 愛美樂優孕系統配方系列 milk formula products for pregnant and lactating women, and Emilon Milk Formula Fortified with Vitamins and Essential for the elderly and the middle-aged; and

  (c) the Daqing Series, which included Daqing Milk Formula fortified with vitamins and essential minerals such as Daqing Milk Formula (with zinc) 大慶牌加鋅奶粉, Daqing Milk Formula (with zinc, iron and calcium) 大慶牌鋅鐵鈣奶粉.

- our whole milk powder products which comprised Daqing whole milk powder products 大慶牌全脂奶粉 and Daqing sweetened whole milk products大慶牌全脂甜奶粉.

For further details on our product mix, please refer to the section headed "Business — Products" in this prospectus.

Cost of Raw Materials

Raw milk is the primary raw material for the production of our products, representing 53.0%, 60.9%, 33.9% and 43.7% of our total cost of purchases for the Track Record Period, respectively. Apart from raw milk, we purchase other raw materials and packaging materials for the production of our products. The cost of purchases of other raw materials represented 34.5%, 26.7%, 52.9% and 43.2% of our total cost of purchases, and the cost of purchases of packaging materials represented 12.5%, 12.4%, 13.2% and 13.1% of our purchases for the Track Record Period, respectively. The other raw materials include sucrose, whey powder, vegetable oil, mineral supplements, lactose, maltose, whey protein concentrate and various flavourings. Apart from whey powder, lactose and whey protein concentrate, which are imported into China through domestic suppliers, the other raw materials and packaging materials are sourced within China. Our Directors believe that our raw materials and packaging materials are generally available from numerous suppliers.

The price of raw milk is volatile and is influenced by a variety of factors such as geographic location, seasonal factors and the overall demand for raw milk. We have been able to meet our raw milk supply requirements by entering into non-exclusive raw milk supply agreements with over 10 milk collection centres which, in turn, collect raw milk from dairy farms and individual dairy farmers in proximity to Daqing municipality. These agreements are generally for a term of one year. The price of the raw milk we purchase is subject to negotiation between the supplier and us at the time of purchase. If raw milk prices increase and the selling prices for our products do not increase in an amount sufficient to offset the effects of such increases, our profitability may be materially and adversely affected.

We will need to continue to increase the amount of raw milk we source to meet our growing needs. The level of raw milk we were required to source for our production decreased by 17.0% from 53,475 tonnes in the financial year ended 31 December 2007 to 44,363 tonnes in the financial year ended 31 December 2009 due to our strategy to focus on milk formula products. We purchased 23,490 tonnes of raw milk in the six months ended 30 June 2009. The tonnage of raw milk purchased increased in the six months ended 30 June 2010 to 26,502 tonnes as a result of the commencement of operations at the phase two production line at our Daqing production facilities. Going forward, with the increase in our milk powder production capacity from 35 tonnes per day to 106 tonnes per day as a result of the completion of the phase two production line at our Daqing production facilities and the new production line at our Changqing production facility, we will need to work closely with our suppliers to ensure that raw milk production levels can be increased.

We have been able to meet our packaging material supply requirements by generally entering into one year supply contracts with packaging material suppliers. The packaging material supply agreements we enter into are generally based on the agreed prices stipulated in these agreements. Our costs for packaging materials are also dependent on the number of product lines we carry and the frequency with which we upgrade the packaging we use for our product lines. Consumer preferences change rapidly, and we need to consistently ensure that our product packaging appeals to those preferences.

Advertising and Promotion

We engage in promotion and advertising activities in order to develop consumer awareness of our products and brand as well as increase our market share. We have appointed advertising and public relations companies (which are Independent Third Parties) to implement various promotion activities for our products to penetrate further the local milk formula market. During the Track Record Period, these advertising and public relations companies launched a number of promotional activities to generate publicity for, and increase awareness of, our products, including advertisements on Central China Television (CCTV) and various television channels in Heilongjiang and Shandong provinces, advertisements on buses, roadshows and participation in the Confectionery and Alcohol Convention in the PRC. Our Directors intend to increase the scope of our promotional activities to include direct advertising campaigns on newspapers, magazines, internets and other media as well as participation in product promotional activities.

Tax

Our profits are affected by changes in tax rates, particularly the effective tax rates payable in China. PRC enterprise income tax is calculated based on taxable income determined under PRC tax laws and regulations. In accordance with the relevant tax laws and regulations in the PRC, the Group's subsidiaries in the PRC were subjected to enterprise income tax of 33% in the financial year ended 31 December 2007 and 25% in the periods thereafter.

Seasonality

We experience seasonal fluctuations in our revenue. During the Track Record Period, revenue generated in the first half of the year was generally lower than revenue generated in the second half of the year as we typically experience higher sales of milk formula products and whole milk powder products in the second half of the year compared to the first half. Our Directors believe this pattern of seasonality is formed mainly due to increases in purchases by our distributors in order to increase their inventories in advance of the Chinese New Year in anticipation of higher demand around the holiday period.

As a result of the seasonality of our revenues, our operating results may fluctuate from quarter to quarter. An analysis of our interim performance may not be a good indicator of our full year results due to the seasonality of our sales.

The table below sets out our revenue for the first half and the second half for the Track Record Period:

	The Daqing Dairy Group					
	Year ended 31 December					
	2007 (Note 1)		2008		2009	
	RMB (thousands)	%	RMB (thousands)	%	RMB (thousands)	%
Revenue						
First half	75,016	24.6	189,609	43.8	212,192	41.6
Second half	230,447	75.4	243,707	56.2	297,843	58.4
Total	305,463	100.0	433,316	100.0	510,035	100.0

Note:

(1) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

Quality Control and Consumer Perception

In July 2008, several infants in Gansu province in the PRC were diagnosed with kidney stones after consuming milk powder products produced by a milk formula producer in the PRC that were contaminated with melamine. This led to a nationwide investigation into dairy products, particularly milk formula, for traces of melamine. According to the investigation carried out by the AQSIQ in 2008 on the products of 109 milk formula product producers in the PRC, the products of 22 milk formula product producers in the PRC (which did not include us) were found to have been contaminated with melamine. The AQSIQ has subsequently also carried out random sampling tests on the content of melamine in the products of various dairy product producers in the PRC, including us, which revealed that (i) our Daqing Hi-Calcium and Hi-Iron Milk Formula for women (400 g per box) and Daqing Multi-Vitamin Hi-Calcium Milk Formula (for the elderly and the middle-aged) (400 g per box) under our Daqing Milk Formula Series, and (ii) our Follow-up Milk Formula (Stage 2) under our Emilon Series (400 g per box), which were subject to the tests, passed the melamine tests. The incident caused the death of a few infants in the PRC and left thousands of infants in the PRC hospitalised due to the development of kidney stones and kidney failure caused by the consumption of the milk formula products that were contaminated with melamine. The PRC Government has subsequently taken stringent measures to ensure safety of dairy products such as recalling, taking off from retail shelves and destroying the milk formula products that were contaminated with melamine. The AQSIQ has also sent officers to quality control departments of the milk formula product producers in the PRC to monitor their production processes and inspect the quality and safety of the finished products.

The melamine scandal in 2008 undermined consumers' confidence in paediatric milk formula produced by milk powder sourced domestically, which was reflected in the significant drop in such purchases and resulted in a decrease in production volume and led to more consumers in the PRC shifting their purchase of infant milk formula from domestically sourced infant milk formula to internationally sourced infant milk formula. According to the Euromonitor International Report, the retail sales volume of the Milk Powder market in China dropped by 3.2% in 2008 from 678,580 tonnes in 2007 to 656,600 tonnes in 2008.

Our Directors believe that the common ways in which our products may be contaminated with melamine are (i) the use of melamine-contaminated cattle feed to feed the dairy cows which form the source of the raw milk supplied to us, and (ii) the addition of melamine by third parties into raw milk at the milk collection centres or prior to the delivery of raw milk to us, or the addition of melamine during the production process of our products. Our Directors have confirmed that during the Track Record Period, (i) we did not add any melamine into our products, (ii) none of our products contains any melamine, and (iii) we did not experience any product dispute, product recall or return of products which may have had a material adverse effect on our financial condition or operating results. Our Directors have further confirmed that during the Track Record Period, none of our products had been subject to any government sanctions relating to quality.

Our Emilon Series of milk formula products, which are targeted at consumers of the middle-to-high income group in the second- and third-tier municipalities in China, has been negatively affected by the melamine incident. This led some consumers within this target customer group, which generally have stronger purchasing power, to switch to imported brands of milk formula. While this slowed the rate of our revenue growth of the Emilon Series, sales of our Emilon Series still increased despite the difficult market conditions. On the other hand, our Daqing Milk Formula Series recorded faster revenue growth as a result of the melamine incident. The melamine incident led certain players in China that were affected by the melamine incident to exit the market. As consumers in the counties and villages in rural areas in China generally have a lower purchasing power, they were not able to switch to imported brands which are generally higher-priced products. As a result, the consumers in these areas switched to other local brand products such as our Daqing Milk Formula Series, which are targeted at consumers in villages and counties near second- and third-tier municipalities in the PRC.

The gross profit margin of the Daqing Dairy Group decreased from 49.9% for the financial year ended 31 December 2008 to 46.9% for the financial year ended 31 December 2009, primarily due to a decrease in the gross profit margin of the Daqing Dairy Group for our milk formula products, which was partially offset by an increase in the gross profit margin of the Daqing Dairy Group for our whole milk powder products. The gross profit margin of the Daqing Dairy Group for our milk formula products declined 3.8% from 57.3% for the financial year ended 31 December 2008 to 53.5% for the financial year ended 31 December 2009. The decline in the gross profit margin of the Daqing Dairy Group for our milk formula products was primarily due to the decline in the gross profit margin of the Emilon Series milk formula by 3.7%, as a result of changes in the sales mix of the Emilon Series product offerings with more of the lower margin Emilon Bei Cong Series being sold compared to the higher margin Emilon Shuang Neng Series as target consumers in the higher priced market segment were more affected by the melamine incident.

The gross profit margin of the Daqing Dairy Group increased to 51.2% for the six months ended 30 June 2010 primarily due to the introduction of our Shi Jia Series with relatively higher gross profit margin of 71.4% and the shift in product mix in favour of the higher gross profit margin milk formula products from 84.6% of revenue in the year ended 31 December 2009 to 89.7% of revenue in the six months ended 30 June 2010.

The tests conducted by an external testing centre on some of our milk formula products and whole milk powder products in 2008 and 2009 on a sampling basis, and the tests conducted by two external testing centres on all of our milk formula products and whole milk powder products in 2010, confirmed that these products did not contain melamine. These external testing centres are Independent Third Parties. Furthermore, the various internal melamine tests carried out by us on the raw milk supplied to us and some of our finished products in 2008 and 2009 confirmed that these raw milk and finished products did not contain any melamine.

CRITICAL ACCOUNTING POLICIES

We have identified below the accounting policies that we believe are the most critical to our audited consolidated financial information. These accounting policies require the most difficult, subjective or complex judgements of our management, often as a result of the need to make estimates about the effect of matters which are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our audited consolidated financial information. The estimates and associated assumptions are based on historical experience and various other factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgements about matters that are not readily apparent from other sources. Actual results may differ from these estimates.

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Our financial information has been prepared under the historical cost basis as explained in the accounting policies set out below. Our financial information has been prepared in accordance with the following accounting policies which conform to IFRS. These policies have been consistently applied throughout the Track Record Period. Please refer to the sections headed “Appendix IA — Accountants’ Report of the Group” and “Appendix IB — Accountants’ Report of the Daqing Dairy Group” in this prospectus for further information.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when goods are delivered and title has 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 the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

Foreign Currencies

Our financial information is presented in the currency of the primary economic environment in which the Company and the principal subsidiaries operate, namely Renminbi.

In preparing the financial information, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 retranslated at the rates prevailing at the end of each reporting period. 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 included in profit or loss in the period in which they arise.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other 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 each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts 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 recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. 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.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period/year in which the liability is settled or the asset realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each 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 each reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when 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 costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, Plant and Equipment

Property, plant and equipment, 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 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 represents 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 recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised 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 consolidated statement of comprehensive income in the year/period in which the item is derecognised.

Prepaid Lease Payments

Prepaid lease payments represent payments for leasehold land and are amortised over the lease terms on a straight-line basis. Prepaid lease payments which are to be amortised in the next twelve months or less are classified as current assets.

Business combinations

Business combinations prior to 1 January 2010

The acquisitions of businesses under business combination are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations'' are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step.

Business combinations on or after 1 January 2010

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 recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised 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 that standard.

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 recognised immediately in profit or loss as a bargain purchase gain.

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 recognised in profit or loss.

Changes in the value of the previously held equity interest recognised 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 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 recognised directly in the 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 capitalised is included in the determination of the amount of profit or loss on disposal.

Trademarks

Trademarks acquired in a business combination are identified and recognised separately from goodwill where it satisfies the definition of an intangible asset and its fair values can be measured reliably. The costs of trademarks are their fair value at the acquisition date. Subsequent to initial recognition, the amount will be amortised on a straight line basis over its useful lives.

Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of Tangible and Intangible Assets other than Goodwill

At the end of each reporting period, we review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 recognised as an expense immediately.

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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

OPERATING RESULTS

The following table sets forth the summary consolidated statements of comprehensive income data of the Group for the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2009 and 2010, and the summary consolidated statements of comprehensive income data of the Daqing Dairy Group for the Track Record Period, and the six months ended 30 June 2009.

The consolidated statement of comprehensive income data for the Daqing Dairy Group includes the following information for the following periods:

- the financial year ended 31 December 2007;
- the period from 1 January 2008 to 24 July 2008 (the date prior to the acquisition of the entire equity interest of Daqing Dairy by Global Milk Singapore);
- the financial year ended 31 December 2008;
- the financial year ended 31 December 2009; and
- the six months ended 30 June 2009 and 2010.

The consolidated statement of comprehensive income data for the Daqing Dairy Group for the financial year ended 31 December 2009 includes the account data of Changqing Dairy from its effective date of acquisition by Daqing Dairy on 16 November 2009. Because Changqing Dairy had not begun production in the financial year ended 31 December 2009, the acquisition of Changqing Dairy does not have a material impact on the Daqing Dairy Group's consolidated statement of comprehensive income for the financial year ended 31 December 2009. Changqing Dairy has not begun production. However, the acquisition of Changqing Dairy does have a material impact, as a result of property, plant and equipment among others, on the comparability of the balance sheet of the Daqing Dairy Group as at 31 December 2008 with the Daqing Dairy Group as at 31 December 2009.

Additionally, our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at our production facility. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period. As a result, this may have an impact on the comparability of certain line items such as revenues and cost of sales for the financial year ended 31 December 2007 with the financial year ended 31 December 2008.

We have derived the summary consolidated statement of comprehensive income account data for the Group from the audited consolidated financial information of the Group included in "Appendix IA — Accountants' Report of the Group," and we have derived the summary consolidated statement of comprehensive income account data for the Daqing Dairy Group from the audited consolidated financial information of the Daqing Dairy Group included in "Appendix IB — Accountants' Report of the Daqing Dairy Group," both of which accountants' reports have been prepared in accordance with IFRS. Please refer to the section headed " — Basis of Presentation" in this prospectus for an explanation of the differences between the financial statements of the Group and the financial statements of the Daqing Dairy Group.

	The Group				The Daqing Dairy Group					
	Year ended 31 December		Six months ended 30 June		Year ended 31 December	Period from 1 January 2008 to 24 July	Year ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010	2007 (Note 1)	2008	2008	2009	2009	2010
	RMB (thousands, except per Share data)		RMB (thousands, except per Share data) (unaudited)	RMB (thousands, except per Share data)	RMB (thousands)				RMB (thousands) (unaudited)	RMB (thousands)
Revenue	197,369	510,035	212,192	373,367	305,463	235,947	433,316	510,035	212,192	373,867
Cost of sales	(110,357)	(274,137)	(117,684)	(183,494)	(148,336)	(114,366)	(217,284)	(270,631)	(115,933)	(182,626)
Gross profit	87,012	235,898	94,508	190,373	157,127	121,581	216,032	239,404	96,259	191,241
Other gains and losses	7,039	6,797	4,147	62	207	(18,700)	(16,929)	5,601	4,145	71
Selling and distribution expenses	(5,627)	(18,934)	(6,268)	(20,297)	(14,937)	(12,916)	(18,543)	(18,934)	(6,268)	(20,297)
Administrative expenses	(9,000)	(19,134)	(9,077)	(12,943)	(10,466)	(8,775)	(16,890)	(17,047)	(8,067)	(10,921)
Finance costs	(1,423)	(9,258)	(3,772)	(7,856)	(142)	(410)	(1,833)	(9,025)	(3,772)	(3,115)
Profit before tax	78,001	195,369	79,538	149,339	131,789	80,780	161,837	199,999	82,297	156,979
Income tax expenses	(23,866)	(61,900)	(25,098)	(40,964)	(47,085)	(24,729)	(48,736)	(56,849)	(22,919)	(41,441)
Profit for the period/year and total comprehensive income for the period/year	54,135	133,469	54,440	108,375	84,704	56,051	113,101	143,150	59,378	115,538
Dividends	—	—	—	—	—	—	—	—	—	—
Earnings per Share - basic (RMB)	0.098	0.242	0.099	0.152	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Note:

(1) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

Revenue

We generate revenue mainly from the sale of milk formula products and whole milk powder products. Milk formula products and whole milk powder products are primarily sold to our extensive distribution network, although some products are sold directly to customers. Our main product category, milk formula products, comprises the Shi Jia Series, the Emilon Series and the Daqing Series. The products in our Shi Jia Series are designed for consumers of premium-priced milk formula products. The products in our Emilon Series are designed for consumers of medium-to-high priced milk formula products and the products in our Daqing Series are designed for consumers of low-to-medium priced milk formula products.

The table below sets forth our revenue by main product lines for the Track Record Period and the six months ended 30 June 2009:

	The Daqing Dairy Group									
	Year ended 31 December						Six months ended 30 June			
	2007 (Note 1)		2008		2009		2009		2010	
	RMB (thousands)	% of Revenue	RMB (thousands)	% of revenue	RMB (thousands)	% of revenue	RMB (thousands) (unaudited)	% of revenue	RMB (thousands)	% of revenue
Revenue										
Milk formula products	221,859	72.6	366,482	84.6	431,605	84.6	173,022	81.6	335,508	89.7
Shi Jia Series	—	—	—	—	—	—	—	—	28,703	7.7
Emilon Series	157,525	51.5	277,234	64.0	308,669	60.5	113,658	53.6	246,404	65.9
Daqing Series	64,078	21.0	89,248	20.6	122,936	24.1	59,364	28.0	60,401	16.1
Others (Note 2)	256	0.1	—	—	—	—	—	—	—	—
Whole milk powder products	83,604	27.4	65,034	15.0	61,671	12.1	32,063	15.1	26,100	7.0
Others (Note 3)	—	—	1,800	0.4	16,759	3.3	7,107	3.3	12,259	3.3
Total	305,463	100.0	433,316	100.0	510,035	100.0	212,192	100.0	373,867	100.0

Notes:

(1) Our production and sales operations were suspended during the first quarter of 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities. As a result, we were unable to produce any of our products during this period, which had a material impact on our production volume and sales during this period.

(2) Revenue from the sale of other products in 2007 includes the sale of the remaining inventory, such as our Mei Er Si Te Series and our Qiao Fu Series, which were discontinued in 2007. We undertook a strategic review of our existing brands of "Daqing", Mei Er Si Te Series and Qiao Fu Series in early 2007. Pursuant to the review, we decided that having two milk formula product brands without a clearly defined market segment was inefficient in terms of brand promotion and development. As such, our management decided to discontinue the brands under Mei Er Si Te Series and Qiao Fu Series and instead developed the new brand of 愛美樂 "Emilon" to replace the brands of Mei Er Si Te Series and Qiao Fu Series. The "Daqing" brand was retained to focus on consumers of low-to-medium priced milk formula products while the "Emilon" brand was then positioned to target consumers of medium-to-high priced milk formula products.

(3) Revenue from the sale of other products in 2008, 2009 and the six months ended 30 June 2009 and 2010 represents the sale of our ice cream products. We produce a variety of ice cream products under our own brand "Qingru" with over 10 flavours. Our ice cream products are sold in different forms, such as ice cream cups, ice cream bars, ice cream cones and tubs of packaged ice cream, ranging from 75 g to 5 kg per pack. The shelf life of our ice cream products is normally 18 months. We sell our ice cream products directly to retail outlets in Daqing municipality and the areas in close proximity to Daqing municipality. We collect sales payments in cash when the ice cream products are delivered.

Sales to our top five customers were RMB126.4 million, RMB125.0 million, RMB82.4 million and RMB34.4 million for the Track Record Period, respectively, which accounted for approximately 41.4%, 28.8%, 16.2% and 9.2%, respectively, of our revenue during those periods.

The decline in the percentage contribution of our top five customers over the Track Record Period was a result of the Group expanding its distribution network to more distributors in different geographic areas and reducing its concentration risk.

Our revenue is presented net of any returned products and net of sales discounts. We have pre-set annual sales targets for our distributors. In each year, if the relevant distributor meets the pre-set annual sales target, we grant a sales rebate to the relevant distributor in an amount equivalent to 3% of the annual sales (including 17% VAT) from the relevant distributor (excluding the sales of our whole milk powder packaged in 25 kg bags). Although we do not have any quarterly sales target for our distributors, we grant quarterly sales rebates to our select distributors in an amount equivalent to 5% of the quarterly sales (including 17% VAT) from such distributor. Our Directors have confirmed that it is the general industry practice to grant sales rebates to distributors and the sales rebate rates we grant to our distributors are generally in line with those other companies in the PRC dairy industry. The amounts of both quarterly and annual sales rebates are deducted from the purchase price payable by the relevant distributor in subsequent orders. The quarterly and annual sales rebates effectively mean that we offer our milk formula products and whole milk powder products (excluding the sales of our whole milk powder packaged in 25 kg bags) at a discount of 5% off our unit selling price (including 17% VAT) of our milk formula products and whole milk powder products to those distributors to which we grant such rebates and that an additional 3% discount is offered if our distributors meet our pre-set annual sales targets.

Cost of Sales and Gross Margins

For the Track Record Period, our costs of sales were RMB148.3 million, RMB217.3 million, RMB270.6 million and RMB182.6 million, respectively. Our costs of sales are measured using the weighted average method. The main component of our cost of sales are purchases, adjusted for movements in opening and closing inventory and manufacturing costs as at the end of each financial year or period.

The table below sets forth our purchases for the periods indicated:

	The Daqing Dairy Group									
	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB (thousands)	%	RMB (thousands)	%	RMB (thousands)	%	RMB (thousands) (unaudited)	%	RMB (thousands)	%
Raw milk	92,017	53.0	116,752	60.9	83,419	33.9	43,520	39.0	70,963	43.7
Whole milk powder (Note 1)	—	—	—	—	34,320	13.9	10,940	9.8	6,000	3.7
Packaging materials	21,671	12.5	23,845	12.4	32,568	13.2	16,602	14.9	21,238	13.1
Other milk formula ingredients (Note 2)	55,501	31.9	46,468	24.2	86,267	35.1	36,666	32.8	58,007	35.7
Others (Note 3)	4,546	2.6	4,745	2.5	9,533	3.9	3,882	3.5	6,201	3.8
Total purchases	173,735	100.0	191,810	100.0	246,107	100.0	111,610	100.0	162,409	100.0

Notes:

(1) This comprises mainly whole milk powder packaged from Jintianran Dairy of approximately RMB33.4 million in 2009. Please refer to the section headed "Connected Transactions" in this prospectus for further information.

(2) Other milk formula ingredients comprise primarily whey powder, sucrose, vegetable oil and mineral supplements approved for use in the production of milk formula.

(3) Others comprise primarily coal and other consumables.

The largest component of our purchases is raw milk. Our raw milk is sourced from selected milk collection centres which, in turn, collect raw milk from dairy farms and individual dairy farmers in proximity to Daqing municipality. The price of raw milk we purchase is subject to negotiation between the supplier and us at the time of purchase which is in turn influenced by a variety of factors, including seasonal factors and the overall demand for raw milk. For the Track Record Period and the six months ended 30 June 2010, our cost of purchases of raw milk amounted to RMB92.0 million, RMB116.7 million, RMB83.4 million and RMB71.0 million, respectively, which accounted for approximately 53.0%, 60.9%, 33.9% and 43.7%, respectively, of our total cost of purchases during those periods.

The table below provides a breakdown of our gross margins by product type:

	The Daqing Dairy Group				
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	%	%	%	%	%
Milk formula products	61.3	57.3	53.5	54.1	55.3
Emilon Series	68.7	63.0	59.3	63.0	59.1
Daqing Series	43.4	39.7	39.0	37.0	31.9
Shi Jia Series	—	—	—	—	71.4
Whole milk powder products	25.3	10.2	18.4	15.1	13.1
Overall	51.4	49.9	46.9	45.4	51.2

Other Gains and Losses

Other gains comprise mainly interest income earned from cash placed with major banks and accrued interest income arising from a pre-acquisition loan granted to Changqing Dairy, the discount to fair value of the acquisition by the Daqing Dairy Group, gains on sales of scrap materials and foreign exchange differences. Other losses related to losses of a non-operating nature like the disposal of fixed assets and loss on sale of raw materials. For the Track Record Period, our other gains and (losses) accounted for 0.1%, (3.9)%, 1.1% and less than 0.1% of our revenue, respectively.

Other gains and (losses) for the Group differ from that of the Daqing Dairy Group due to the fact that the Group's financial information for the financial year ended 31 December 2008 comprises a gain of RMB5.3 million from the discount on acquisition arising from the acquisition of the entire equity interest of Daqing Dairy. In addition, the Group's other gains and (losses) for the financial year ended 31 December 2009 comprise unrealised exchange gains on loans from Pre-IPO Investors denominated in foreign currency.

The table below sets out other gains and losses for the periods indicated:

	The Group				The Daqing Dairy Group				
	Year ended 31 December		Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2008	2009	2009	2010	2007	2008	2009	2009	2010
	RMB (thousands)	RMB (thousands)	RMB (thousands) (unaudited)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands) (unaudited)	RMB (thousands)
Interest income	1,771	8,494	4,166	232	207	2,007	8,490	4,166	231
Discount of acquisition	5,268	—	—	—	—	—	—	—	—
Loss on disposal of property, plant and equipment	—	(366)	(19)	(192)	—	—	(250)	(21)	(160)
Impairment loss of property, plant and equipment (Note 1)	—	—	—	—	—	(18,936)	—	—	—
Loss on sale of raw materials (Note 2)	—	(2,890)	—	—	—	—	(2,890)	—	—
Gains on sales of scrap materials (Note 3)	—	251	—	—	—	—	251	—	—
Exchange gains	—	1,308	—	22	—	—	—	—	—
Total	7,039	6,797	4,147	62	207	(16,929)	5,601	4,145	71

Notes:

(1) Impairment loss of property, plant and equipment resulted from the impairment of the Daqing Dairy Group's standby production line which was scheduled for upgrades that exceeded its carrying value, prior to the acquisition by the Group.

(2) Loss on sale of raw materials resulted from the unbilled VAT on the Daqing Dairy Group's sale of RMB17.0 million worth of flavouring essence and generic package materials to Jintianran Dairy in 2009. Please refer to the section headed "Connected Transactions" in this prospectus for further information.

(3) Gains on sales of scrap materials relates to the Daqing Dairy Group's sale of 3,388 cubic metres of boiler slag to Daqing Baixinyuan for an aggregate consideration of approximately RMB251,000 pursuant to an agreement dated 5 December 2008. Please refer to the section headed "Connected Transactions" in this prospectus for further information.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of certain staff and welfare costs, freight and insurance costs and advertising and promotional expenses. We engage logistics companies, which are Independent Third Parties, to deliver our milk formula products and whole milk powder products to our customers' designated places. We use our own vehicles and transportation team to deliver our ice cream products to our customers and to deliver our milk formula products to our customers to whom we sell our products directly in Daqing municipality. We bear the cost of delivering our products to our customers.

The table below sets out a breakdown of our selling and distribution expenses for the periods indicated:

	The Daqing Dairy Group				
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands)
Staff and welfare costs	630	1,266	2,079	1,147	1,424
Freight and insurance	1,933	2,564	3,465	1,431	2,684
Advertising and promotion	11,182	13,558	11,422	2,712	15,235
Others	1,192	1,155	1,968	978	954
Total	14,937	18,543	18,934	6,268	20,297

Administrative Expenses

Administrative expenses consist mainly of administrative staff and welfare costs, depreciation of property, plant and equipment, property related taxes and trade mark usage fees. Depreciation relates primarily to property, plant and equipment and is calculated on a straight-line basis over the estimated useful lives of buildings of 20 years and for furniture fixtures and office equipment of five years.

Administrative expenses of the Group differ from that of the Daqing Dairy Group as the former includes the amortisation of the implied fair value of our "Emilon" brand trademark that the Group has indirectly acquired via the acquisition of the entire equity interest of Daqing Dairy as well as other administrative expenses incurred by the Company.

The table below sets out a breakdown of administrative expenses for the periods indicated:

	The Group				The Daqing Dairy Group				
	Year ended 31 December		Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2008	2009	2009	2010	2007	2008	2009	2009	2010
	RMB (thousands)	RMB (thousands)	RMB (thousands) (unaudited)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands) (unaudited)	RMB (thousands)
Staff and welfare costs	2,095	5,629	2,456	2,761	2,704	4,278	5,629	2,456	2,761
Depreciation	1,163	3,462	1,781	2,146	279	1,432	3,462	1,781	2,146
Property usage taxes	627	2,259	1,130	2,484	1,528	1,528	2,259	1,130	2,484
Trade mark usage fees	1,858	—	—	—	4,425	5,926	—	—	—
Amortisation of trademark	625	1,520	760	760	—	—	20	10	10
Others	2,632	6,264	2,950	4,792	1,530	3,726	5,677	2,690	3,520
Total	9,000	19,134	9,077	12,943	10,466	16,890	17,047	8,067	10,921

Finance Cost

Finance cost comprises mainly interest on bank loans and a finance lease on certain motor vehicles and a processing fee on a short term loan from the Pre-IPO Investors. The finance costs of the Daqing Dairy Group differ from that of the Group as a result of the processing fee charged by the Group's investors for the grant of a bridging loan of S$21.0 million to our Company.

The table below sets out a breakdown of finance costs for the periods indicated:

	The Group				The Daqing Dairy Group				
	Year ended 31 December		As at 30 June		Year ended 31 December			As at 30 June	
	2008	2009	2009	2010	2007	2008	2009	2009	2010
	RMB (thousands)	RMB (thousands)	RMB (thousands) (unaudited)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands) (unaudited)	RMB (thousands)
Interest on bank borrowings	1,386	9,025	3,772	3,115	31	1,710	9,025	3,772	3,115
Interest on loan from Pre-IPO Investors	—	233	—	4,741	—	—	—	—	—
Interest on finance lease	37	—	—	—	111	123	—	—	—
Total	1,423	9,258	3,772	7,856	142	1,833	9,025	3,772	3,115

Tax

We are not taxed on a consolidated basis. In relation to the Group, the Company was incorporated in the Cayman Islands in the financial year ended 31 December 2009 and is accordingly exempted from corporate tax in its country of incorporation. Global Milk Singapore is an investment holding company and has not to date generated any taxable income.

In accordance with the relevant tax laws and regulations in the PRC, the Group's subsidiaries in the PRC were subjected to enterprise income tax of 33% in the financial year ended 31 December 2007 and 25% in the periods thereafter. The Group's consolidated tax expense is greater than that of our tax expense due to the provision for deferred tax liabilities on changes in the fair value of net assets acquired on acquisition of Daqing Dairy and for withholding taxes on potential offshore dividend payable to our Company.

The table below sets out a breakdown of tax expenses for the periods indicated:

	The Group				The Daqing Dairy Group				
	Year ended 31 December		Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2008	2009	2009	2010	2007	2008	2009	2009	2010
	RMB (thousands)	RMB (thousands)	RMB (thousands) (unaudited)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands)	RMB (thousands) (unaudited)	RMB (thousands)
PRC enterprise income tax	19,273	56,849	22,919	41,441	47,085	48,736	56,849	22,919	41,441
Deferred taxation	4,593	5,051	2,179	(477)	—	—	—	—	—
Total	23,866	61,900	25,098	40,964	47,085	48,736	56,849	22,919	41,441

REVIEW OF HISTORICAL OPERATING RESULTS

The following discussion is based on the consolidated operating results of the Daqing Dairy Group for the Track Record Period.

Our six months ended 30 June 2010 compared to our six months ended 30 June 2009

Revenue. Our revenue increased by 76.2% from RMB212.2 million for the six months ended 30 June 2009 to RMB373.9 million for the six months ended 30 June 2010. The increase in our revenue for the six months ended 30 June 2010 was driven by a strong growth in our milk formula products across all ranges of our milk formula products by RMB162.5 million and the sales growth of our ice cream products by RMB5.2 million, which was offset by a decline of RMB6.0 million in our whole milk products.

In particular, our Emilon Series grew by RMB132.7 million or 116.7% from RMB113.7 million for the six months ended 30 June 2009 to RMB246.4 million for the six months ended 30 June 2010. Our newly launched Shi Jia Series also contributed RMB28.7 million to our revenue for the six months ended 30 June 2010. The growth in our milk formula products was due to the expansion of our distribution network from 67 distributors to 120 distributors as at 30 June 2010 and our advertising campaign on China Central Television (CCTV) to support the sale of our products by our distributors.

The revenues of our whole milk powder products declined as we diverted more production resources towards fulfilling orders of higher margin milk formula products as we strived to optimise the use of our available milk powder production capacity before the phase two production line at our Daqing production facilities commenced operations in May 2010.

Cost of sales. Our cost of sales increased by RMB66.7 million or 57.5% from RMB115.9 million for the six months ended 30 June 2009 to RMB182.6 million for the six months ended 30 June 2010. The increase in our cost of sales for the six months ended 30 June 2010 was lower than the increase in sales for the same period. This was mainly due to the change in product mix in favour of higher margin milk formula products such as our Emilon Series and Shi Jia Series, which resulted in a lower cost of sales incurred per dollar of sales.

Gross profits. Our gross profits increased by RMB95.0 million or 98.7% from RMB96.3 million for the six months ended 30 June 2009 to RMB191.2 million for the six months ended 30 June 2010. Our gross profit margins increased from 45.4% in the six months ended 30 June 2009 to 51.2% in the six months ended 30 June 2010 primarily due to the introduction of our Shi Jia Series with relatively higher gross profit margin of 71.4% and the shift in our product mix in favour of the higher gross profit margin milk formula products from 84.6% of revenue as at 31 December 2009 to 89.7% of revenue as at 30 June 2010.

Other gains and losses. Our other gains for the six months ended 30 June 2010 amounted to RMB71 thousand which comprised interest income of RMB231 thousand that was offset by a loss on disposal of certain property plant and equipment of RMB160 thousand. For the six months ended 30 June 2009, our other gains amounted to RMB4.2 million comprising recorded interest income of RMB4.2 million, of which RMB4.0 million was due to interest income accrued on a loan given to Changqing Dairy from 1 January 2009 to 30 June 2010. Please refer to the sub-section headed "Prepayments, Deposits and other Receivables" in the section headed "Financial Information — Account payable" in this prospectus for details on the opinion of our PRC Legal Advisers relating to whether any fine will be imposed on Daqing Dairy for any interest income arising out of the loan granted by Daqing Dairy to Changqing Dairy.

Selling and distribution expenses. Our selling and distribution expenses increased by RMB14.0 million or 222.2% from RMB6.3 million in the six months ended 30 June 2009 to RMB20.3 million in the six months ended 30 June 2010. The increase was mainly due to the increase in advertising and promotional expenses by RMB12.5 million as a result of the conduct of an advertising and marketing campaign on China Central Television ("CCTV") to increase brand awareness and support our distributors to sell our products to consumers. In addition, our staff and welfare costs increased by RMB0.3 million and freight and insurance cost by RMB1.2 million a result of increased revenues.

Administrative expenses. Our administrative expenses increased by RMB2.9 million or 35.4% from RMB8.1 million in the six months ended 30 June 2009 to RMB10.9 million in the six months ended 30 June 2010. The increase was primarily due to the increase in administration staff costs, depreciation and additional property usage tax arising from Daqing Dairy amounting to RMB0.3 million, RMB0.4 million and RMB 1.4 million, respectively.

Finance cost. Our finance cost decreased by RMB0.7 million or 18.4% from RMB3.8 million in the six months ended 30 June 2009 to RMB3.1 million in the six months ended 30 June 2010. The decrease was mainly due to the lower average outstanding bank borrowings during the six months ended 30 June 2010.

Income tax expense. Our income tax expenses increased by RMB18.5 million or 80.8% from RMB22.9 million in the six months ended 30 June 2009 to RMB41.4 million due to higher profits recorded during the first half of 2010. However, there was a decline in the tax effective tax rate in the six months ended 30 June 2010 to 26.4% as compared to 27.8% in the six months ended 30 June 2009 due to lower level of non-deductible expenses.

Profit for the half year. Our profit for the half year increased by 94.6% from RMB59.4 million for the six months ended 30 June 2009 to RMB115.5 million for the six months ended 30 June 2010 as a result of the above factors.

Our year ended 31 December 2009 compared to our year ended 31 December 2008

Revenue. Our revenue increased by 17.7% from RMB433.3 million for the financial year ended 31 December 2008 to RMB510.0 million for the financial year ended 31 December 2009, primarily as a result of the improved performance of our milk formula business. Revenue from our milk formula products increased by 17.8% from RMB366.5 million for the financial year ended 31 December 2008 to RMB431.6 million for the financial year ended 31 December 2009, primarily due to the sales growth of the Daqing Series of 37.7% and the sales growth of the Emilon Series of 11.3%. Our Emilon Series of milk formula products, which are targeted at consumers of the middle-to-high income group in the second- and third-tier municipalities in China, has been negatively affected by the melamine incident that occurred in the fourth quarter of 2008. As a result, some consumers within this target customer group, to switch to imported brands of milk formula. While this slowed the rate of our revenue growth of the Emilon Series, sales of our Emilon Series still increased despite the difficult market conditions.

As a result of the melamine incident, certain players in China that were affected by the melamine incident have exited the market. Using our Daqing Series milk formula products, we have expanded our market and revenue from the Daqing Series milk formula products grew by 37.7% in the financial year ended 31 December 2009 as compared to the financial year ended 31 December 2008.

Revenue from our whole milk powder products decreased by 5.1% from RMB65.0 million for the financial year ended 31 December 2008 to RMB61.7 million for the financial year ended 31 December 2009, primarily due to the diversion of more production resources towards fulfilling market demand for our milk formula products. Revenue from others increased from RMB1.8 million for the financial year ended 31 December 2008 to RMB16.8 million for the financial year ended 31 December 2009, primarily due to growth of our ice cream products, the production of which began in 2008.

Costs of Sales. Our costs of sales increased by 24.5% from RMB217.3 million for the financial year ended 31 December 2008 to RMB270.6 million for the financial year ended 31 December 2009, which was higher than the increase in our revenue. The rise in costs of sales was primarily due to an increase in the amount of whey powder and mineral supplements required for the production of milk formula products as part of the shift in focus from whole milk powder products to milk formula products, which was partially offset by a reduction in the average purchase cost of raw milk from RMB2,150 per tonne for the financial year ended 31 December 2008 to RMB1,880 per tonne for the financial year ended 31 December 2009 and a reduction in the volume of raw milk as part of the shift away from whole milk powder products, which require more raw milk than milk formula products.

Gross profit. Our gross profit increased by 10.8% from RMB216.0 million for the financial year ended 31 December 2008 to RMB239.4 million for the financial year ended 31 December 2009. However, our gross profit margin decreased from 49.9% for the financial year ended 31 December 2008 to 46.9% for the financial year ended 31 December 2009, primarily due to a decrease in the gross profit margin of our milk formula products, which was partially offset by an increase in gross profit margin of our whole milk powder products. Our gross profit margin for our milk formula products declined 3.8% from 57.3% for the financial year ended 31 December 2008 to 53.5% for the financial year ended 31 December 2009. The decline in gross profit margin for our milk formula products was primarily due to the decline in the gross profit margin of the Emilon Series milk formula by 3.7%, as a result of changes in the sales mix of the Emilon Series product offerings with more of the lower margin Emilon Bei Cong Series being sold compared to the higher margin Emilon Shuang Neng Series as target consumers in the higher priced market segment were more affected by the melamine incident. The impact of the cost increase for the Daqing Series milk formula products has been effectively mitigated by the upward revision of selling prices for some of our products under the Daqing Series around the last quarter of the financial year ended 31 December 2008.

Our whole milk powder gross profit margin increased by 8.2% from 10.2% for the financial year ended 31 December 2008 to 18.4% for the financial year ended 31 December 2009, primarily due to the full year impact of an upward revision of selling prices for our Daqing sweetened whole milk powder around the last quarter of the financial year ended 31 December 2008 as well as a reduction in the average purchase cost of raw milk from RMB2,150 per tonne for the financial year ended 31 December 2008 to RMB1,880 per tonne for the financial year ended 31 December 2009.

Other Gains and Losses. Our other losses were RMB16.9 million for the financial year ended 31 December 2008 compared to our other gains of RMB5.6 million for the financial year ended 31 December 2009. Our other losses of RMB16.9 million for the financial year ended 31 December 2008 was primarily due to an impairment loss recognised in respect of property, plant and equipment amounting to RMB18.9 million, as part of our continuing plant renewal plan to replace older equipment offset by interest income of RMB2.0 million. Our other gains of RMB5.6 million for the financial year ended 31 December 2009 were primarily due to recorded interest income of RMB8.5 million, of which RMB8.1 million was due to interest income accrued on a loan given to Changqing Dairy from 1 January 2009 to the date of its acquisition by the Daqing Dairy Group, which was partially offset by a loss on the sale of raw materials comprising generic packaging materials and food essence mainly related to the production of ice cream to a related company of RMB2.9 million. Please refer to the section headed "Connected Transactions" in this prospectus for further information. Please refer to the sub-section headed "Prepayments, Deposits and other Receivables" in the section headed "Financial Information - Account payable" in this prospectus for details on the opinion of our PRC Legal Advisers relating to whether any fine will be imposed on Daqing Dairy for any interest income arising out of the loan granted by Daqing Dairy to Changqing Dairy, and the loans borrowed by Daqing Dairy from a third party and a related party.

Selling and Distribution Expenses. Our selling and distribution expenses increased by 2.2% from RMB18.5 million for the financial year ended 31 December 2008 to RMB18.9 million for the financial year ended 31 December 2009, primarily due to an increase in staff and welfare expenses of RMB0.8 million as more sales personnel were recruited to handle the expansion of the distribution network, an increase in freight and insurance expenses of RMB0.9 million in line with higher revenue recorded for the financial year ended 31 December 2009 and an increase in other miscellaneous selling expenses of RMB0.8 million, offset by a reduction in advertising and promotion expenses of RMB2.1 million. The reduction in advertising and promotion expenses was primarily due to the scaling back of promotional activities like free gifts and samples for the Emilon Series as it was determined that its effectiveness would be rather limited in the aftermath of the melamine incident, and instead focused on maintaining selling prices and continued advertising, emphasising the quality our products to our target consumers.

Administrative Expenses. Our administrative expenses increased by 0.6% from RMB16.9 million for the financial year ended 31 December 2008 to RMB17.0 million for the financial year ended 31 December 2009, which was lower than the increase in our revenue, primarily due to an increase in staff and welfare expenses of RMB1.4 million as more management level positions were created to handle the expansion in operations, an increase in depreciation expenses of RMB2.0 million and property related taxes arising from a full year of operations from our newly completed staff canteen, warehouses and conference centre in the second half of 2008 and a general increase in miscellaneous administrative expenses of RMB2.0 million. These increases were partially offset by recording no trade mark usage fees for the financial year ended 31 December 2009 pertaining to the "Daqing" trademark which we acquired from a related party in January 2009, whereas we recorded RMB5.9 million of similar fees for the financial year ended 31 December 2008. Please refer to the section headed "Connected Transactions" in this prospectus for further information.

Finance Costs. Our finance costs increased by 392.3% from RMB1.8 million for the financial year ended 31 December 2008 to RMB9.0 million for the financial year ended 31 December 2009, primarily due to interest costs arising from an increase in bank borrowings from RMB60.0 million to RMB200.0 million as at the end of the relevant periods.

Income Tax Expense. Our income tax expense increased by 16.6% from RMB48.7 million for the financial year ended 31 December 2008 to RMB56.8 million for the financial year ended 31 December 2009. This increase was primarily due to an increase in profit, which was partially offset by a decrease in the effective tax rate from 30.1% to 28.4% from the financial year ended 31 December 2008 to the financial year ended 31 December 2009 due to a decrease in non deductible expenses brought to tax for the financial year ended 31 December 2009.

Profit for the year. Our profit for the year increased by 26.6% from RMB113.1 million for the financial year ended 31 December 2008 to RMB143.2 million for the financial year ended 31 December 2009, as a result of the factors discussed above, and net profit margin increased slightly from 26.1% to 28.1%. Our Directors consider that our net profit margin is relatively high as a result of our ability to effectively control our selling and distribution costs as well as administrative costs.

Our year ended 31 December 2008 compared to our year ended 31 December 2007

Revenue. Our revenue increased by 41.8% from RMB305.5 million for the financial year ended 31 December 2007 to RMB433.3 million for the financial year ended 31 December 2008, primarily due to the growth of our milk formula products, which was partially offset by a reduction in revenue from our whole milk powder products as well as the fact that our production and sales operations were suspended in the first quarter of 2007 pending installation of new equipment and machinery at our production facility. Revenue from our milk formula products increased by 65.2% from RMB221.9 million for the financial year ended 31 December 2007 to RMB366.5 million for the financial year ended 31 December 2008, primarily due to a growth of RMB119.7 million or 76.0% in our Emilon Series milk formula products as compared to the financial year ended 31 December 2007 and growth of RMB25.2 million or 39.3% of our Daqing Series milk formula products compared to the financial year ended 31 December 2007. Since its launch in April 2007, the Emilon Series of infant milk formula has generated revenues of RMB157.5 million and RMB277.2 million for the financial years ended 31 December 2007 and 2008, respectively. Revenue from our whole milk powder products decreased by 22.2% from RMB83.6 million for the financial year ended 31 December 2007 to RMB65.0 million for the financial year ended 31 December 2008 due to the diversion of production resources towards fulfilling market demand for milk formula products.

Costs of Sales. Our costs of sales increased by 46.5% from RMB148.3 million for the financial year ended 31 December 2007 to RMB217.3 million for the financial year ended 31 December 2008, which was higher than the increase in our revenue. The rise in costs of sales was due primarily to an increase in raw milk prices from an average purchase cost from RMB1,720 per tonne for the financial year ended 31 December 2007 to RMB2,150 per tonne for the financial year ended 31 December 2008.

Gross profit. Our gross profit increased by 37.5% from RMB157.1 million for the financial year ended 31 December 2007 to RMB216.0 million for the financial year ended 31 December 2008. However, our gross profit margin decreased from 51.4% for the financial year ended 31 December 2007 to 49.9% for the financial year ended 31 December 2008, primarily due to (1) an increase in raw milk prices from an average purchase cost from RMB1,720 per tonne for the financial year ended 31 December 2007 to RMB2,150 per tonne for the financial year ended 31 December 2008 and (2) the implementation of annual sales rebates for our distributors that meet the specified annual targets on top of the usual sales rebates in each quarter. These factors caused our gross profit margins to decline across all product ranges, particularly gross profit margins on our whole milk powder products which declined from 25.3% to 10.2%, since the production of whole milk powder products uses more raw milk than milk formula products.

Other Gains and Losses. Our other gains were RMB0.2 million for the financial year ended 31 December 2007 arising from bank interest. Our other losses were RMB16.9 million for the financial year ended 31 December 2008, primarily due to impairment losses recognised in respect of property, plant and equipment amounting RMB18.9 million as part of our continuing plant renewal plan to replace older equipment which was partially offset by higher average bank balances during the year and recognised interest on advances to a subsidiary, Changqing Dairy (prior to its acquisition by the Daqing Dairy Group), resulting in interest income of RMB2.0 million.

Selling and Distribution Expenses. Our selling and distribution expenses increased by 24.2% from RMB14.9 million for the financial year ended 31 December 2007 to RMB18.5 million for the financial year ended 31 December 2008, primarily due to an increase in salary and welfare expenses and freight and insurance expenses in support of higher sales volume. For the financial year ended 31 December 2008 we increased our advertising and promotion expenses by RMB2.4 million or 21.2% as compared to the financial year ended 31 December 2007 to increase market awareness of our Emilon Series.

Administrative Expenses. Our administrative expenses increased by 60.9% from RMB10.5 million for the financial year ended 31 December 2007 to RMB16.9 million for the financial year ended 31 December 2008, which was higher than the increase in our revenue, primarily due to an increase in staff and welfare cost arising from an increase in head count by RMB1.6 million, an increase in depreciation expenses of RMB1.1 million due to additions of staff canteen and other administrative buildings and an increase in trademark usage fees of RMB1.5 million, paid to a related party based on 5% of net profits (determined in accordance to PRC accounting standards) generated by the Daqing Dairy Group as a result of higher profits during the financial year ended 31 December 2008. Please refer to the section headed "Connected Transactions" in this prospectus for further information.

Finance Costs. Our finance costs increased from RMB0.1 million for the financial year ended 31 December 2007 to RMB1.8 million for the financial year ended 31 December 2008, primarily due to interest costs arising from short term loans of RMB60.0 million that were drawn down in 2008.

Income Tax Expense. Our income tax expense increased by 3.4% from RMB47.1 million for the financial year ended 31 December 2007 to RMB48.7 million for the financial year ended 31 December 2008, primarily due to an increase in profit before tax, which was partially offset by a decrease in our effective tax rate from 35.7% for the financial year ended 31 December 2007 to 30.1% for the financial year ended 31 December 2008 due to the decrease in the enterprise tax rates from 33% for the financial year ended 31 December 2007 to 25% for the financial year ended 31 December 2008. The effective tax rates were higher than the prevailing corporate tax rates for the two periods due to certain expenses items that are not deductible for income tax purposes.

Profit for the year. Our profit for the year increased 33.5% from RMB84.7 million for the financial year ended 31 December 2007 to RMB113.1 million for the financial year ended 31 December 2008 as a result of the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our operations principally through cash generated from our operations and our capital expenditures through a combination of cash generated from our operations and bank borrowings.

Principal liquidity and capital requirements relate to costs and expenses related to the operation of our business and the operation of our production facilities, and capital expenditures for the upgrade of existing facilities and construction of new production facilities.

Cash flows

The following discussion is based on the consolidated cash flow statements of the Daqing Dairy Group for the Track Record Period and the Group for the financial years ended 31 December 2008 and 2009 and the six months ended 30 June 2010. Please refer to the sections headed "Appendix IA — Accountants' Report of the Group" and "Appendix IB — Accountants' Report of the Daqing Dairy Group" in this prospectus for further information.

The following table summarises our and the Group's cash flows for the periods indicated:

	The Group				The Daqing Dairy Group				
	Year ended 31 December		Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2008	2009	2009	2010	2007	2008	2009	2009	2010
	RMB (thousands)		RMB (thousands)		RMB (thousands)			RMB (thousands)	
			(unaudited)					(unaudited)	
Net cash inflow from operating activities	81,477	187,783	24,519	179,399	82,683	155,004	187,794	24,517	185,123
Net cash used in investing activities	(72,160)	(463,057)	(91,270)	(5,083)	(61,084)	(224,445)	(144,285)	(91,270)	(5,084)
Net cash inflow from financing activities	59,180	390,726	70,000	(42,928)	26,327	88,073	70,000	70,000	(50,000)
Cash and cash equivalents at the end of period	68,520	183,972	71,769	315,360	49,867	68,499	182,008	71,746	312,047

Cash Flows From Operating Activities

Our cash flows from operating activities

Our net cash inflow generated from operating activities for the six months ended 30 June 2010 was RMB185.1 million. This was primarily due to the cash inflow of RMB172.0 million arising from profit from operations and working capital changes resulting in a cash inflow of RMB38.5 million before adjusting for income tax and interest paid of RMB22.2 million and RMB3.1 million respectively. Cash inflow from working capital changes was primarily due to a decrease in inventories, trade and other receivables of RMB3.4 million and RMB13.0 million respectively as well as an increase in trade and other payables of RMB22.1 million.

Our net cash inflow generated from operating activities for the financial year ended 31 December 2009 was RMB187.8 million. This was primarily due to the cash inflow of RMB216.7 million arising from profit from operations and working capital changes resulting in a cash inflow of RMB24.9

million before adjusting for income tax and interest paid of RMB44.7 million and RMB9.0 million, respectively. Cash inflow from work capital changes was primarily due to a decrease in inventory of RMB23.4 million and an increase in trade and other payable of RMB13.2 million offset by an increase in trade and other receivables of RMB11.8 million. The increase in other receivables was primarily due to an increase in trade receivables, advances to suppliers and prepayments due to increase of sales and production and the increase in other payables was due to more advance receipts from distributors who order our products.

Our net cash inflow generated from operating activities for the financial year ended 31 December 2008 was RMB155.0 million. This was primarily due to the cash inflow of RMB191.6 million arising from net profit from operations and working capital changes resulting in a cash inflow of RMB16.0 million before adjusting for income tax and interest paid of RMB50.7 million and RMB1.8 million, respectively. Cash inflow from work capital changes was primarily due to a decrease in inventory and trade and other receivable of RMB1.5 million and RMB10.4 million respectively and increase in trade and other payable by RMB4.1 million due to better working capital management.

Our net cash inflow generated from operating activities for the financial year ended 31 December 2007 was RMB82.7 million. This was primarily due to the cash inflow of RMB139.1 million arising from our net profit, partially offset by net cash outflow arising from working capital changes of RMB31.7 million, taxes paid of RMB24.6 million and interest paid of RMB0.1 million. Net cash outflow arising from working capital changes was primarily due to the increase in inventories and trade and other receivables by RMB41.0 million and RMB5.2 million, offset by an increase in trade and other payables by RMB14.5 million as a result of increased business activities.

The Group's cash flows from operating activities

The Group's net cash inflow generated from operating activities for the six months ended 30 June 2010 was RMB179.4 million, which was less than the Daqing Dairy Group's operating cash flows by RMB5.7 million and was primarily due to expenses of RMB5.0 million that have been pre-paid in relation to the preparation of the Global Offering and other corporate expenses incurred by the Group amounting to RMB0.7 million.

The Group's net cash inflow generated from operating activities for the financial year ended 31 December 2009 was RMB187.8 million which is RMB0.01 million lesser than the Daqing Dairy Group's operating cash flows due to certain expenses incurred in the Company and Global Milk Singapore.

The Group's net cash inflow generated from operating activities for financial year ended 31 December 2008 was RMB81.5 million. The difference between the operating cash flows of the Daqing Dairy Group and the Group for the financial year ended 31 December 2008 was primarily due to the Group having only generated revenues from productions for the period from 25 July 2008, the date the Group acquired the Daqing Dairy Group, to 31 December 2008, whereas the Daqing Dairy Group generated revenues for the entire financial year ended 31 December 2008.

Cash Flows From Investing Activities

Our cash flows from investing activities

Our net cash used in investing activities for the six months ended 30 June 2010 was RMB5.1 million arising from cash outflow primarily in respect of the acquisition of plant and machinery and further additions to the construction in progress of our new production line at our Changqing production facility of RMB5.5 million, which was offset by the interest of RMB0.2 million we received and the proceeds from the disposal of plant and machinery of RMB0.2 million.

Our net cash used in investing activities of RMB144.3 million for the financial year ended 31 December 2009 was a result of cash used to acquire property, plant and equipment of RMB125.3 million relating to the construction of the phase two production line at our Daqing production facilities and the new production line at our Changqing production facility, additional amounts advanced to Changqing Dairy prior to November 2009 of RMB52.5 million, offset by net cash inflow of RMB32.9 million arising from the acquisition of Changqing Dairy in November 2009, interest received and proceeds from disposal of property, plant and equipment amounting to RMB0.4 million and RMB0.2 million, respectively.

Our net cash used in investing activities of RMB224.4 million for the financial year ended 31 December 2008 was used to acquire property, plant and equipment of RMB81.1 million relating to the construction of a staff canteen and ancillary facilities and advances to a related company, Changqing Dairy, prior to its acquisition by Daqing Dairy of RMB150.0 million, offset by proceeds from sale of property, plant and equipment of RMB6.2 million and interest income received of RMB0.5 million.

Our net cash used in investing activities of RMB61.1 million for the financial year ended 31 December 2007 was used to acquire property, plant and equipment of RMB61.3 million, offset by interest income earned of RMB0.2 million.

The Group's cash flows from investing activities

There was no significant difference between investing cash flows of our Group and the Daqing Dairy Group for the six months ended 30 June 2010.

The Group's net cash used in investing activities for the financial year ended 31 December 2009 was RMB463.1 million. The difference between the investing cash flows of the Daqing Dairy Group and the Group for the financial year ended 31 December 2009 was primarily due to the payment of RMB318.8 million owing to the previous shareholders of Daqing Dairy for the acquisition of the entire equity interest in Daqing Dairy.

The Group's net cash used in investing activities for financial year ended 31 December 2008 was RMB72.2 million. The difference between the investing cash flows of the Daqing Dairy Group and the Group for the financial year ended 31 December 2008 was primarily due the Group's net cash inflow of RMB93.1 million as a result of the Daqing Dairy acquisition while the Daqing Dairy Group had cash outflows for the purchase of property plant and equipment of RMB59.4 million most of which occurred prior to the acquisition by the Group.

Cash Flows From Financing Activities

Our cash flows from financing activities

Our net cash used in financing activities for the six months ended 30 June 2010 was RMB50.0 million, comprising repayments of bank borrowings of RMB200.0 million offset by proceeds from loan advanced by a related party of RMB50.0 million and new bank borrowings raised of RMB100.0 million.

Our net cash generated from financing activities for the financial year ended 31 December 2009 amounted to RMB70.0 million, comprising proceeds raised from bank loans of RMB160.0 million and offset by the repayment of bank borrowings of RMB60.0 million and the repayment of an amount advanced by a third party of RMB30.0 million.

Our net cash generated from financing activities for the financial year ended 31 December 2008 amounted to RMB88.1 million, comprising proceeds raised from a bank loan of RMB70.0 million and an amount advanced by a third party of RMB30.0 million, offset by the repayment of bank borrowings of RMB10.0 million and finance lease obligations with respect to motor vehicles amounting to RMB1.9 million.

Our net cash generated from financing activities for the financial year ended 31 December 2007 amounted to RMB26.3 million, comprising a capital injection of RMB33.7 million by the then existing shareholders of Daqing Dairy, offset by the repayment of bank borrowings of RMB6.0 million and finance lease obligations with respect to motor vehicles amounting to RMB1.4 million.

The Group's cash flows from financing activities

The Group's net cash used in financing activities was RMB42.9 million which was RMB7.1 million lower than that of Daqing Dairy Group. This was due to the net cash inflow of RMB7.1 million arising from the net impact of proceeds from the SSFA after offsetting the amounts paid to Kenmoore and Mr Zhao from the assumption of the loan from the Pre-IPO Investors under the Investment Agreement.

The Group's net cash from financing activities for the financial year ended 31 December 2009 was RMB390.7 million. The difference between the financing cash flows of the Daqing Dairy Group and the Group for the financial year ended 31 December 2009 was primarily due to the subscription money received of RMB102.3 million from various Pre-IPO Investors, capital injection by Our Controlling Shareholder of RMB114.9 million and a loan of RMB103.6 million granted by our Pre-IPO Investors. The subscription money received relates to a subscription of 127,829 Shares by the Pre-IPO Investors for an aggregate subscription price of RMB102.3 million and capital injection by Our Controlling Shareholder relates to a subscription of 63,171 Shares for an aggregate subscription price of RMB125 million (RMB114.9 million of which had been received as at 31 December 2009). The loan of RMB103.6 million was a S$21 million bridging loan from our Pre-IPO Investors, which while valued for the accounts as a RMB102.3 million loan, resulted in cash inflow of RMB103.6 million due to exchange fluctuations between the date of the loan and the date of cash was received by the Group. Please refer to the sections headed "Connected Transactions" and "— Net Current Assets/Liabilities" in this prospectus for further information.

The Group's net cash used from financing activities for year ended 31 December 2008 was RMB59.2 million. The difference between the financing cash flows of the Daqing Dairy Group and the Group for the financial year ended 31 December 2008 was primarily due to the receipt of a RMB30.0 million loan by the Daqing Dairy Group prior to the acquisition of it by the Group.

Capital Expenditures

Capital expenditures comprise purchases of property, plant and equipment, increases in construction in progress and additions to land use rights. For the Track Record Period, our capital expenditures were RMB136.4 million, RMB86.7 million, RMB128.2 million and RMB7.3 million, respectively.

Our capital expenditure of RMB7.3 million during the six months ended 30 June 2010 was primarily due to acquisitions of plant and machinery and further additions to construction in progress of the new production line at our Changqing production facility amounting to RMB6.4 million in aggregate.

Our capital expenditures of RMB128.2 million during the financial year ended 31 December 2009 were primarily due to the purchase of additional machinery amounting to RMB66.1 million mainly for the phase two production line of our Daqing production facilities, the construction in progress of the factory building to house the new production line at our Changqing production facility amounting to RMB55.5 million and trademark of RMB0.2 million.

Our capital expenditures of RMB86.7 million during the financial year ended 31 December 2008 were primarily due to the construction in progress for our expanded warehouses, staff canteen, conference centre and ancillary works and the upgrade of boiler room.

Our capital expenditures of RMB136.4 million during the financial year ended 31 December 2007 were primarily due to the purchase of additional equipment for our current production line amounting to RMB72.9 million and the construction in progress of a building to house our quality assurance and administrative departments as well as production space for our ice cream production lines amounting to approximately RMB59.3 million.

With part of the proceeds from the Global Offering, the Group intends to implement its expansion plans on investments upstream in cattle farms and acquisitions of related production equipment and facilities, reinforce and expand its distribution network and develop new products. The Group continuously manages its liquidity situation to ensure that it is adequate to meet its expansion plans. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for further information.

Capital Commitments

We had the following outstanding capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided for in our financial information:

	The Group			
	As at 31 December			Six months ended 30 June
	2007	2008	2009	2010
	RMB (thousands)			
Contracted, but not provided for	—	50,906	10,297	9,720
Total	—	50,906	10,297	9,720

The above outstanding capital commitments shall be settled within 12 months from the Latest Practicable Date.

INVENTORY ANALYSIS

The following table sets forth a summary of our average inventory turnover for the periods indicated:

	The Daqing Dairy Group			
	Year ended 31 December			Six months ended 30 June
	2007 (Note 1)	2008 (Note 2)	2009 (Note 2)	2010 (Note 3)
Turnover of inventory (days)	89	80	33	21

Notes:

(1) Calculated as the ending inventory balances for the period from 10 April 2007 to 31 December 2007, divided by the cost of sales for the period from 10 April 2007 to 31 December 2007, multiplied by 266 days. This calculation is due to the fact that production and sale operations were suspended from 1 January 2007 to 9 April 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities.

(2) Calculated as the ending inventory balances for the period, divided by the cost of sales for the period and multiplied by 365 days.

(3) Calculated as the ending inventory balances for the period, divided by the cost of sales for the period and multiplied by 183 days.

Our inventory comprises mainly raw materials, packaging materials and finished products. As raw milk is perishable, our normal holding period for raw milk is 24 to 48 hours. However, we normally use the raw milk in our production on the same day of its delivery and do not maintain stocks of raw milk. We typically hold inventory of finished products to meet customer orders. We have committed to deliver our products to our distributors generally within seven days after the receipt of their payments for their orders. For direct sales to supermarket and other retail chain store in Daqing municipality, we generally deliver our products within seven days of receiving and confirming their orders. We also hold inventory of raw materials like whey powder, sugar and mineral supplements to minimise disruption to production arising from the shortage of raw materials. The level of inventory that we hold at any point in time is affected, *inter alia*, by our perception of the ease of supply and forward prices of raw materials, production plans and estimated customer orders.

The following table sets forth our inventory positions as at the balance sheet dates indicated.

	The Daqing Dairy Group			
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB (thousands)			
Raw materials (Note 1)	29,116	27,136	8,907	12,362
Finished products	20,262	20,772	15,542	8,688
Total	49,378	47,908	24,449	21,050

Note:

(1) Raw materials include, among others things, packaging materials, whey powder, sugar and mineral supplements.

Our inventories decreased by 13.5% from RMB24.4 million as at 31 December 2009 to RMB21.1 million as at 30 June 2010. This was mainly due to a decline in finished products as at 30 June 2010 of RMB6.9 million, which was offset by an increase in raw materials of RMB3.5 million due to increased sales during the period. Inventory turnover days further declined to 21 days due to a tight control over production planning and purchasing.

Our inventories declined 3.0% from RMB49.4 million as at 31 December 2007 to RMB47.9 million as at 31 December 2008 and further declined by 48.9% to RMB24.5 million as at 31 December 2009. The inventory turnover days declined from 89 days to 80 days and subsequently to 33 days for the financial year ended 31 December 2007, 2008 and 2009, respectively. The decline in inventory days was primarily due to stringent working capital controls implemented to minimise cash used in holding inventory by instituting better production planning and purchasing.

TRADE RECEIVABLES

Turnover of Trade Receivables

The following table sets forth the turnover of our trade receivables for the periods indicated:

	The Daqing Dairy Group			
	Year ended 31 December			Six months ended 30 June
	2007 (Note 1)	2008 (Note 2)	2009 (Note 2)	2010 (Note 3)
Turnover of trade receivables (days)	10	8	9	5

Notes:

(1) Calculated as the ending trade and bills receivables for the period 10 April 2007 to 31 December 2007, divided by the revenue for the period 10 April 2007 to 31 December 2007 and multiplied by 266 days. This calculation took into account the fact that production and sale operations were suspended from 1 January 2007 to 9 April 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities.

(2) Calculated as the ending trade and bills receivables balances for the period, divided by revenue for the period and multiplied by 365 days.

(3) Calculated on the ending trade and bills receivable balances for the period, divided by revenue for the period and multiplied by 183 days.

The additional decline in the turnover day of our trade receivables in the six months ended 30 June 2010 was mainly due to the increase in the proportion of revenue contributed by our distributors from approximately 69.1% as at 31 December 2009 to 85.3% as at 30 June 2010. Sales to distributors were on pre-paid basis.

Our trade receivables turnover days reduced from 10 days for the financial year ended 31 December 2007 to eight days for the financial year ended 31 December 2008 and increased to nine days for the financial year ended 31 December 2009, primarily due to better collection efforts as well as the implementation of internal controls over the credit sales process whereby prior finance department approval is required for delivery of goods on credit sales. This allows us to minimise our exposure to credit risk.

Average Age of Trade Receivables

Our distributors are generally required to make payments in advance of receiving supplies of our products. As such, no trade and bills receivables are generally generated and we are therefore are not exposed to material risk of bad or doubtful debts from our distributors. However, in general we grant credit terms of up to 30 days for direct sales to supermarkets and retail chain stores operating in Daqing municipality. As a result, we generate trade receivables in relation to sales to these customers. Approximately 59.4%, 74.7%, 69.1% and 85.3% of our revenues were generated from sales to our distributors for the Track Record Period, respectively.

The following table sets forth a summary of the average age of our trade receivables for the periods indicated:

	The Daqing Dairy Group			
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB (thousands)			
Age of trade receivables				
Within 30 days	10,620	8,654	12,804	9,341
Over 30 days but within one year	630	863	49	29
Over one year	—	83	—	—
Total	11,250	9,600	12,853	9,370

Our provisions for doubtful debts during the Track Record Period were approximately nil.

Our trade receivables balance decreased from RMB11.3 million as at 31 December 2007 to RMB9.6 million as at 31 December 2008, increased to RMB12.9 million as at 31 December 2009 and subsequently decreased to RMB9.4 million as at 30 June 2010. The percentage contribution to revenue by retail chain stores for the Track Record Period was 22.4%, 16.3%, 23.6% and 7.9% respectively. The changes in trade receivables generally followed the trend in percentage contribution of retail chain stores to total revenue.

ACCOUNTS PAYABLE

Turnover of Trade Payables

The table below sets forth our turnover of trade payables for the periods indicated:

	The Daqing Dairy Group			
	Year ended 31 December			Six months ended 30 June
	2007 (Note 1)	2008 (Note 2)	2009 (Note 2)	2010 (Note 3)
Turnover of trade payables (days)	9	2	7	9

Note:

(1) Calculated as the ending trade payables for the period 10 April 2007 to 31 December 2007, divided by the cost of sales for the period 10 April 2007 to 31 December 2007 and multiplied by 266 days. This calculation took into account the fact that our production and sale operations were suspended from 1 January 2007 to 9 April 2007 pending installation of new equipment and machinery at the phase one production lines at our Daqing production facilities.

(2) Calculated as the ending trade payables balances for the period, divided by the cost of sales in the period and multiplied by 365 days.

(3) Calculated on the ending trade payables balances for the period, divided by cost of sales for the period and multiplied by 183 days.

Our trade payables turnover days were nine, two, seven and nine days for the Track Record Period, respectively. These averages are partially a result of the fact that raw milk represented 53.0%, 60.9%, 33.9% and 43.7% of our total cost of purchases for each of the financial years ended 31 December 2007, 2008 and 2009, and the six months ended 30 June 2010, respectively, which we generally settle within 10 days after we have received the delivery of 10 days of accumulated raw milk supplies from the milk collection centres.

Average Age of Trade Payables

The following table sets forth the average age of our trade payables for the periods indicated:

	The Daqing Dairy Group			
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB (thousands)			
Age of Trade Payables				
Within 30 days	3,925	231	3,244	6,268
Over 30 days but within one year	1,032	1,065	2,273	2,241
Over one year	37	37	37	—
Total	4,994	1,333	5,554	8,509

Our trade payables are generated primarily from the purchases of raw materials and other supplies from our suppliers. We generally settle our purchases of raw milk from milk collection centres within 10 days after we have received delivery of 10 days accumulated raw milk supplies from the milk collection centres and have been granted credit periods of up to 45 days by our suppliers for other purchases.

Prepayments, Deposits and other Receivables

Our prepayment, deposits and other receivables primarily included prepayments to suppliers and amount due from related parties. As at 31 December 2007, 2008 and 2009 and as at 30 June 2010, our advances to suppliers were RMB4.1 million, RMB0.8 million, RMB3.9 million and RMB1.4 million, respectively, and mainly comprise deposits for purchase of raw materials. As at 31 December 2007, 2008 and 2009, and as at 30 June 2010, our prepayments were RMB2.3 million, nil, RMB6.7 million and nil, respectively.

Our PRC Legal Advisers have advised us that PRC companies are not allowed to extend loans to one another. Accordingly, our PRC Legal Advisers have advised us as follows:

- as the direct advances that we extended to Changqing Dairy during the Track Record Period and the interests generated from such advances may be in violation of the requirements under the General Principles of Loans of the PBOC, the PBOC may impose a fine on us, which is equivalent to a sum between one and five times of all interest payments we received. Our Directors have confirmed that we have not received any principal and interest repayments from Changqing Dairy during the Track Record Period and we have not been fined by the PRC government authorities in respect of such advances as at the Latest Practicable Date. Our PRC Legal Advisers have further advised us that as we have fully discharged Changqing Dairy from its payment obligations under the agreement in respect of all interests accrued on the above advances pursuant to the supplemental agreements dated 7 August 2009 and 28 July 2010 entered into between Daqing Dairy and Changqing Dairy and a letter dated 1 July 2010 between Daqing Dairy and Changqing Dairy, and did not receive any payment prohibited under the General Principles of Loans of the PBOC, our present and future business operations would not be adversely affected by such agreement. Our Directors have confirmed that we have not made such advances to third parties since the end of 2008 and will not make such advances in the future; and

- as the direct advances that Daqing Dairy borrowed from a third party and a related party during the Track Record Period were in violation of the requirements under the General Principles of Loans of the PBOC, the PBOC may impose a fine, which is equivalent to a sum between one and five times of all interest payments that each of the lenders received. Our PRC Legal Advisers have further advised us that (i) as the obligations under the loan agreements in respect of the above interest free direct advances had been fully discharged and the General Principles of Loans of the PBOC does not impose any sanction on borrowers, Daqing Dairy as the borrower of the above direct advances will not be subject to the above penalty, and (ii) our present and future business operations would not be adversely affected by such agreements.

Please refer to the sub-section headed “Our borrowings” in the section headed “Financial Information — Indebtedness” in this prospectus for details of the above direct advances.

On 1 July 2010, we adopted internal policies which prohibit us from entering into any loan transactions with entities which are not banking institutions and entering into any agreements unless our legal department has reviewed such agreements. Our legal department will adhere to the above internal policies, and monitor and ensure our future and continued compliance with all applicable laws and regulations, including the General Principles of Loans of the PBOC.

Other Payables and Accruals

Other payables and accruals primarily consist of advances from customers, amounts due to related parties, tax payables and amounts payable for the acquisition of property, plant and equipment. As at 31 December 2007, 2008, 2009 and as at 30 June 2010, advances from customers were RMB3.3 million, RMB13.4 million, RMB11.8 million and RMB16.7 million, respectively. Included in other payable as at 30 June 2010, we have secured and drawndown a loan from a related party amounting to RMB50.0 million. This loan was obtained to facilitate our cash flows during the process of refinancing our short term bank borrowings into long term borrowings. This loan from the related party had since been repaid. As at 31 December 2008, there was an advance from a third party amounting to RMB30.0 million which was repaid in 2009. In addition, amounts payable for the acquisition of property, plant and equipment amounted to RMB5.9 million, RMB29.8 million and RMB28.5 million as at 31 December 2008, 2009 and 30 June 2010, respectively.

INDEBTEDNESS

At the close of business on 31 August 2010, the Group had outstanding indebtedness of approximately RMB179,046,000, comprising long-term bank borrowings of RMB100,000,000 and long-term loans from Pre-IPO Investors of approximately RMB79,046,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 August 2010 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities .

The Group's borrowings, including bank borrowings and other loans are set out below for the periods presented:

	The Group				The Daqing Dairy Group				
	As at 31 December		As at 30 June	As at 31 August	As at 31 December			As at 30 June	As at 31 August
	2008	2009	2010	2010	2007	2008	2009	2010	2010
	RMB (thousands)								
				(unaudited)					(unaudited)
Borrowings due within one year									
Bank borrowings									
Secured on assets of the Group	30,000	30,000	—	—	—	30,000	30,000	—	—
Unsecured	30,000	170,000	—	—	—	30,000	170,000	—	—
Borrowings from Pre-IPO Investors	—	102,275	—	—	—	—	—	—	—
	60,000	302,275	—	—	—	60,000	200,000	—	—
Borrowing due after one year									
Bank borrowings									
Unsecured	—	—	100,000	100,000	—	—	—	100,000	100,000
Borrowings from Pre-IPO Investors	—	—	76,514	79,046	—	—	—	—	—
Total borrowings	60,000	302,275	176,514	179,046	—	60,000	200,000	100,000	100,000

Our borrowings

We had bank financing of RMB200.0 million as at 31 December 2009, consisting of three separate loans of RMB100.0 million, RMB30.0 million and an aggregate of RMB30.0 million raised by Daqing Dairy and RMB40.0 million raised by Changqing Dairy. Our RMB100.0 million loan, which has been repaid, charged an interest rate of 5.310% and had a one year tenure that matured in January 2010 and was secured on certain property of a related party as well as certain land use rights and properties of a third party, which were released upon repayment. Each of the second and third loan generally had a one year tenure and charged an interest rate of 5.310% per annum. The second loan, which matured in October 2010 and was secured on certain land use rights and properties of Changqing production facility, was repaid in June 2010 and the security was released upon such repayment. The third loan, which matured in April and May 2010, and was secured by a guarantee provided by an Independent Third Party (the "**Guarantor**"), was repaid in April and May 2010 and the third party guarantee was released upon such repayment. We have obtained and drawndown a new loan of RMB30.0 million from the bank in June 2010 upon our repayment of the second loan and another new loan of RMB30.0 million from the bank in May 2010 upon our repayment of the third loan, which are secured by guarantees provided by the Guarantor. Each of these two new loans charges an interest rate of 5.310% per annum and has a repayment term of 36 months from June 2010 and May 2010, respectively. The loan of RMB40.0 million raised by Changqing Dairy has tenure of one year and matures in August 2010 and charges interest at 6.903% per annum. The loan was secured by a guarantee from a related party. This loan was repaid in May 2010 and the guarantee from the related party was released accordingly. Upon repayment of the loan, Changqing Dairy has obtained and drawndown a new loan of RMB40.0 million from the bank in May 2010, which is secured by a guarantee provided by the Guarantor. The new loan charges an interest rate of 5.310% per annum and has a repayment term of 36 months from May 2010. As a result of the above loan repayments and the drawdown of the new loans, we had RMB100.0 million of bank borrowings as at 30 June 2010. Our Directors believe that these loans will be repaid through additional loans or through our working capital. Please refer to the sections headed "Connected Transactions" and "Financial Information — Net Current Assets/liabilities" in this prospectus for further information.

We raised three separate bank loans in 2008 from our principal bank in Daqing, amounting to RMB70.0 million in aggregate. The first loan of RMB 30.0 million had tenure of one year and was repaid in 2009. This loan was secured by a guarantee provided by the Guarantor and charged an interest rate of 7.470% per annum. The second loan of RMB10.0 million was an unsecured two month term loan, drawn on 28 September 2008 and repaid on 6 November 2008 and charged an interest rate of 6.210% per annum. The third loan of RMB30.0 million had a tenure of one year and was repaid in 2009. This loan was secured on certain land use rights and properties of our Daqing Plant. We were also granted an interest free, unsecured advance of RMB30.0 million from a third party in December 2008, which we repaid in 2009.

For further information regarding the above borrowings, please refer to the section headed "Connected Transactions" in this prospectus.

The Guarantor provided the above third party guarantees as part of its business in return for fees.

We repaid an interest-free bank loan of RMB6.0 million in 2007, which was secured by a guarantee provided by an Independent Third Party.

The Group's borrowings

As at 31 December 2008, there was an advance from a third party amounting to RMB30.0 million which was repaid in 2009. The Pre-IPO Investors granted the Company a three-month term loan for S$21.0 million (approximately RMB102.3 million) (the "**First Pre-IPO Loan**") that matured in February 2010. This was repaid in February 2010 by the Group through an assumption of debt agreement with our Controlling Shareholder and Kenmoore. Subsequent to the repayment of the First Pre-IPO Loan, the Pre-IPO Investors extended a 18-month term loan to the Company amounting to S$15.75 million (approximately RMB76.51 million) on 1 March 2010. The loan is still outstanding as at 30 June 2010.

As at 31 August 2010, we had unutilised banking facilities of approximately RMB300.0 million.

Contingencies and Guarantees

During the Track Record Period, we did not make any loan or provide any guarantee to milk collection centres, individual dairy farmers or dairy farms.

Except as described above, we did not have outstanding at the close of business on 31 August any loan capital (issued or agreed to be issued), bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, finance lease commitments, guarantees, indemnities or other material contingent liabilities.

Our Directors are of the view that as at the Latest Practicable Date, there has been no material change in our indebtedness and contingent liabilities since 30 June 2010.

NET CURRENT ASSETS/LIABILITIES

The following table sets forth the net current assets as at the balance sheet dates indicated:

	The Group				The Daqing Dairy Group				
	As at 31 December		As at 30 June	As at 31 August	As at 31 December			As at 30 June	As at 31 August
	2008	2009	2010	2010	2007	2008	2009	2010	2010
	RMB (thousands)								
				(unaudited)					(unaudited)
CURRENT ASSETS									
Inventories	47,908	24,449	21,050	58,662	49,378	47,908	24,449	21,050	58,662
Trade and other receivables	12,069	24,205	16,208	21,709	20,947	12,069	24,205	11,164	10,002
Prepaid lease payments	655	847	847	847	135	135	327	327	328
Bank balances and cash	68,520	183,972	315,360	265,634	49,867	68,499	182,008	312,047	262,319
	129,152	233,473	353,465	346,852	120,327	128,611	230,989	344,588	331,311
CURRENT LIABILITIES									
Trade and other payables	377,468	66,600	139,587	109,908	18,646	58,627	66,247	136,987	97,378
Obligations under finance leases	—	—	—	—	1,927	—	—	—	—
Income tax liabilities	20,505	32,691	51,901	30,744	22,479	20,505	32,691	51,901	30,744
Borrowings	60,000	302,275	—	—	—	60,000	200,000	—	—
Subscription money received	—	102,275	—	—	—	—	—	—	—
	457,973	503,841	191,488	140,652	43,052	139,132	298,938	188,888	128,122
NET CURRENT ASSET/ (LIABILITIES)	(328,821)	(270,368)	161,977	206,200	77,275	(10,521)	(67,949)	155,700	203,189

As at 30 June 2010, our financial position turned from a negative working capital of RMB67.9 million as at 31 December 2009 to a positive working capital of RMB155.7 million mainly due to strong cash flows from operating activities of RMB185.1 million during the period as well as the completion of our bank refinancing of RMB100.0 million of short term loans to long term loans with a repayment term of 36 months.

Even though we generated positive operating cash flows of RMB82.7 million, RMB155.0 million and RMB187.8 million for the Track Record Period, respectively, our financial position turned from positive working capital of RMB77.3 million as at 31 December 2007 to a negative working capital of RMB10.5 million and RMB67.9 million as at 31 December 2008 and 2009 as a result of our financing the construction of one new 300 tonne production line in each of our Daqing production facilities and Changqing production facility using short term bank financing, as it charges lower interest rates as compared to longer term loans. Our Directors feel confident that given our relationship with our principal banker, the Longjiang Commercial Bank, these loans can be rolled over, if required. Please refer to the sub-section headed "The Group's borrowings" in the section headed "Financial Information — Indebtedness" in this prospectus for further information.

The Group's net working capital as at 31 December 2008 reflected a negative balance of RMB328.8 million due to the purchase consideration of RMB318.8 million owing to the existing shareholders of Daqing Dairy as a result of its acquisition by the Group. The acquisition consideration was paid up in 2009 via equity funding by our Controlling Shareholder and share subscription money received from Pre-IPO Investors amounting to RMB114.9 million and RMB102.3 million respectively, and a three month bridging loan by our Pre-IPO Investors amounting to RMB102.3 million.

As a result, due in part to these agreements as at 31 December 2009, the Group's net working capital reflected a negative balance of RMB270.4 million. Specifically, the Company entered into an investment agreement with the Pre-IPO Investors on 20 November 2009 pursuant to which the Pre-IPO Investors agreed to provide the Company with a S$21.0 million (RMB102.3 million) three-month bridging loan and subscribe for an aggregate of 127,829 Shares for an aggregate subscription price of S$21 million (RMB102.3 million). The bridging loan of S$21 million and the subscription consideration were used to pay part of the acquisition consideration of Daqing Dairy, which was acquired in 2008.

Subsequent to the financial year ended 31 December 2009, (1) share subscription money of RMB102.3 million was converted to equity and (2) the Group entered into a second series funding agreement with our Pre-IPO Investors in which they agree to provide the Group with a further S$21.0 million (RMB102.0 million) in funding, comprising additional equity investment of S$5.25 million (RMB25.5 million) and a 18 month term loan of S$15.75 million (RMB76.5 million) with effect from 1 March 2010. In addition, the operating entities of the Group had repaid three existing short term loans comprising two loans of RMB 30.0 million each and a loan of RMB 40.0 million between April 2010 and June 2010, and obtained from a bank three new loans comprising two loans of RMB30.0 million each and a loan of RMB40.0 million between May 2010 and June 2010 with each having a repayment term of 36 months. Please refer to the section headed "Financial Information - Indebtedness" in this prospectus for further information.

Neither we nor the Group have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

As at 31 August 2010, we had net current assets of RMB206.2 million. Our net current asset position was primarily due to better working capital management.

WORKING CAPITAL

Our Directors are of the opinion that after taking into account the existing financial resources available to us, the expected internally-generated funds and the estimated net proceeds from the Global Offering, we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this prospectus.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at 30 June 2010, we had no off-balance sheet commitments and arrangements.

MAJOR FINACIAL RATIOS

Gearing ratio

Our gearing ratio is calculated by dividing total interest-bearing bank loans by total assets as at each balance sheet date. Our gearing ratios as at 31 December 2007, 2008 and 2009, and as at 30 June 2010 were nil, 12.6%, 25.7% and 11.3%, respectively.

The gearing ratio of the Group is calculated by dividing total interest-bearing bank loans and interest bearing Pre-IPO Investor loans by total assets as at each balance sheet date. The Group's gearing ratios as at 31 December 2008 and 2009, and as at 30 June 2010 were 11.3%, 36.4% and 18.8%, respectively.

Return on equity

Return on equity is calculated by dividing net profit for the period by total equity amounts as at the end of such period. Our return on equity for the Track Record Period was 37.9%, 33.6%, 29.9% and 19.4%, respectively. Return on equity for the Group for the financial years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 was 100.0%, 44.1% and 19.7%, respectively.

Return on assets

Return on assets is calculated by dividing net profit for the period by total assets amounts at the end of the period. Our return on assets for the Track Record Period was 31.8%, 23.8%, 18.4% and 13.1%, respectively. Return on assets for the Group for the financial years ended 31 December 2008 and 2009, and the six months ended 30 June 2010 was 10.2%, 16.1% and 11.5%, respectively.

Current ratio

The current ratio is calculated by dividing the total current assets by the total current liabilities. As at 31 December 2007, 2008 and 2009, and as at 30 June 2010, our current ratio was approximately 2.8, 0.9, 0.8 and 1.8, respectively. The Group's current ratio as at 31 December 2008 and 2009, and as at 30 June 2010 was 0.3, 0.5 and 1.8, respectively.

MARKET RISKS

We are exposed to various types of market risks, including business risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk.

Business risk

We conduct our operations in the PRC and accordingly we are subject to special considerations and significant risks. These include risks associated with, *inter alias*, the political, economic and legal environment, influence of national authorities over pricing regulations and competition in the industry.

Interest rate risk

The fair value interest rate risk of the Group relates primarily to fixed rate bank borrowings. The fixed-rate bank borrowings are primarily due within one year and the fair value interest rate risk is considered to be minimal. 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 arise.

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances. The Directors consider that the Group is not exposed to significant interest rate risks attributable to variable-rate bank balances and thus, no sensitivity analysis to interest rate risk has been presented.

Foreign exchange rate risk

Our revenue and expenditures are denominated in Renminbi, which is currently not a freely convertible currency. Furthermore, most of our transactions are conducted in Renminbi, however, the Group undertakes certain transactions denominated in Singapore dollars and US dollars and we will require foreign currencies for dividend payment (if any) to our Shareholders. As a result, we are exposed to foreign currency fluctuations. Additionally, any appreciation of Renminbi may affect the value of, and any dividends payable on, our Shares in foreign currency terms. The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. However, the Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

As at 31 December 2009, our Group had non-Renminbi denominated borrowings of S$21.0 million. For further details of the principal and interest of the borrowings, please refer to the section headed "History, Reorganisation and Group Structure — Investment in the Company prior to the Global Offering" in this prospectus. On 14 April 2010, the Singapore dollar appreciated against the Renminbi from S$1.00 to RMB4.90 to S$1.00 to RMB4.96. If the Singapore dollar continues to appreciate against the Renminbi in the future, we may have to convert more Renminbi into Singapore dollars to repay the principal and interest amount of the above borrowings. For further details regarding currency risk, please refer to "Risk Factors — Risks Relating To Conducting Business In The PRC — Fluctuations in foreign exchange rates and changes in foreign exchange regulations may materially and adversely affect our business, financial condition, operating results and our ability to remit payments" in this prospectus.

Fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2008 and 2009 are as follows:

	The Group					
	Liabilities			Assets		
	As at 31 December		As at 30 June	As at 31 December		As at 30 June
	2008	2009	2010	2008	2009	2010
	RMB (thousands)			RMB (thousands)		
Singapore dollars (Note 1)	65	204,640	76,579	13	523	522
US dollars (Note 2)	—	—	—	8	1,441	2,790
Hong Kong dollars ("HK$")	—	—	192	—	—	—
Total	65	204,640	76,771	21	1,964	3,312

Notes:

(1) At an exchange rate of S$1.00 to RMB4.87.

(2) At an exchange rate of US$1.00 to RMB6.83. This relates to the bank balances of the Company and Global Milk Singapore in US dollars.

For further information regarding our currency exchange risk and sensitivity analysis of such risk, please refer to the section headed "Notes to the Financial Information — Financial Instruments" in Appendix IA to this prospectus.

Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The Group's cash and cash equivalents are mainly deposited with state-owned banks in the PRC. The carrying amount of trade receivables and cash included in the consolidated financial statements represent our maximum exposure to credit risk in relation to its financial assets. The Group has concentration of credit risk as the Group's trade receivables as at 31 December 2008 and 31 December 2009, and the six months ended 30 June 2010 of approximately RMB7.0 million, RMB9.0 million and RMB9.0 million, respectively, representing 73%, 70% and 96% of total trade receivables, respectively, were derived from five major customers. In order to minimise the credit risk, our Directors continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts. The Group has no significant concentration of credit risk on the remaining trade receivables, with exposure spread over a number of counterparties and customers. We have no other financial assets that carry significant exposure to credit risk, except as detailed above.

Liquidity risk

As at 31 December 2008 and 2009, the Group's net current liabilities were approximately RMB328.8 million and RMB270.4 million, respectively. As at 30 June 2010, the Group's net current assets amounted to RMB162.0 million. The Accountant's Report of the Group in Appendix IA to this prospectus has been prepared on a going concern basis because the Directors consider that the Group has sufficient funds to finance its current working capital requirements taking into account of the cash flows from operations.

In the management of liquidity risk of the Group, the Group maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Group's operations. Please refer to the section headed "Notes to the Financial Information — Financial Instruments" in Appendix IA to this prospectus for further information.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, the Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

The following profit forecast for our Group for the financial year ending 31 December 2010 is based on the assumptions set out in the section headed "Profit Forecast" in Appendix III to this prospectus.

Please refer to the section headed "Appendix III — Profit Forecast" in this prospectus for further information.

Forecast consolidated profit after taxation (Notes 1 and 2) . . . . .not less than RMB215 million

Unaudited pro forma forecast earnings per Share (Note 3) . . . . .not less than RMB21.3 cents (approximately HK$0.244)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

(2) The forecast consolidated profit after taxation for the financial year ending 31 December 2010 prepared by our Directors is based on the audited consolidated results of the Group for the six months ended 30 June 2010, the unaudited consolidated management accounts of the Group for the two months ended 31 August 2010 and a forecast of the consolidated results of the Group for the remaining four months ending 31 December 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Company as summarised in the Accountants' Report of the Group as set out in Appendix IA to this prospectus.

(3) The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated results of the Group for the financial year ending 31 December 2010, assuming the Global Offering had been completed on 1 January 2010 and a total of 1,010,500,000 Shares in issue during the entire period, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option.

OWNED PROPERTIES AND PROPERTY VALUATION

Particulars of our property interests are set out in "Appendix IV — Property Valuation" in this prospectus. The Property Valuers valued our property interests as at 31 July 2010. A summary of values and valuation certificates issued by the Property Valuers is included in "Appendix IV — Property Valuation" in this prospectus.

The table below sets out (i) the reconciliation of our property interests shown in our audited consolidated financial statements as at 30 June 2010 to the unaudited net book value of our property interests as at 31 July 2010 and (ii) the reconciliation of the unaudited net book value of our property interests and the valuation of such property interests as at 31 July 2010:

	RMB (thousands)
Net book value of property interests of the Group, including property interest amounting to RMB73,830,000, which was recorded as construction in progress as at 30 June 2010	259,999
Additions	9
Depreciation and amortisation	749
Net book value as at 31 July 2010	259,259
Revaluation deficit	(4,753)
Valuation of properties as at 31 July 2010 as set out in "Appendix IV — Property Valuation"	254,506

Our Property Valuers valued our interests which are currently occupied by us for production purpose with reference to 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". Pursuant to the above table, as at 31 July 2010, our property interests had a valuation deficit of RMB4,753,000. In the opinion of our Directors, the recoverable amounts of our property interest, together with the related production facilities, higher than the carrying amount of such assets and accordingly, our property interests have been stated at their carrying amounts and the value of our property interest have not been impaired.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. No dividend has been paid during the Track Record Period.

PRC laws, rules and regulations require that dividends be paid only out of the accumulated profit calculated according to PRC accounting standards, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws, rules and regulations also require PRC-incorporated enterprises such as our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as dividends. Please refer to the section headed "Regulatory Overview" in this prospectus for further information.

Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable.

NO MATERIAL CHANGE

We believe that there has been no material adverse change in our financial or trading position since 30 June 2010.

FUTURE PLANS AND USE OF PROCEEDS

Please refer to the section headed "Business — Business strategies" in this prospectus for a detailed description of our future plans.

We estimate that the net proceeds to our Company from the Global Offering, after deducting the underwriting commissions and estimated expenses in relation to the Global Offering payable by us, will be approximately HK$1,012.1 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK$4.40 per Share, being the midpoint of the Offer Price range set out in this prospectus. We intend to use the net proceeds for the following purposes:

(i) approximately 34.7% (or approximately HK$350.9 million) will be used for implementing our expansion plans on investments upstream in cattle farms and acquisitions of related production equipment and facilities;

(ii) approximately 25.5% (or approximately HK$258.1 million) will be used for reinforcing and expanding of our distribution network;

(iii) approximately 20.4% (or approximately HK$206.5 million) will be used for advertising, marketing and promotion of existing and new products;

(iv) approximately 9.2% will be used for paying down the S$15.75 million loan (or approximately HK$93.4 million) extended by the Pre-IPO Investors to our Company (which is referred to as the Second Loan in the sub-section headed "Investment in the Company prior to the Global Offering" in the section headed "History, Reorganisation and Group Structure" in this prospectus) and the interests accrued thereon; and

(v) approximately 10.2% (or approximately HK$103.2 million) will be used for working capital and other general corporate purposes.

If the Over-allotment Option is exercised in full, we estimate that we would receive additional net proceeds of approximately HK$157.7 million, assuming an Offer Price of HK$4.40 per Share, being the midpoint of the Offer Price range stated in this prospectus. The additional net proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the above mentioned purposes (other than the repayment of the borrowings and the interests accrued thereon referred to in paragraph (iv) above). If the Over-allotment Option is exercised at the higher or lower end of the Offer Price range stated in this prospectus, we will adjust our allocation of the net proceeds for the above mentioned purposes on a pro rata basis (other than the repayment of the borrowings and the interests accrued thereon referred to in paragraph (iv) above). In such event, we will announce the net proceeds received from the exercise of the Over-allotment Option.

Although from time to time we identify certain potential strategic investments and acquisition targets for preliminary evaluation and assessment, as at the Latest Practicable Date, we did not have any finalised understanding, commitments or agreements, and we had not engaged in any related negotiations or entered into any letter of intent (whether legally binding or not) with respect to any acquisitions, alliances, joint ventures or strategic investments. We may or may not proceed with any or all of these investment and/or acquisition projects.

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

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholders in the Global Offering. The Selling Shareholders estimate that they will receive, in aggregate, net proceeds from the Global Offering of approximately HK$457.3 million, after deducting the estimated underwriting commissions and expenses payable by them in the Global Offering and assuming an Offer Price of HK$4.40 per Share, being the midpoint of the Offer Price range set out in this prospectus.

If the Offer Price is finally determined at the lower end of the indicative Offer Price range, being HK$3.60 per Offer Share, the net proceeds from the issue of new Shares will decrease by approximately HK$191.1 million to approximately HK$821.0 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range). In such case, our Directors intend to reduce correspondingly the amount to be applied for working capital and other general corporate purposes. Save for such change, our Directors intend to apply the reduced net proceeds in the same proportions as set out above (other than the repayment of the borrowings and the interests accrued thereon referred to in paragraph (iv) above).

If the Offer Price is finally determined at the higher end of the indicative Offer Price range, being HK$5.20 per Offer Share, the net proceeds of the issue of new Shares will increase by approximately HK$191.1 million to approximately HK$1,203.2 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range). Our Directors intend to apply such additional net proceeds in the same proportions as set out above (other than the repayment of the borrowings and the interests accrued thereon referred to in paragraph (iv) above).

We will issue an announcement in Hong Kong if there is any material change in the use of proceeds described above.

HONG KONG UNDERWRITERS

Joint Lead Managers

Macquarie Capital Securities Limited
CCB International Capital Limited
ABCI Securities Company Limited

Co-manager

First Shanghai Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Under the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, on the terms and subject to the conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to procure subscribers for, or themselves to subscribe for, their respective proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Placing Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time before 8:00 a.m. on the Listing Date:

(a) there develops, occurs, exists or comes into force:

(i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal, 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 Hong Kong dollar or the Renminbi against any foreign currencies) in or affecting Hong Kong, China, the United States, any member of the European Union, Singapore, Japan, the United Kingdom, the Cayman Islands, the BVI or any other jurisdiction relevant to any member of our Group (collectively the "**Relevant Jurisdictions**"); or

(ii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgements, decrees or rulings of any governmental authority (the "**Law**") or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application of the Law by any court or other competent authority in any of the Relevant Jurisdictions; or

(iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, epidemics, pandemics, outbreak of diseases, breakdown in computer or communication or telecommunication network or system, civil commotion, riot, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions; or

(iv) 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, declaration of a national or international emergency or war, or calamity or crisis in or affecting any of the Relevant Jurisdictions; or

(v) (1) any, moratorium, suspension of, or restriction or limitation on, trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange or (2) a general moratorium on commercial banking activities in New York (imposed at Federal or New York State level or other competent authority), London, any member of the European Union, Japan, Hong Kong or China, 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

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or by any member of the European Union on any of the Relevant Jurisdictions; or

(vii) any material change or prospective material change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions (including without limitation a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) or the implementation of any exchange control in any of the Relevant Jurisdictions; or

(viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(ix) the commencement by any state, governmental, judicial, law enforcement agency, regulatory or political body or organisation (collectively the "**Organisations**") of any action, proceedings, investigation or enquiry, or any sanction, penalty or reprimand imposed or issued by any of the Organisations, against any member of our Group or any Director or an announcement by any of the Organisations that it intends to take any such action; or

(x) any litigation or claim being threatened or instigated against any member of our Group or any Director; or

(xi) 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

(xii) the chairman or chief executive officer of our Company vacating his office; or

(xiii) a contravention by any member of our Group of the Companies Ordinance, the Listing Rules or any applicable Law; or

(xiv) a prohibition on our Company and/or the Selling Shareholders for whatever reason from allotting or selling the Offer Shares (including any additional Shares issued under the exercise of the Over-allotment Option) under the terms of the Global Offering; or

(xv) non-compliance of this prospectus, the relevant offering circulars (or any other documents used in connection with the subscription and purchase of the Offer Shares) or any aspect of the Global Offering with the Companies Ordinance, the Listing Rules or any other applicable Law; or

(xvi) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplement or amendment to this prospectus (or to any other documents used in connection with the subscription or sale of the Offer Shares) under the Companies Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable before its stated maturity; or

(xviii) any material loss or material damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(xix) a petition is presented for the winding up or liquidation of any member of our Group or bankruptcy of any Director, or any member of our Group or any Director makes any composition or arrangement with its or his creditors or enters into a scheme of arrangement, or any resolution is passed for the winding up of any member of our Group, or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or any Director or any analogous matter occurs in respect of any member of our Group or any Director,

and which, in any such case and in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters),

(1) is or will or may or is likely to be materially adverse to, or materially and prejudicially affect, the business, management, general affairs, financial or trading position or prospects of our Group as a whole; or

(2) has or will have or may have or is likely to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or

(3) makes or will or may make or is likely to make it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offer and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or

(4) makes or will or may make or is likely to make it impracticable, inadvisable or inexpedient for any part of the Hong Kong Underwriting Agreement (including underwriting), the Hong Kong Public Offer and/or the Global Offering (including processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof) to be performed or implemented as envisaged; or

(b) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

(i) any statement or information, or any matter or circumstance that renders or could render any statement or information, contained in this prospectus, the Application Forms, the formal notice and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offer and/or the International Placing (including any supplement or amendment to any of the documents) (collectively the "**Offer Documents**") was or has or may become, untrue, incorrect or misleading in any respect or that any estimate, forecast, expression of opinion, intention or expectation expressed in any Offer Document is not or may not be, in the sole and absolute opinion of the Sole Global Coordinator, fair and honest and based on reasonable assumptions; or

(ii) any matter or circumstance has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute an omission from any of the Offer Documents and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto); or

(iii) any breach of, or any event rendering untrue, incorrect or misleading in any respect, any of the warranties or confirmations given by our Company, the Executive Directors or the Selling Shareholders in the Hong Kong Underwriting Agreement or the International Placing Agreement; or

(iv) any breach of any of the obligations, warranties or undertakings of our Company, the Controlling Shareholder, the Executive Directors or the Selling Shareholders under the Hong Kong Underwriting Agreement or the International Placing Agreement; or

(v) any event, act or omission which gives or may give or is likely to give rise to any liability of any of the Controlling Shareholder, Executive Directors and our Company pursuant to the indemnity provisions under the Hong Kong Underwriting Agreement; or

(vi) any information, matter or event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters);

(1) is inconsistent in any respect with any information contained in Form B in Appendix 5 to the Listing Rules given by our Directors; or

(2) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group; or

(vii) any material adverse change or development or prospective material adverse change or development in the conditions, business, general affairs, management, prospects, assets, liabilities, shareholders' equity, profits, losses, operating results, the financial or trading position or performance of any member of our Group; or

(viii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(ix) our Company withdraws any of the Offer Documents (and any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or the Global Offering; or

(x) any person (other than the Sole Global Coordinator and any of the Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents.

Undertakings

Undertakings to the Stock Exchange under the Listing Rules

(A) Undertaking by us

Under Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such 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 Capitalisation Issue and the Global Offering (including the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) or for the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertaking by the Controlling Shareholder

In accordance with Rule 10.07(1)(a) of the Listing Rules, the Controlling Shareholder has undertaken to the Stock Exchange that except pursuant to the Global Offering, the Over-allotment Option or, if applicable, the stock borrowing arrangement that may be entered into with the Stabilising Manager or its agent, (a) he will not, at any time during the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which he is shown by this prospectus to be the beneficial owners; and (b) he will not, at any time during the period of six months from the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, he ceases to be the Controlling Shareholder.

Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder from using the shares owned by it as securities (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended) for a bona fide commercial loan.

The Controlling Shareholder has further undertaken to the Stock Exchange and the Company that he will, within a period commencing on the date of this prospectus and ending on a date which is 12 months from the Listing Date, immediately inform us and the Stock Exchange of:

(a) any pledges or charges of any Shares or securities of our Company beneficially owned by him in favour of any authorised institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and

(b) any indication received by him, either verbal or written, from any pledgee or chargee of any of the Shares or securities of our Company pledged or charged that any of such Shares or other share capital will be sold transferred or disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by the Controlling Shareholder 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 the Controlling Shareholder.

Undertakings under the Hong Kong Underwriting Agreement

(A) Undertaking by us

We have undertaken to each of the Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters that at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "**First Six-month Period**"), our Company will not (except for the issue of Shares under the Capitalisation Issue, the Global Offering, the Over-allotment Option and any options which may be granted under the Share Option Scheme) without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (unless in compliance with the requirements set out in the Listing Rules):

(a) offer, accept subscription for, pledge, charge, mortgage, allot, issue, sell, 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, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital or securities of our Company or any interest in our securities or any voting right or any other right attaching thereto (including but not limited any securities convertible into, exercisable or exchangeable for, or that represent the right to receive such share capital or securities or any interest in our share or debt capital); or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share or debt capital or securities or any interest in our securities or any voting right or any other right attaching thereto; or

(c) offer or agree or contract to enter or enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or

(d) publicly announce any intention to enter into any transaction described in (a), (b) or (c) above,

whether any of the foregoing transactions described in (a), (b) or (c) above is to be settled by delivery of share capital or such other securities, in cash or otherwise. We further agree that in the event of an issue or a disposal of any Shares, securities or any interest of our securities or any voting right or any other right attaching thereto after the First Six-month Period, we will take all reasonable steps to ensure that such an issue or a disposal will not create a disorderly or false market for the Shares.

(B) Undertaking by the Controlling Shareholder and the Selling Shareholders

Each of the Controlling Shareholder and the Selling Shareholders has undertaken with our Company, the Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters that, except pursuant to the Global Offering, the Over-allotment Option or, if applicable, the stock borrowing arrangement that may be entered into with the Stabilising Manager or its agent, each of the Controlling Shareholder and the Selling Shareholders will not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), at any time:

(i) during the First Six-month Period:

(a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or grant, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interest or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, or cause us to repurchase, any of our share or debt capital or our other securities or any interest in our share or debt capital or any voting right or any other right attaching thereto (including but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any of our share or debt capital or our other securities or any interest in our share or debt capital whether now owned or subsequently acquired, owned directly by the Controlling Shareholder or each Selling Shareholder (as the case may be) (including holding as a custodian) or with respect to which the Controlling Shareholder or each Selling Shareholder (as the case may be) has beneficial ownership (collectively the "**Lock-up Shares**")). The foregoing restriction is expressly agreed to preclude the Controlling Shareholder and the Selling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than the Controlling Shareholder and the Selling Shareholders. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of our share or debt capital or our other securities or any interest in our share or debt capital or any voting right or any other right attaching thereto; or

(c) offer or agree or contract to enter or enter into any transaction with the same economic effect as any transaction described in (i)(a) or (i)(b) above; or

(d) publicly announce any intention to enter into, any transaction described in (i)(a), (i)(b) or (i)(c) above, whether any transaction described in (i)(a), (i)(b) or (i)(c) above is to be settled by delivery of Shares or such other securities in cash or otherwise; and

(ii) during the period of six months commencing on the date on which the First Six-month Period expires (the "**Second Six-month Period**") enter into any of the transactions in paragraphs (i)(a), (i)(b) or (i)(c) 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, interest or encumbrances, the Controlling Shareholder will cease to be the Controlling Shareholder. Each of the Controlling Shareholder and the Selling Shareholders further agrees that in the event of a disposal of any Shares, securities or any interest of our securities or any voting right or any other right attaching thereto after the Second Six-month Period, the Controlling Shareholder and the Selling Shareholders will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for the Shares.

The Controlling Shareholder has undertaken to each of the Company, the Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters that at any time during the period from the commencement of the First Six-month Period to the date on which the Second Six-month Period expires, he shall:

(a) if he pledges or charges or otherwise creates encumbrances over any Shares or securities of the Company or interests therein in respect of which he is the beneficial owner, whether directly or indirectly, immediately inform each of the Company, the Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters in writing of any such pledges or charges or encumbrances and the number of Shares or securities of the Company so pledged or charged or encumbered; and

(b) if he receives any indication, either verbal or written, from any pledgee or chargee or encumbrance or such third party that any of the pledged, charged, encumbered Shares or other securities of the Company will be disposed of, immediately inform each of the Company, the Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters in writing of any such indication.

Indemnity

We and the Controlling Shareholder have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

International Placing

International Placing Agreement

In connection with the International Placing, we, the Controlling Shareholder and the Selling Shareholders, among others, expect to enter into the International Placing Agreement with the

International Underwriters. Under the International Placing Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or themselves purchase, their respective proportions of the International Placing Shares being offered under the International Placing.

Under the International Placing Agreement, we and the Selling Shareholders expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date up to (and including) the date which is the 30th day after the last day for lodging applications under the Hong Kong Public Offer, to require us to allot and issue up to an aggregate of 37,893,000 additional new Shares and the Selling Shareholders to sell up to an aggregate of 16,239,000 additional Shares, representing in aggregate 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be issued and sold at the Offer Price and will be solely for the purpose of covering over-allocations, if any, in the International Placing.

It is expected that the International Placing Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Placing Agreement is not entered into, the Global Offering will not proceed.

We, the Controlling Shareholder and the Selling Shareholders will agree to indemnify the International Underwriters against certain liabilities, including liabilities under the US Securities Act.

Commissions and expenses

The Hong Kong Underwriters will receive a commission of 4.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer, out of which they will pay any sub-underwriting commissions.

For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing 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 our Company and the Selling Shareholders in relation to the new Shares to be issued under the Global Offering and the Sale Shares to be offered under the Global Offering, respectively. Our Company may also in its sole discretion pay the Sole Global Coordinator an additional incentive fee of up to 1.0% of the Offer Price multiplied by the total number of the Offer Shares.

The aggregate commissions (inclusive of any discretionary incentive fees), together with listing fees, SFC transaction levy and Stock Exchange trading fee in respect of the new Shares offered by us, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to be approximately HK$99.4 million (assuming an Offer Price of HK$4.40, which is the midpoint of the indicative Offer Price range, and that the Over-allotment Option is not exercised) in total and are payable by us. The Selling Shareholders will pay commissions and incentive fees (if any), SFC transaction levy and Stock Exchange trading fee and buyers' and sellers' stamp duties in respect of the Sale Shares (if applicable).

Activities by syndicate members

We describe below a variety of activities that underwriters of the Hong Kong Public Offer and the International Placing, together referred to as "**Syndicate Members**", may each individually undertake, and which do not form part of the underwriting or the stabilising process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

(a) under the agreement among the Syndicate Members, all of them (except for the Stabilising Manager or its designated affiliate as the stabilising manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Syndicate Members or their affiliates of any listed securities having the Shares as their underlying, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilising period described under the section headed "Structure of the Global Offering - Stabilisation" in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares share price, and the extent to which this occurs from day to day cannot be estimated.

Underwriters' interest in our Group

Other than disclosed in the preceding paragraph, the obligations under the Hong Kong Underwriting Agreement and the International Placing Agreement and, if applicable, the stock borrowing arrangement that may be entered into between the Stabilising Manager or its agent with the Controlling Shareholder, none of the Underwriters has any shareholding interests in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Sponsor's independence

The Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. Macquarie is the Sole Global Coordinator of the Global Offering and the Sponsor to the Listing. Macquarie and CCBIC are the Joint Bookrunners, and Macquarie, CCBIC and ABCI are the Joint Lead Managers of the Global Offering.

The Global Offering comprises:

- the Hong Kong Public Offer of 36,088,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below under "Hong Kong Public Offer"; and

- the International Placing of 324,792,000 Offer Shares (of which, 216,532,000 Offer Shares are to be offered by us and 108,260,000 Sale Shares are to be offered by the Selling Shareholders) (subject to adjustment and the Over-allotment Option as mentioned below) in the United States with QIBs in reliance on Rule 144A or another available exemption from the registration requirements under the US Securities Act, and outside the United States (including with professional, institutional and corporate investors and other investors who we anticipate to have a sizeable demand for the Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the International Placing Shares to 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 to institutional and professional investors and other investors in 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 Placing Shares in the International Placing. Prospective investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offer and the International Placing respectively may be subject to reallocation as described in the section headed "Pricing and allocation" below.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application related only to the Hong Kong Public Offer.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 21 October 2010 and in any event, no later than on 26 October 2010.

The Offer Price will be not more than HK$5.20 per Offer Share and is expected to be not less than HK$3.60 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters and with the consent of our Company and the Selling Shareholders) considers the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range to be inappropriate, the Sole Global Coordinator (on behalf of the Underwriters) may 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 before the morning of the last day for lodging applications under the Hong Kong Public Offer. 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 the last day for lodging applications under the Hong Kong Public Offer on 20 October 2010, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notices will also be available at our website at **www.global-dairy.com.cn** and the website of the Stock Exchange at **www.hkexnews.hk**, and will also include confirmation or revision, as appropriate, of the Global 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 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 Offer. If applications for Hong Kong Offer Shares have been submitted before the last day for lodging applications under the Hong Kong Public Offer, then even if the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Upon the issue of such notices, the revised number of Offer Shares and/or the indicative Offer Price range will be final and conclusive. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Offer Shares to be offered in the Hong Kong Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. Allocation of the International Placing Shares under the International Placing will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional or 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 our Shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of 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 Offer, the level of indications of interest in the International Placing, the basis of allocations of the Hong Kong Offer Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer are expected to be made available in a variety of channels in the manner described in the section headed "How to Apply for Hong Kong Offer Shares — Publication of results" in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of all applications for the Hong Kong Offer Shares under the Hong Kong Public Offer will be conditional on:

(a) the granting by the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued under the exercise of the Over-allotment Option) (subject only to allotment), Shares to be issued under the Capitalisation Issue and Shares which may fall to be issued on the exercise of any options which may be granted under the Share Option Scheme;

(b) the Offer Price being duly determined and the execution and delivery of the Price Determination Agreement on or around the Price Determination Date;

(c) the execution and delivery of the International Placing Agreement on or around the Price Determination Date; and

(d) the obligations of the Underwriters under the Hong Kong Underwriting Agreement and the International Placing Agreement having become unconditional 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 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 14 November 2010, being the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed on or before 26 October 2010 between the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived before 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 Offer 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 — Despatch/collection of Share certificates and refund of application monies" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on 27 October 2010 but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (a) the Global Offering has become unconditional in all respects and (b) neither of the Underwriting Agreements has been terminated in accordance with its terms.

The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

HONG KONG PUBLIC OFFER

Number of Offer Shares initially offered

We are initially offering 36,088,000 Offer Shares at the Offer Price, representing approximately 10% of the 360,880,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer, the number of Offer Shares offered under the Hong Kong Public Offer will represent approximately 3.6% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offer and the International Placing) will be divided equally into two pools (subject to adjustment of odd lot size): Pool A will comprise 18,044,000 Hong Kong Offer Shares and Pool B will comprise 18,044,000 Hong Kong Offer Shares, both of which will be available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of HK$5 million or less will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of more than HK$5 million and up to the total value of Pool B will fall into Pool B.

Applications should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If 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 Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or in both pools will be rejected. No application will be accepted from applicants for more than 18,044,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

Reallocation and clawback

The allocation of Offer Shares between the Hong Kong Public Offer and the International Placing is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offer represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times, and (c) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offer, the total number of Offer Shares available under the Hong Kong Public Offer will be increased to 108,264,000, 144,352,000 and 180,440,000 Offer Shares, representing 30% (in the case of (a)), 40% (in the case of (b)) and 50% (in the case of (c)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated to the International Placing will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deems appropriate.

Applications

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offer, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offer and to ensure that it is excluded from any application for Hong Kong Offer Shares under the Hong Kong Public Offer.

Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing, and such applicant's application is liable to be rejected if the undertaking and/or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated International Placing Shares under the International Placing.

Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum Offer Price of HK$5.20 per Offer 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 HK$5.20, being the maximum Offer Price, we will refund the respective difference (including brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Furthermore, details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

INTERNATIONAL PLACING

Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription or sale under the International Placing will be 324,792,000 Offer Shares (subject to adjustment and the Over-allotment Option), of which 216,532,000 Offer Shares are to be issued by us and 108,260,000 Sale Shares are to be offered for sale by the Selling Shareholders, representing approximately 90% of the Offer Shares under the Global Offering and approximately 32.1% of our enlarged issued share capital immediately after the Capitalisation Issue and the Global Offering, assuming that the Over-allotment Option is not exercised. For details of the Selling Shareholders and the number of Sale Shares being offered by them, please refer to the section headed “Other Information — Particulars of the Selling Shareholders” in Appendix VI to this prospectus. The International Placing is subject to the Hong Kong Public Offer becoming unconditional.

Allocation

Under the International Placing, the International Underwriters will conditionally place our Offer Shares with QIBs in the United States in reliance on Rule 144A, as well as with professional, institutional and corporate investors and other investors who we anticipate to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of International Placing Shares under the International Placing will be effected in accordance with the “book-building” process described in the section headed “Pricing and allocation” above and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base for the benefit of our Company and our Shareholders as a whole.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and the Offer Shares being offered under the Global Offering (including the additional Offer Shares which may be made available under the exercise of the Over-allotment Option) (subject to allotment only), Shares to be issued under the Capitalisation Issue and Shares which may be issued on the exercise of any options which may be granted under the Share Option Scheme.

Save as disclosed in this prospectus, no part of our Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

OVER-ALLOTMENT OPTION

It is expected that we and the Selling Shareholders will grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilising Manager or its agent on behalf of the International Underwriters at any time within 30 days from the last date for lodging applications under the Hong Kong Public Offer. Under the Over-allotment Option, the Stabilising Manager or its agent will have the right to require us to allot and issue up to an aggregate of 37,893,000 additional new Shares and the Selling Shareholders to sell up to an aggregate of 16,239,000 additional Shares, representing in aggregate 15.0% of the Offer Shares initially available under the Global Offering to, among other things, cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 5.2% of our enlarged issued share capital following the completion of the Capitalisation Issue, the Global Offering and the exercise of the Over-allotment Option. These Offer Shares will be issued at the Offer Price. An announcement will be made if the Over-allotment Option is exercised.

STOCK BORROWING ARRANGEMENT

To facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through its affiliates, up to 54,132,000 Offer Shares, representing 15% of the Offer Shares (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), from the Controlling Shareholder to cover over-allocation through the stock borrowing arrangements under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising the Over-allotment Option.

If such stock borrowing arrangement with the Controlling Shareholder is entered into, it will only be effected by the Stabilising Manager or its agent for settlement of over-allocation in the International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Offer Shares so borrowed must be returned to the Controlling Shareholder or its nominees on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been issued. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to the Controlling Shareholder by the Stabilising Manager or its agent in relation to such stock borrowing arrangement.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the 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, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, Macquarie, as stabilising manager (the "**Stabilising Manager**"), its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate Shares or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilising Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilising Manager may close out any covered short position by either exercising the Over-allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilising Manager will consider, among other things, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilising transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of our Shares may be effected on any stock exchange, including the Stock Exchange, any over-the counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offer. The number of our Shares that may be over-allocated will not exceed the number of our Shares that may be issued or sold under the Over-allotment Option, namely, 54,132,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

The Stabilising Manager, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

(i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;

(ii) in connection with any action described in paragraph (i) above:

(A) (1) over-allocate the Shares; or

(2) sell or agree to sell the Shares so as to establish a short position in them,

for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the Shares in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of the Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or

(D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

Macquarie, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Sole Global Coordinator, its affiliates or any person acting for them, which may include a decline in the market price of the Shares.

Stabilisation cannot be used to support the price of the Shares for longer than the stabilisation period, which begins on the Listing Date and ends on the thirtieth day after the last day for lodging application under the Hong Kong Public Offer. The stabilising period is expected to end on 19 November 2010, after which an announcement will be made pursuant to section 9 and schedule 3 of the Securities and Futures (Price Stabilization) Rules made under the SFO. After this date, no further stabilising action may be taken, demand for the Shares, and therefore then market price, could fall.

Any stabilising action taken by the Stabilising Manager, its affiliates or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilizing period. Stabilising bids for or market purchases of our Shares by the Stabilising Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for our Shares by purchasers.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on 28 October 2010, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on 28 October 2010.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offer 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 Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date.

We expect that we will, on or about 21 October 2010, shortly after determination of the Offer Price, enter into the International Placing Agreement relating to the International Placing.

The terms of the underwriting arrangements, the Hong Kong Underwriting Agreement and the International Placing Agreement are summarised in the section headed "Underwriting" in this prospectus.

1. METHODS OF APPLYING FOR HONG KONG OFFER SHARES

There are three ways to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares (a) by either using a **white** or **yellow** Application Form; (b) applying online through the designated website of the White Form eIPO Service Provider (**www.eipo.com.hk**), referred to in this prospectus as the "**White Form eIPO** service"; or (c) by giving **electronic application instructions** to 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 using a **white** or **yellow** Application Form or applying online through the **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

2. 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 (or are a person described in paragraph (h)(3) of Rule 902 under Regulation S) and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, 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 authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Sole Global Coordinator (or its agents or nominees) may accept it at its discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Global Coordinator or the designated White Form eIPO Service Provider (where applicable) or our or its 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 of Shares, our Directors or chief executives of our Company or any of our subsidiaries, or their respective associates (as defined in the Listing Rules) or any other connected persons (as defined in the Listing Rules) of our Company;

- persons who will become our connected persons immediately upon completion of the Global Offering;

- persons who are not outside the United States (or described in paragraph (h)(3) of Regulation S) and acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S);

- persons who do not have a Hong Kong address; or

- persons who participate in the International Placing.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest for International Placing Shares under the International Placing, but may not do both.

3. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to use

Use a **white** Application Form if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **yellow** Application Form if you want the Hong Kong Offer Shares to be issued 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.

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 Friday, 15 October 2010 until 12:00 noon on Wednesday, 20 October 2010 from any of the following addresses of the Hong Kong Underwriters:

Macquarie Capital Securities Limited	Level 18, One International Finance Centre 1 Harbour View Street Central Hong Kong
CCB International Capital Limited	34th Floor, Two Pacific Place 88 Queensway Admiralty Hong Kong
ABCI Securities Company Limited	13th Floor, Fairmont House 8 Cotton Tree Drive Central Hong Kong
First Shanghai Securities Limited	19/F, Wing On House 71 Des Voeux Road Central Hong Kong

or any one of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	Branch name	**Address**
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building 4-4A, Des Voeux Road Central Central Hong Kong
	Central Branch	Shop no. 16, G/F and Lower G/F New World Tower 16-18 Queen's Road Central Central Hong Kong
	Hennessy Road Branch	399 Hennessy Road Wanchai Hong Kong
	North Point Centre Branch	North Point Centre 284 King's Road North Point Hong Kong

	Branch name	Address
Kowloon	Kwun Tong Branch	1A Yue man Square Kwun Tong Hong Kong
	68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court 66-70 Nathan Road Tsimshatsui Hong Kong
	Lok Fu Shopping Centre Branch	Shop G101, G/F Lok Fu Shopping Centre Hong Kong
	Mei Foo Manhattan	Shop Nos. 07 & 09 Ground Floor Mei Foo Plaza Mei Foo Sun Chuen Hong Kong
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza 298 Sha Tsui Road Tsuen Wan Hong Kong
	Metroplaza Branch	Shop No. 175-176 Level 1, Metroplaza 223 Hing Fong Road Kwai Chung Hong Kong
	Yuen Long Branch	140, Yuen Long Main Road Yuen Long Hong Kong
	New Town Plaza Branch	Shop 215 to 223 Phase 1, New Town Plaza Shatin Hong Kong

You can collect a **yellow** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 15 October 2010 until 12:00 noon on Wednesday, 20 October 2010 from:

(1) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) Your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the Application Forms

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may 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 at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, among other things:

(a) you **agree** with our Company and each shareholder of our Company, and our Company agrees with each of our Shareholders, to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;

(b) you **confirm** that you have received a copy of this prospectus and have only relied on the information and representations in this prospectus, the Application Forms and any supplemental to this prospectus in making your application and will not rely on any other information and representations save as set out in this prospectus, the Application Forms and any supplement to this prospectus;

(c) you **agree** that our Company, our Directors and any person who has authorised the issue of this prospectus are liable only for the information and representations contained in this prospectus, the Application Forms and any supplement to this prospectus;

(d) you **undertake** and **confirm** that you (if the application is made for your own benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing nor otherwise participated in the International Placing;

(e) you **agree** to disclose to our Company, the Sponsor, the Sole Global Coordinator, the Underwriters, the Hong Kong Share Registrar, receiving bank and/or their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(f) you **instruct** and **authorise** our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name(s) (for applicants on a **white** Application Form) or in the name of HKSCC Nominees (for applicants on a **yellow** Application Form), as required by the Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;

(g) you **undertake** to sign all documents and to do all things necessary to enable you (for applicants on a **white** Application Form) or HKSCC Nominees (for applicants on a **yellow** Application Form) to be registered as the holder of the Hong Kong Offer Shares to be allotted to you, and as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;

(h) you **warrant** the truth and accuracy of the information contained in your application;

(i) if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sponsor, the Sole Global Coordinator and the Underwriters nor any of their respective directors, officers or advisers will infringe any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;

(j) you **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(k) you **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(l) you **agree** with us (for ourselves and for the benefit of each Shareholder) that Shares are freely transferable by their holders;

(m) you **represent, warrant** and **undertake** that you understand that the Hong Kong Offer Shares have not been and will not registered under the US Securities Act and you and any person for whose account or benefit you are acquiring the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) when completing and submitting the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(n) you **undertake** and **agree** to accept the number of Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application; and

(o) you **agree** that the processing of your application may be done by our Company's receiving bank and is not restricted to the bank at which your application was lodged.

In order for the **yellow** Application Forms to be valid:

You, as the applicant(s), must complete the **yellow** Application Forms as indicated below and sign on the first page of the **yellow** Application Forms. Only written signatures will be accepted.

(a) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

(i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

(b) If the application is made by an individual CCASS Investor Participant:

(i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and

(ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(c) If the application is made by a joint individual CCASS Investor Participant:

(i) the Application Form must contain the names and Hong Kong identity card numbers of all joint CCASS Investor Participants; and

(ii) the participant I.D. must be inserted in the appropriate box in the Application Form.

(d) If the application is made by a corporate CCASS Investor Participant:

(i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and

(ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete 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.

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" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorised attorney, our Company, the Sole Global Coordinator, the Underwriters and their respective agents and nominees, each severally as our agent(s), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney. We and the Sole Global Coordinator, in the capacity as our agent, or our or its agents or nominees, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

4. APPLYING THROUGH WHITE FORM eIPO

General

(a) You may apply through **White Form eIPO** service by submitting an application through the designated website at **www.eipo.com.hk** if you satisfy the relevant eligibility criteria for this as set out above in "Who can apply for Hong Kong Offer Shares" and on that website. If you apply through **White Form eIPO** service, the Shares will be issued in your own name.

(b) 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.

(c) If you give electronic application instructions through the designated website at **www.eipo.com.hk**, you will have to authorise the designated White Form eIPO Service Provider to apply on the terms and subject to the conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

(d) 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. These additional 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 before making any application.

(e) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated White Form eIPO Service Provider to transfer the details of your application to our Company and the Hong Kong Share Registrar.

(f) 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**.

(g) You may submit your application to the designated White Form eIPO Service Provider through the designated website **www.eipo.com.hk** from 9:00 a.m. on Friday, 15 October 2010 until 11:30 a.m. on Wednesday, 20 October 2010 or such later time as described under the section headed "Effect of bad weather 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 Wednesday, 20 October 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 section headed "Effect of bad weather on the opening of the application lists" below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider 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 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.

(h) 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 Wednesday, 20 October 2010, or such later time as described under the section headed "Effect of bad weather on the opening of the application lists" below, 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.**

(i) 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 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** service 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.

(j) **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 Sponsor, the Sole Global Coordinator and the Underwriters 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 papers 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 per each "**Global Dairy Holdings Limited**" 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 Offer to submit your electronic application instructions. If 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** or **yellow** Application Form or give **electronic application instructions** to HKSCC via CCASS.

Conditions of the White Form eIPO service

In using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

- **applies** for the desired number of Hong Kong Offer Shares on the terms and subject to the conditions set out in this prospectus and the White Form eIPO designated website at **www.eipo.com.hk** subject to the Articles of Association;

- **undertakes** and **agrees** to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;

- **declares** that this is the only application made and the only application intended by the applicant to be made whether on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or the White Form eIPO Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;

- **undertakes** and **confirms** that the applicant (if the application is made for your benefit) or the person(s) for whose benefit the applicant are applying have not applied for or taken up, or indicated an interest for, and will not apply for, or take up, or indicate an interest for, and have not received or been placed or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing, nor otherwise participate in the International Placing;

- **understands** that this declaration and representation will be relied upon by our Company in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;

- **instructs and authorises** our Company (or its agents or nominees) to place the applicant's name on the register of members of our Company as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (on the terms and subject to the conditions set out in this prospectus) to send any Share certificates by ordinary post at the applicant's own risk to the address given on the White Form eIPO application except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any Share certificate(s) in person in accordance with the procedures prescribed in the White Form eIPO designated website at **www.eipo.com.hk** and this prospectus;

- **requests** that any e-Refund payment instructions be despatched to the application payment bank account where the applicant had paid the application monies from a single bank account;

- **requests** that any refund cheque(s) be made payable to the applicant who had used multi-bank accounts to pay the application monies;

- **has read** the terms and conditions and application procedures set out in the White Form eIPO designated website at **www.eipo.com.hk** and this prospectus and **agrees** to be bound by them;

- **represents, warrants** and **undertakes** that each of the applicant and any person for whose account or benefit the applicant is applying is outside the United States (as defined in Regulation S) when completing and submitting this Application Form or is a person described in paragraph (h)(3) of Rule 902 of Regulation S, and the allotment of or application for the Hong Kong Offer Shares to or by whom or for whose benefit this application is made would not require our Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and

- **agrees** that such application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Supplemental information

If any supplement to this prospectus is issued, applicant(s) who have already submitted an electronic application instruction through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(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 through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the provisions referred to in this section, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

(a) **agree** with our Company and each Shareholder of our Company, and our Company agrees with each of our Shareholders, to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;

(b) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and the White Form eIPO designated website at **www.eipo.com.hk** and **agree** to be bound by them and you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in this prospectus and any supplement to this prospectus;

(c) **agree** that our Company, our Directors, and any person who has authorised the issue of this prospectus are liable only for the information and representations contained in this prospectus and any supplement to this prospectus;

(d) **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made your application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing nor otherwise participated in the International Placing;

(e) **agree** to disclose to our Company, the Sponsor, the Sole Global Coordinator, the Underwriters, the Hong Kong Share Registrar, the receiving bank and/or their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made in your application;

(f) **instruct** and **authorise** our Company and/or the Sole Global Coordinator (or its agents or nominees) as agents of our Company, to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name, as required by the Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the White Form eIPO designated website at **www.eipo.com.hk**;

(g) **warrant** the truth and accuracy of the information contained in your application;

(h) if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sponsor, the Sole Global Coordinator and the Underwriters nor any of their respective directors, officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the White Form eIPO designated website at **www.eipo.com.hk**;

(i) **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(j) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(k) **represent**, **warrant** and **undertake** that you understand that the Hong Kong Offer Shares have not been and will not be registered under the US Securities Act and you and any person for whose account or benefit you are acquiring the Hong Kong Offer Shares are outside the United States (as defined in the Regulation S) when completing and submitting your application or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(l) **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under your application;

(m) **agree** with our Company and each Shareholder that the Shares are feely transferable by the holders thereof;

(n) **authorise** our Company to enter into a contract on your behalf with each of our Directors and officers whereby each such Director and officer undertakes to observe and comply with his or her obligations to shareholders as stipulated in the Memorandum of Association and the Articles of Association;

(o) (if the application is made for your own benefit) **warrant** that this 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; and

(p) (if you are an agent for another person) **warrant** 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 authorised to submit the application as that other person's agent.

Our Company, the Sole Global Coordinator, the Sponsor, the Underwriters and their respective directors, officers, employees, partners, agents, advisers, and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

Power of attorney

If your application is made by a duly authorised attorney, our Company, the Sole Global Coordinator or the Underwriters (or their respective agents or nominees), each severally as our agent(s), may accept it at their discretion, and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

Additional information

For the purpose of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **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**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the section headed "Despatch/collection of Share certificates and refund of application monies" in this prospectus.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies 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.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road Central
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** through CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and the Hong Kong Share Registrar.

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:

(a) HKSCC Nominees is only acting as a nominee for those persons and shall not liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;

(b) HKSCC Nominees does the following things on behalf of each such person:

- **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 applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and has not received or been placed or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing nor otherwise participated in the International Placing;

- (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 authorised to give those instructions as that other person's agent;

- **understands** that the above declaration will be relied upon by our Company, our Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of 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;

- **authorises** 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 monies 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 received a copy of the prospectus and 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 save as set out in this prospectus and any supplement to this prospectus;

- **agrees** that our Company, our Directors and any person who has authorised the issue of this prospectus are liable only for the information and representations contained in this prospectus and any supplement to this prospectus;

- **agrees** to disclose to our Company, the Sponsor, the Sole Global Coordinator, the Underwriters, the Hong Kong Share Registrar, the receiving bank and/or their respective advisers and agents that person's personal data and any information which they may require about that person;

- **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 under **electronic application instructions** given by that person is irrevocable on or before Wednesday, 27 October 2010, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Wednesday, 27 October 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 (as applied by section 342E 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 Offer made available 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 Hong Kong Offer Shares;

- **agrees** with our Company for ourselves and for the benefit of each of our Shareholders (and so that we will be deemed by its 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, the Memorandum of Association and the Articles of Association;

- **agrees** with us (for ourselves and for the benefit of each Shareholder) that Shares are freely transferable by their holders;

- **authorises** our Company to enter into a contract on your behalf with each of our Directors and officers whereby each such Director and officer undertakes to observe and comply with his or her obligations to shareholders as stipulated in the Memorandum of Association and the Articles of Association; and

- **agrees** that that 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 joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- **instructed** and **authorised** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- **instructed** and **authorised** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and 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 price per Offer Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and

- **instructed** and **authorised** HKSCC to cause HKSCC Nominees to do on your behalf all the things 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 shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum subscription amount and permitted numbers

You may give, if you are CCASS Investor Participants, or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers of Hong Kong Offer Shares set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Hong Kong Offer Shares

For the purpose of allocating 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 instructions given will be treated as an applicant.

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 (as applied by section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Share Registrar and the receiving bank about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted 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 the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. If CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (a) submit a **white** or **yellow** Application Form; or (b) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 20 October 2010 or such late time as described in the section headed "Effect of bad weather on the opening of the application lists" below.

6. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the Hong Kong Offer Shares if and only if you are a **nominee**, in which case you may give **electronic application instructions** to HKSCC through CCASS (if you are a CCASS Participant) and lodge more than one **white** or **yellow** Application Form in your own name if each application is made on behalf of different beneficial owners.

In the box on the Application Form marked "For nominees" you must include:

- an account number; or

- some other identification code,

for each beneficial owner (or, in the case of joint beneficial owners, for each such beneficial owner). If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instructions given by you or for your benefit to be 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** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service 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** service and one or more applications by any other means, all of your applications are liable to be rejected.

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 shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) **warrant** that the application is the only application which has been or will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated 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 the applications 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 designated White Form eIPO Service Provider through the **White Form eIPO** service, and that you are duly authorised to sign the Application Form or give **electronic application instructions** as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, **all** of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than on application (whether individually or jointly with others) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service; or

- apply (whether individually or jointly with others) 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; or

- apply (whether individually or jointly with others) on one **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service for more than 18,044,000 Offer Shares, being 50% of the Hong Kong Offer Shares initially being offered for public subscription under the Hong Kong Public Offer, as more particularly described in the section entitled "Structure of the Global Offering — Hong Kong Public Offer"; or

- make **electronic application instructions** through the **White Form eIPO** service that are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**; or

- have applied for or taken up, or indicated an interest for, or will apply for or take up, or indicate an interest for, and have received or placed or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing or otherwise participated in the International Placing.

All of your applications will also be rejected as multiple applications if more than one application on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company,

then the application will be treated as being made 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:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

7. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK$5.20 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. This means that for a minimum board lot of 1,000 Offer Shares, you will pay approximately HK$5,252.42. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for. Your application must be for a minimum of 1,000 Offer Shares. Applications must be in one of the numbers set out in the tables in the Application Forms. No application for any other number of Offer Shares will be considered and any such application is liable to be rejected.

You must pay the maximum Offer Price, and related brokerage, SFC transaction levy and Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for Hong Kong Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form) or this prospectus.

If your application is successful, brokerage is paid to the Stock Exchange or participants of the Stock Exchange (as the case may be) and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

8. WHEN MAY APPLICATION BE MADE

Applications on white and yellow Application Forms

Completed **white** or **yellow** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, 20 October 2010, or, if application lists are not open on that day, then by the time and date stated in the section headed "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank (Hong Kong) Limited (please refer to the section headed "Where to collect the Application Forms" above) at the following times:

Friday, 15 October 2010 — 9:00 a.m. to 5:00 p.m.
Monday, 18 October 2010 — 9:00 a.m. to 5:00 p.m.
Tuesday, 19 October 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, 20 October 2010 — 9:00 a.m. to 12:00 noon

The application lists will open from 11:45 a.m. to 12:00 noon on Wednesday, 20 October 2010.

No proceedings will be taken on applications for the Shares and no allotment of any such Offer Shares will be made until the closing of the application lists. No allotment of any of the Offer Shares will be made later than Sunday, 14 November 2010.

Electronic application instructions to HKSCC through CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 15 October 2010 — 9:00 a.m. to 8:30 p.m [(1)]
Monday, 18 October 2010 — 8:00 a.m. to 8:30 p.m. [(1)]
Tuesday, 19 October 2010 — 8:00 a.m. to 8:30 p.m. [(1)]
Wednesday, 20 October 2010 — 8:00 a.m. [(1)] to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 15 October 2010 until 12:00 noon on Wednesday, 20 October 2010 (24 hours daily, except the last application day).

Application through White Form eIPO

Please refer to the section headed "Applying through White Form eIPO" in this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 20 October 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

Regarding White Form eIPO applications, the latest time for submitting an application to the designated White Form eIPO Service Provider through **White Form eIPO** service will be 11:30 a.m. on Wednesday, 20 October 2010 and the latest time for completing full payment of application monies will be 12:00 noon on Wednesday, 20 October 2010. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 20 October 2010, the latest time to complete the application and the latest time to complete payment will be postponed to 11:30 a.m. and 12:00 noon, respectively, on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

Business Day means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

If the application lists of the Hong Kong Public Offer do not open and close on Wednesday, 20 October 2010 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected Timetable" in this prospectus, such dates mentioned in the section headed "Expected Timetable" in this prospectus may be affected. An announcement will be made in such event.

10. PUBLICATION OF RESULTS

We expect to announce the Offer Price, the level of indication of interest in the International Placing, the basis of allotment of the Hong Kong Offer Shares, the results of applications under the Hong Kong Public Offer and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer no later than 9:00 a.m. on Wednesday, 27 October 2010 and in the manner specified below:

- on the website of the Stock Exchange (**www.hkexnews.hk**); and
- on the website of our Company for at least five consecutive days (**www.global-dairy.com.cn**).

A notification announcement under Rule 2.17A of the Listing Rules which also includes the Offer Price, an indication of the level of interest in the International Placing, the level of applications of the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares will be published by us on Wednesday, 27 October 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

In addition, we expect to announce the results of applications and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer at the times and dates and in the manner specified below:

- Results of allocations for the Hong Kong Public Offer will be available from our designated results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on Wednesday, 27 October 2010 to 12:00 midnight on Tuesday, 2 November 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 Offer 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 Wednesday, 27 October 2010 to Saturday, 30 October 2010; and

- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches on Wednesday, 27 October 2010 to Friday, 29 October 2010 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for Hong Kong Offer Shares — Where to collect the Application Forms" above.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Kong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or giving an **electronic application instruction** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees or the White Form eIPO Service Provider on your behalf may not be revoked on or before the end of 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 a public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility for that person for this prospectus. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the White Form eIPO Service Provider. 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 the end of the fifth day after time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or a public holiday in Hong Kong) except by means of one of the procedures referred to in 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 applicant(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 Nominees or the White Form eIPO Service Provider 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 announcement 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.

- **Full discretion for our Company, the Sole Global Coordinator or the designated White Form eIPO Service Provider (where applicable) or their agents and nominees to reject or accept your application:**

Our Company, the Sole Global Coordinator (as agent for our Company) or the designated White Form eIPO Service Provider (where applicable), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

- **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **yellow** Application Form or apply through **White Form eIPO** service through the designated White Form eIPO Service Provider) will be void if the Listing Committee does not grant permission to list the Offer Shares either:

— within three weeks from the closing date of the application lists; or

— within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

- **You will not receive any allotment if:**

  — you make multiple applications or suspected multiple applications;

  — you or the person for whose benefit you apply for have applied for or taken up, or indicated an interest for or received, or have been or will be placed or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing or otherwise participated in the International Placing. By filling in any of the Application Forms or apply by giving **electric application instructions** to HKSCC or apply by White Form eIPO through the designated White Form eIPO Service Provider, you agree not to apply for Hong Kong Offer Shares as well as International Placing Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer from investors who have received International Placing Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer;

  — 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**;

  — your payment is not made correctly;

  — you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;

  — your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);

  — our Company or the Sole Global Coordinator believes that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address is located;

  — if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the Hong Kong Public Offer for subscription (that is 18,044,000 Offer Shares);

  — the Underwriting Agreements do not become unconditional; or

  — the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest for International Placing Shares under the International Placing, but may not do both.

12. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding the related brokerage, SFC transaction levy and Stock Exchange trading fee) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offer" in this prospectus or if any application is revoked or any allotment under the application has become void, the application monies, or the appropriate portion of the application monies, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course they 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 your application:

(a) for applications on **white** Application Forms or by giving **electronic application instructions** through the **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. For wholly successful and partially successful applications on **yellow** Application Forms: Share certificates for Shares successfully applied for will be deposited into CCASS as described below;

(b) for applications on **white** or **yellow** Application Forms, refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) 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 if the Offer Price is less than the price per Offer Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest;

(c) for applications made through the **White Form eIPO** service by paying the application monies through a single bank account, and where applicant's application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on the application, e-Refund payment instructions (if any) will be despatched to the application payment bank account on or around Wednesday, 27 October 2010; and

(d) for applications made through the **White Form eIPO** service by paying the application monies through multiple bank accounts, and where applicant's application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on the application, refund cheque(s) will be sent to the address specified in the application instructions to the designated White Form eIPO Service Provider on or around Wednesday, 27 October 2010, by ordinary post and at applicant's own risk.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data could also be transferred to a third party for refund purposes. Your bank may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the price per Offer Share initially paid on application (if any) under **white** or **yellow** Application Forms; and Shares certificates for wholly and partially successful applicants under **white** Application Forms or by giving **electronic application instructions** through the **White Form eIPO** service are expected to be posted on or around Wednesday, 27 October 2010. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the section entitled "Underwriting — Grounds for termination" has not been exercised. You will receive one Share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offer (except pursuant to applications made on **yellow** Application Form or by **electronic application instructions** to HKSCC where Share certificates will be deposited into CCASS).

(a) **If you apply using a white Application Form:**

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **white** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from the Hong Kong Share Registrar and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and Share certificate(s) (where applicable) from the Hong Kong Share Registrar 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 Wednesday, 27 October 2010 or such other date as notified by us in the newspapers as the date of collection/despatch of Share certificates/e-Refund payment instructions/refund cheques. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant that opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. If you do not collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will then be sent to the address as specified in your Application Form (or the address of the first-named applicant in case of a joint application) by ordinary post and at your own risk shortly after the time for collection.

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 your Application Form that you will collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offer" in this prospectus, or if your application is revoked or any allotment under the application has become void, your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) will be sent to the address on your Application Form (or the address of the first-named applicant in case of a joint application), by ordinary post and at your own risk.

(b) **If you apply using a yellow Application Form:**

If you apply for Hong Kong Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 27 October 2010, or under 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 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 allocated 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 Offer in the manner described in "How to Apply for Hong Kong Offer Shares — Publication of results" on Wednesday, 27 October 2010. You should check the announcement made by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 27 October 2010, or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance 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). 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 more and have not indicated on your Application Forms that you will collect your refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong

Public Offer" in this prospectus, or if your application is revoked or any allotment under the application has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion of the application monies, together with the related brokerage, SFC transaction levy, Stock Exchange trading fee, if any, (without interest) will be sent to the address on your Application Form on Wednesday, 27 October 2010 by ordinary post and at your own risk.

(c) **If you apply through White Form eIPO:**

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) in person from the Hong Kong Share Registrar 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 Wednesday, 27 October 2010, or such other date as notified by our Company in the newspapers as the date of collection/despatch of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will then be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly, by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** on Wednesday, 27 October 2010, by ordinary post and at your own risk.

If you paid the application monies from a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on the application, e-Refund payment instructions (if any) will be despatched to your application payment bank account on or around Wednesday, 27 October 2010.

If you used multi-bank accounts to pay the application monies and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on the 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 Wednesday, 27 October 2010, by ordinary post and at applicant's 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 above in "Applying through White Form eIPO — Additional information".

(d) **If you apply by giving electronic application instructions to HKSCC:**

Allocation for Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each persons for whose benefit each such instructions is given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- No temporary document 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 Wednesday, 27 October 2010, or, in the event under a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- We will publish the application results of CCASS Participant (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner described in "How to Apply for Hong Kong Offer Shares — Publication of results" and to publish the basis of allotment of the Hong Kong Offer Shares in the newspapers on Wednesday, 27 October 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 27 October 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 Wednesday, 27 October 2010. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated 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 price per Offer Share initially 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 Wednesday, 27 October 2010. No interest will be paid on the application monies.

Refund of application monies

If you do not receive any Hong Kong Offer Shares for any reasons, our Company will refund your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. No interest will be paid on the application monies.

If your application is accepted only in part, our Company will refund to you the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the price per Hong Kong Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) initially paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies, without interest.

All interest accrued before the date of despatch of refund cheques will be retained for our benefit.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Wednesday, 27 October 2010 in accordance with the various arrangements as described in this section.

13. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence at 9:30 a.m.on Thursday, 28 October 2010.

The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 01007.

14. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange 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.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company.

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 October 2010

The Directors
Global Dairy Holdings Limited
Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Global Dairy Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the period from 8 October 2007 (the "Global Milk Singapore Acquisition Date", as defined below) to 31 December 2007, the two years ended 31 December 2009 and the six months ended 30 June 2010 (the "Relevant Periods"), for inclusion in the prospectus of the Company dated 15 October 2010 (the "Prospectus") in connection with the initial listing (the "Listing") of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 15 October 2009. Pursuant to a group reorganisation (the "Group Reorganisation"), as more fully explained in the paragraphs headed "History and Development" and "Reorganisation" in the Section "History, Reorganisation and Group Structure" to the Prospectus, the Company became the holding company of the Group on 15 October 2009.

Particulars of the Company's subsidiaries at the end of each respective reporting period and the date of this report are as follows:

Name of the company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest held by the Company as at					Principal activities
			31 December			30 June	the date of this report	
			2007	2008	2009	2010		
			%	%	%	%	%	
Directly held by the Company								
Global Milk Products Pte. Ltd. ("Global Milk Singapore")	The Republic of Singapore ("Singapore") 15 September 2006	S$1	100	100	100	100	100	Investment holding
Indirectly held by the Company								
大慶乳品廠有限責任公司 (Da Qing Dairy Ltd, "Daqing Dairy")*	The People's Republic of China (the "PRC") 29 October 1997	RMB120,000,000	N/A	100	100	100	100	Manufacture, marketing and sales of dairy products
黑龍江常慶乳業有限責任公司 (Heilongjiang Chang Qing Dairy Products Co., Ltd. #, "Changqing Dairy") **	PRC 7 August 2008	RMB10,000,000	N/A	N/A	100	100	100	Manufacture, marketing and sales of dairy products

\# *The English names are for identification purpose only.*

* *Wholly foreign owned enterprise with limited liability.*

** *Private limited liability company.*

The Company and its subsidiaries have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company since its date of incorporation as it has not carried out any business, except for the transactions mainly relating to the Group Reorganisation. We have, however, reviewed all the relevant transactions of the Company since its date of incorporation.

No audited financial statements have been prepared for Global Milk Singapore for the two years ended 31 December 2008 as it was an exempted private company during such period and thus, there was no such statutory requirement. On 15 October 2009, Global Milk Singapore ceased to be an exempted private company when it became the wholly owned subsidiary of the Company. As such, the statutory financial statements of Global Milk Singapore for the year ended 31 December 2009 were audited by Deloitte & Touche LLP, Singapore, certified public accountants in Singapore. Global Milk Singapore has adopted 31 December as its financial year end date and thus, there is no such statutory financial statement requirement for the six months ended 30 June 2010.

The statutory financial statements of Daqing Dairy for the two years ended 31 December 2009 and Changqing Dairy for the period from 7 August 2008 (the date of establishment) to 31 December 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 黑龍江方正會計師事務所有限責任公司 (Heilongjiang Fang Zheng CPA Ltd.[#]), certified public accountants registered in the PRC. No audited financial statements have been prepared for Daqing Dairy and Changqing Dairy for the six months ended 30 June 2010 as there is no such statutory requirement.

For the purposes 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"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with the 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 set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 2 of Section I below. No adjustments are considered necessary 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 responsible for the contents of the Prospectus in which this report is included. It is our responsibility 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, on the basis of presentation set out in note 2 of Section I below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 and of the Company as at 31 December 2009 and 30 June 2010, and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2009 together with the notes thereon have been extracted from the Group's unaudited consolidated financial statements for the same period (the "30 June 2009 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2009 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 30 June 2009 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and

The English name is for identification purpose only.

applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

I. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
			2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	8	—	197,369	510,035	212,192	373,867
Cost of sales		—	(110,357)	(274,137)	(117,684)	(183,494)
Gross profit		—	87,012	235,898	94,508	190,373
Other gains and losses	9	—	7,039	6,797	4,147	62
Selling and distribution expenses		—	(5,627)	(18,934)	(6,268)	(20,297)
Administrative expenses		—	(9,000)	(19,134)	(9,077)	(12,943)
Finance costs	10	—	(1,423)	(9,258)	(3,772)	(7,856)
Profit before taxation	11	—	78,001	195,369	79,538	149,339
Income tax expenses	13	—	(23,866)	(61,900)	(25,098)	(40,964)
Profit and total comprehensive income for the period/year		—	54,135	133,469	54,440	108,375
Earnings per share — Basis (RMB)	15	—	0.098	0.242	0.099	0.152

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		The Group				The Company	
		As at 31 December			As at 30 June	As at 31 December	As at 30 June
	NOTES	2007	2008	2009	2010	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS							
Property, plant and equipment	16	—	206,070	540,993	535,194	—	—
Prepaid lease payments	17	—	30,772	39,555	39,228	—	—
Intangible assets	18	—	14,375	13,055	12,295	—	—
Investment in a subsidiary	19	—	—	—	—	—	318,776
Deposits for acquisition of property, plant and equipment		—	586	3,135	—	—	—
Loan receivable	20	—	150,000	—	—	—	—
Amount due from a subsidiary	21	—	—	—	—	318,776	—
		—	401,803	596,738	586,717	318,776	318,776
CURRENT ASSETS							
Inventories	22	—	47,908	24,449	21,050	—	—
Trade and other receivables	23	—	12,069	24,205	16,208	642	5,686
Prepaid lease payments	17	—	655	847	847	—	—
Bank balances and cash	24	23	68,520	183,972	315,360	1	1,876
		23	129,152	233,473	353,465	643	7,562
CURRENT LIABILITIES							
Trade and other payables	25	23	377,468	66,600	139,587	286	2,535
Amount due to a subsidiary		—	—	—	—	—	523
Income tax liabilities		—	20,505	32,691	51,901	—	—
Borrowings	26	—	60,000	302,275	—	102,275	—
Subscription money received	27	—	—	102,275	—	102,275	—
		23	457,973	503,841	191,488	204,836	3,058
NET CURRENT ASSETS (LIABILITIES)		—	(328,821)	(270,368)	161,977	(204,193)	4,504
TOTAL ASSETS LESS CURRENT LIABILITIES		—	72,982	326,370	748,694	114,583	323,280
CAPITAL AND RESERVES							
Share capital	28	—	—	—	—	—	—
Reserves	29	—	54,135	302,472	548,759	114,583	246,766
TOTAL EQUITY		—	54,135	302,472	548,759	114,583	246,766
NON-CURRENT LIABILITIES							
Deferred tax liabilities	30	—	18,847	23,898	23,421	—	—
Borrowings	26	—	—	—	176,514	—	76,514
		—	18,847	23,898	199,935	—	76,514
		—	72,982	326,370	748,694	114,583	323,280

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Other paid-in capital	Share premium	Statutory surplus reserve	Retained earnings	Total
	RMB'000	RMB'000 (see note (i) below)	RMB'000	RMB'000 (see note (ii) below)	RMB'000	RMB'000
At 8 October 2007, 31 December 2007 and 1 January 2008	—	—	—	—	—	—
Profit and total comprehensive income for the year	—	—	—	—	54,135	54,135
Transfer	—	—	—	11,310	(11,310)	—
At 31 December 2008 and 1 January 2009	—	—	—	11,310	42,825	54,135
Profit and total comprehensive income for the year	—	—	—	—	133,469	133,469
Transfer	—	—	—	14,362	(14,362)	—
Subscription money received (see note (i) below)	—	114,868	—	—	—	114,868
At 31 December 2009	—	114,868	—	25,672	161,932	302,472
Issue of shares to Mr Zhao (see note (i) below)	—	(114,868)	125,000	—	—	10,132
Issue of shares to the investors	—	—	127,780	—	—	127,780
Profit and total comprehensive income for the period	—	—	—	—	108,375	108,375
At 30 June 2010	—	—	252,780	25,672	270,307	548,759
Unaudited						
At 1 January 2009	—	—	—	11,310	42,825	54,135
Total comprehensive income for the period	—	—	—	—	54,440	54,440
At 30 June 2009	—	—	—	11,310	97,265	108,575

Notes:

i. *Other paid-in capital*

As at 31 December 2009, the amount represented the non-refundable partial payment of subscription money received from 趙宇 (Mr Zhao Yu, "Mr Zhao") in December 2009 in respect of a share subscription agreement entered into between the Company and Mr Zhao dated 20 November 2009. Together with an additional money of RMB10,132,000 settled in February 2010 (see note 32 (c)), an aggregate of 63,171 ordinary shares of HK$0.00001 in the Company were issued to Mr Zhao on 4 February 2010, details of which are set out in note 28 (e).

ii. *Statutory surplus reserve*

As stipulated by the relevant laws and regulations for enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund which is non-distributable. The appropriation to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries. The statutory surplus reserve fund can be used to make up prior period/year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

D. CONSOLIDATED STATEMENTS OF CASH FLOW

	NOTES	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES						
Profit before taxation		—	78,001	195,369	79,538	149,339
Adjustments for:						
Finance costs		—	1,423	9,258	3,772	7,856
Interest income		—	(1,771)	(8,494)	(4,166)	(232)
Depreciation of property, plant and equipment		—	7,033	19,195	8,709	12,728
Release of prepaid lease payments		—	273	655	327	327
Amortisation of intangible assets		—	625	1,520	760	760
Losses on disposals of property, plant and equipment		—	—	366	19	192
Exchange gain on subscription money received and loans from Investors (as defined in note 28)		—	—	(1,308)	—	(256)
Discount on acquisition	31 (a)	—	(5,268)	—	—	—
Operating cash flows before movements in working capital		—	80,316	216,561	88,959	170,714
(Increase) decrease inventories		—	9,763	23,459	(6,086)	3,399
(Increase) decrease in trade and other receivables		—	2,744	(11,843)	(32,767)	7,997
Increase (decrease) in trade and other payables		23	508	13,294	(5,383)	22,635
Cash generated from operations		23	93,331	241,471	44,723	204,745
Income tax paid		—	(10,431)	(44,663)	(16,432)	(22,231)
Interest paid		—	(1,423)	(9,025)	(3,772)	(3,115)
NET CASH FROM OPERATING ACTIVITIES		23	81,477	187,783	24,519	179,399
INVESTING ACTIVITIES						
Cash inflow (outflow) relating to Daqing Dairy Acquisition (as defined in note 31 (a))	31 (a)	—	93,150	(318,776)	—	—
Interest received		—	240	406	152	232
Proceeds on disposals of property, plant and equipment		—	6,187	191	73	165

	NOTES	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
			2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Purchase of property, plant and equipment		—	(21,737)	(125,297)	(41,495)	(5,480)
Amount advanced to Changqing Dairy		—	(150,000)	(52,489)	(50,000)	—
Net cash inflow relating to Changqing Dairy Acquisition (as defined in note 31 (b))	31 (b)	—	—	32,908	—	—
NET CASH USED IN INVESTING ACTIVITIES		—	(72,160)	(463,057)	(91,270)	(5,083)
FINANCNG ACTIVITIES						
Bank borrowings raised		—	40,000	160,000	130,000	100,000
Amount advance from (repaid to) a third party		—	30,000	(30,000)	(30,000)	—
Amount advance from a related party		—	—	—	—	50,000
Repayments of bank borrowings		—	(10,000)	(60,000)	(30,000)	(200,000)
Repayments of obligations under finance lease		—	(820)	—	—	—
Other paid-in capital received from Mr Zhao		—	—	114,868	—	—
Loans from the Investors	26 (d), 32 (b)	—	—	—	—	44,888
Cash paid to Mr Zhao	32 (c)	—	—	—	—	(37,816)
Subscription money received and loans granted from Investors		—	—	205,858	—	—
NET CASH FROM (USED IN) FINANCING ACTIVITES		—	59,180	390,726	70,000	(42,928)
NET INCREASE IN CASH AND CASH EQUIVALENTS		23	68,497	115,452	3,249	131,388
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR		—	23	68,520	68,520	183,972
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, represented by bank balances and cash		23	68,520	183,972	71,769	315,360

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands on 15 October 2009.

The addresses of the registered office and the principal place of business of the Company are set out in the Section "Corporate Information" to the Prospectus.

The Financial Information of the Group is presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the functional currency of the Company and the principal subsidiaries).

The Group is mainly engaged in the manufacture, marketing and sales of dairy products.

2. BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

Global Milk Singapore, a subsidiary of the Company, was incorporated on 15 September 2006 as a private limited company in Singapore and allotted and issued one ordinary share to a third party (the "Third Party"). On 8 October 2007 (the "Global Milk Singapore Acquisition Date"), the Third Party transferred the one ordinary share in Global Milk Singapore to Mr Zhao, the controlling shareholder of the Company. On 25 July 2008 (the "Daqing Dairy Acquisition Date"), Global Milk Singapore acquired the entire equity interest of Daqing Dairy and further, on 16 November 2009, Daqing Dairy acquired the entire equity interest of Changqing Dairy. These two acquisitions are recognised by using the purchase accounting method and the details are explained further in note 31 (a) and note 31 (b), respectively.

Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 15 October 2009 by interspersing the Company between Global Milk Singapore and Mr Zhao.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flow of the Group during the Relevant Periods have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout the Relevant Periods.

The consolidated statements of financial position of the Group as at 31 December 2007 and 31 December 2008 have been prepared to present the assets and liabilities of the companies now comprising of the Group as at the end of each of the reporting period as if the current group structure had been in existence at the end of each of the reporting period.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting of the Financial Information of the Group for the Relevant Periods, the Group has consistently adopted the International Accounting Standards ("IASs") and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are effective for the Group's financial year beginning on 1 January 2010 throughout the Relevant Periods, except as described as below:

IFRS 3 (2008) "*Business Combinations*" has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. IFRS 3 (2004) "*Business Combinations*" has been applied to business combinations for which the acquisition date is before 1 January 2010.

IAS 27 (2008) "*Consolidated and Separate Financial Statements*" has been applied consistently throughout the Relevant Periods with the following exceptions which have been applied prospectively from 1 January 2010:

(i) total comprehensive income is attributed to the owners of the Company and non-controlling interests even if this results in the non-controlling interests having a deficit balance; and

(ii) changes of the Group's ownership interest in a subsidiary are accounted for as equity transactions.

Other IFRSs have been applied consistently throughout the Relevant Periods.

At the date of this report, IASB has issued the following new and revised standards, amendments or interpretations which are not yet effective. The Group has not early adopted these standards, amendments or interpretations in the preparation of the Financial Information for the Relevant Periods.

IFRSs (Amendments)	Improvements to HKFRSs 2010[1]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendment)	Classification of Rights Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
IFRS 9	Financial Instruments[5]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

2 Effective for annual periods beginning on or after 1 February 2010

[3] Effective for annual periods beginning on or after 1 July 2010

[4] Effective for annual periods beginning on or after 1 January 2011

[5] Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of above new or revised standards and interpretations will have no material impact on the Financial Information of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis 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 issued by the IASB. 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 the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporated 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 Relevant Periods 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 the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

Business combinations prior to 1 January 2010

The acquisitions of businesses under business combination are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step.

Business combinations on or after 1 January 2010

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 recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised 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 that Standard.

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 recognised immediately in profit or loss as a bargain purchase gain.

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 recognised in profit or loss.

Changes in the value of the previously held equity interest recognised 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 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 recognised directly in the 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 capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statements of financial position at cost less any identified impairment loss.

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 discounts and sales related taxes.

Revenue from sale of goods is recognised when goods are delivered and title has 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Assets held under finance leases are recognised as assets of the entity at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of the individual group entities, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 retranslated at the rates prevailing at that date. 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 included in profit or loss in the period/year in which they arise.

Taxation

Income tax expense represents 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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other 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 each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. 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 recognised for taxable temporary differences associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period/year in which the liability is settled or the asset realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each 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 each reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Borrowing costs

Borrowing costs directly attributable 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 costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period/year in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Property, plant and equipment

Property, plant and equipment, 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 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 represents 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 recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised 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 recognised in profit or loss in the period/year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represent payments for leasehold land and are released over the lease terms on a straight-line basis. Prepaid lease payments which are to be released in the next twelve months or less are classified as current assets.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- how the intangible asset will generate probable future economic benefits.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Trademarks

Trademarks acquired in a business combination are identified and recognised separately from goodwill where it satisfies the definition of an intangible asset and its fair values can be measured reliably. The costs of trademarks are their fair value at the acquisition date. Subsequent to initial recognition, intangible asset with finite useful life are carried at cost less accumulated amortisation and any accumulated impairment loss. The intangible asset will be amortised on a straight-line basis over its useful lives.

Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 recognised as an expense immediately.

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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement 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 (other than financial assets and financial liabilities at fair value through profit or loss) 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 financial assets are classified into loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised 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 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 recognised on an effective interest basis for debt instruments.

Impairment of financial assets

Loans and receivables 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 the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted. The 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-organisation.

For certain categories of financial asset, such as trade receivables, assets 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 average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised 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 recognised 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 losses was recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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 amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments 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 recognised on an effective interest basis and is included in finance costs.

Financial liabilities

Financial liabilities (including borrowings, trade and other payables and subscription money received) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised 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 recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCE OF ESTIMATION

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period/year in which the estimate is revised if the revision affects only that period, or in the period/year of the revision and future periods if the revision affects both current and future periods.

The following are the 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:

(a) **Estimated impairment of inventories**

The Group assesses periodically if the inventories have been suffered from any impairment in accordance with the accounting policy stated in note 4.

The identification of impairment of inventories requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and impairment loss in the period/year in which such estimate has been changed. The directors of the Company are satisfied that this risk is minimal and no allowance for obsolete and slow moving inventories was provided during the Relevant Periods.

(b) **Estimated impairment of trade and other receivables**

As explained in note 4, trade and other receivables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The identification of bad and doubtful debts requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the period/year in which such estimate has been changed. The directors of the Company are satisfied that this risk is minimal and no allowance for doubtful debts was provided during the Relevant Periods.

(c) **Useful life and residual value of property, plant and equipment**

The management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions and may vary significantly as a result of technical innovation and keen competition from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of net debts, which includes borrowings, cash and cash equivalents and equity, comprising share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:						
Loans and receivables (including cash and cash equivalents)	23	229,798	197,545	325,116	643	2,518
Financial liabilities:						
Liabilities measured at amortised costs	23	418,553	440,575	265,719	204,576	76,706

(b) Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, loan receivable, trade and other payables, borrowings, bank balances and cash and subscription money received. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall strategy remains unchanged during the Relevant Periods.

(c) **Market risk**

The Group's activities expose it primarily to the market risks including interest rate risk (note 7 (d)) and foreign currency risk (note 7 (e)). There has been no change to the Group's exposure to these market risks or the manner in which it manages and measures the risks during the Relevant Periods.

(d) **Interest rate risk management**

The fair value interest rate risk of the Group relates primarily to fixed rate bank borrowings and loan from Investors. 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 arise.

The Group's cash flow interest rate risk relates primarily to variable rate bank balances. The directors of the Company consider that the Group is not exposed to significant interest rate risks attributable to variable rate bank balances and thus, no sensitivity analysis to interest rate risk is presented.

(e) **Foreign currency risk management**

The Group undertakes certain transactions denominated in foreign currency, hence exposure to exchange rate fluctuations arises. The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. However the Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the respective reporting period are as follows:

	Liabilities					
	The Group				**The Company**	
	As at 31 December			**As at 30 June**	**As at 31 December**	**As at 30 June**
	2007	**2008**	**2009**	**2010**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Singapore Dollars ("S$")	23	65	204,640	76,579	204,576	76,514
Hong Kong Dollars ("HK$")	—	—	—	192	—	192
	23	65	204,640	76,771	204,576	76,706

	Assets					
	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Singapore Dollars ("S$")	23	13	523	522	1	—
United States Dollars ("US$")	—	8	1,441	2,790	—	1,876
	23	21	1,964	3,312	1	1,876

The Group is mainly exposed to the currency of the Singapore Dollars, the United States Dollars and the Hong Kong Dollars.

The following table details the Group's sensitivity to a 10% increase and decrease in RMB against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans from Investors, amount due to a related party and bank balances denominated in currencies other than functional currency of the relevant group entities. A positive number below indicates an increase in profit after taxation/decrease in loss before taxation, where RMB strengthen 10% against S$, US$ and HK$. For a 10% weakening of the RMB against S$, US$ and HK$, there would be an equal and opposite impact on the profit/loss, and the balances below would be negative.

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June
		2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Profit/loss for the period/year	—	4	20,268	7,346

	Year ended 31 December 2009	Six months ended 30 June 2010
	RMB'000	RMB'000
The Company		
Profit/loss for the period/year	20,458	7,483

(f) **Credit risk management**

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the respective consolidated statement of financial position.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of the Company review the recoverability of each trade debt at the end of each of the 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.

As at 31 December 2007, the Group did not have any trade receivables. The Group has concentration of credit risk as the Group's trade receivables as at 31 December 2008, 31 December 2009 and 30 June 2010 of approximately RMB7,035,000, RMB8,974,000 and RMB9,037,000, respectively, representing 73%, 70% and 96% of total trade receivables, respectively, were derived from five major customers. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts. The Group has no significant concentration of credit risk on the remaining trade receivables, with exposure spread over a number of counterparties and customers.

The Group has concentration of credit risk on liquid funds which are deposited mainly with several banks in the PRC. However, the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation or banks with good credit rating assigned by international credit-rating agencies and with good reputation.

(g) **Liquidity risk management**

Ultimate responsibility for liquidity risk rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group							
Non-derivative financial liabilities							
As at 31 December 2007							
Trade and other payables		23	—	—	—	23	23
As at 31 December 2008							
Trade and other payables		358,553	—	—	—	358,553	358,553
Fixed rates interest borrowings	7.2	—	62,439	—	—	62,439	60,000
		358,553	62,439	—	—	420,992	418,553
As at 31 December 2009							
Trade and other payables		36,025	—	—	—	36,025	36,025
Loans from Investors	7.3	103,499	—	—	—	103,499	102,275
Fixed rates interest borrowings	5.6	100,291	103,636	—	—	203,927	200,000
Subscription money received		102,275	—	—	—	102,275	102,275
		342,090	103,636	—	—	445,726	440,575
As at 30 June 2010							
Trade and other payables		89,205	—	—	—	89,205	89,205
Loans from the Investors	11.3	—	—	88,489	—	88,489	76,514
Fixed rates interest borrowings	5.3	1,338	3,972	5,310	104,856	115,476	100,000
		90,543	3,972	93,799	104,856	293,710	265,719
The Company							
Non-derivative financial liabilities							
As at 31 December 2009							
Trade and other payables		26	—	—	—	26	26
Loans from Investors	7.3	103,499	—	—	—	103,499	102,275
Subscription money received		102,275	—	—	—	102,275	102,275
		205,800	—	—	—	205,800	204,576
As at 30 June 2010							
Trade and other payables		192	—	—	—	192	192
Loans from the Investors	11.3	—	—	88,489	—	88,489	76,514
		192	—	88,489	—	88,681	76,706

(h) **Fair value of financial instruments**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transaction as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values at the end of each reporting period.

8. REVENUE AND SEGMENT INFORMATION

(a) **Revenue**

Revenue represents the net amounts received and receivable for sales of goods to customers during the Relevant Periods.

(b) **Segment information**

The Group operates and manages its business as a single segment that includes primarily the manufacture and sales of milk powder products. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the profit of the Group for the year/period when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial information is available for assessment of performance of different products, no segment information is presented.

Information about products

Analysis of revenue

The following table sets forth a breakdown of the Group's revenue by major products during the Relevant Periods:

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue from:					
Sales of milk powder products					
— whole milk	—	36,345	61,671	32,063	26,100
— formula milk	—	159,224	431,605	173,022	335,508
	—	195,569	493,276	205,085	361,608
Sales of ice cream products	—	1,800	16,759	7,107	12,259
	—	197,369	510,035	212,192	373,867

Information about geographical areas

All of the Group's revenue is derived from customers based in the PRC and all of the Group's non-current assets are also located in the PRC and thus, no geographical information has been presented.

Information about major customers

During the Relevant Periods, there was no customer which is attributable to the manufacture, marketing and sales of milk power, individually accounted for over 10% of the Group's total revenue.

9. OTHER GAINS AND LOSSES

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Other gains and losses:					
Interest income from:					
— Changqing Dairy (see note 34 (a) and note 34 (b))	—	1,531	8,088	4,014	—
— Others	—	240	406	152	232
	—	1,771	8,494	4,166	232
Discount on acquisition (see note 31 (a))	—	5,268	—		
Loss on disposals of property, plant and equipment	—	—	(366)	(19)	(192)
Loss on sales of raw materials to 黑龍江金天然乳業有限責任公司 (Heilongjiang Jintianran Dairy Co., Ltd.#, "Jintianran Dairy"), a related company (see note 34 (a) and note 34 (b))	—	—	(2,890)	—	—
Gains on sales of scarp materials to 大慶市百信源商品混凝土有限公司 (Daqing City Baixinyuan Concrete Products Co., Ltd.#, "Daqing Baixinyuan"), a related company (see note 34 (a) and note 34 (b))	—	—	251	—	—
Exchange gains	—	—	1,308	—	22
	—	7,039	6,797	4,147	62

The English names are for identification purpose only.

10. FINANCE COSTS

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Finance costs comprise:					
Interest on:					
— Bank borrowings wholly repayable within five years	—	1,386	9,025	3,772	3,115
— Finance lease	—	37	—	—	—
— Loans from Investors	—	—	233	—	4,741
	—	1,423	9,258	3,772	7,856

11. PROFIT BEFORE TAXATION

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation has been arrived at after charging:					
Staff cost (including directors):					
— Salaries and wages	—	2,995	7,865	4,099	4,708
— Retirement benefit scheme contributions	—	220	568	279	343
	—	3,215	8,433	4,378	5,051
Depreciation and amortisation:					
— Property, plant and equipment	—	7,033	19,195	8,709	12,728
— Intangible assets	—	625	1,520	760	760
	—	7,658	20,715	9,469	13,488
Release of prepaid lease payments	—	273	655	327	327
Cost of inventories recognised as an expense	—	110,357	274,137	117,684	183,494
Research and development expenses	—	40	104	49	58
Auditors' remuneration	—	50	100	100	200
Trademark fee charged by 大慶市大正房地產開發有限公司 (Daqing City Dazheng Real Estate Development Co., Ltd.#, "Dazheng Real Estate"), a related company (see note 34 (a) and note 34 (b))	—	1,858	—	—	—

The English names are for identification purpose only.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of the emoluments paid to directors of the Company during the Relevant Period are as follows:

	For the period from 8 October 2007 to 31 December 2007			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
— 趙傳文 (Mr Zhao Chuan Wen, "Mr Zhao CW")				
— Mr Zhao	—	—	—	—
— 夏元軍 (Mr Xiao Yuan Jun, "Mr Xia")	—	—	—	—
— 付翀 (Mr Fu Chong, "Mr Fu")	—	—	—	—
— 方秉權 (Mr Fong Pin Jan, "Mr Fong")	—	—	—	—
Independent non-executive directors:				
— 陳華敏 (Ms Chan Wah Man Carman, "Ms Chan")	—	—	—	—
— 張學鋒 (Mr Cheung Hok Fung Alexander, "Mr Cheung")	—	—	—	—
— 張舟 (Mr Zhang Zhou, "Mr Zhang")	—	—	—	—
	—	—	—	—

	Year ended 31 December 2008			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
— Mr Zhao CW	—	—	—	—
— Mr Zhao	—	—	—	—
— Mr Xia	—	1	25	26
— Mr Fu	—	—	—	—
— Mr Fong	—	—	—	—
Independent non-executive directors:				
— Ms Chan	—	—	—	—
— Mr Cheung	—	—	—	—
— Mr Zhang	—	—	—	—
	—	1	25	26

	Year ended 31 December 2009			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
— Mr Zhao CW	—	—	—	—
— Mr Zhao	—	—	—	—
— Mr Xia	—	3	61	64
— Mr Fu	—	1	31	32
— Mr Fong	—	—	—	—
Independent non-executive directors:				
— Ms Chan	—	—	—	—
— Mr Cheung	—	—	—	—
— Mr Zhang	—	—	—	—
	—	4	92	96

	Six months ended 30 June 2010			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
— Mr Zhao CW	—	—	—	—
— Mr Zhao	—	1	55	56
— Mr Xia	—	1	43	44
— Mr Fu	—	1	31	32
— Mr Fong	—	—	—	—
Independent non-executive directors:				
— Ms Chan	—	—	—	—
— Mr Cheung	—	—	—	—
— Mr Zhang	—	—	—	—
	—	3	129	132

	Six months ended 2009			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
— Mr Zhao CW				
— Mr Zhao	—	—	—	—
— Mr Xia	—	1	31	32
— Mr Fu	—	—	—	—
— Mr Fong	—	—	—	—
Independent non-executive directors:				
— Ms Chan	—	—	—	—
— Mr Cheung	—	—	—	—
— Mr Zhang	—	—	—	—
	—	1	31	32

During the Relevant Periods, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

(a) **Employees' emoluments**

No employee emolument was paid during the period from 8 October 2007 to 31 December 2007. Of the five individuals with the highest emoluments in the Group, 1, 1, 1 and 2 were director of the Company during the years ended 31 December 2008 and 31 December 2009 and the six months ended 30 June 2009 and 30 June 2010, respectively, details of whose emoluments are included in the disclosures above.

The emoluments of the remaining 4, 4, 4 and 3 individuals during the years ended 31 December 2008 and 31 December 2009 and the six months ended 30 June 2009 and 30 June 2010, respectively were as follows:

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and allowances	—	103	242	123	130
Performance related bonus	—	—	—	—	—
Retirement benefit scheme contributions	—	4	11	5	4
	—	107	253	128	134

The emoluments of each of the five highest paid individuals (others than directors) during these years/periods were within HK$1,000,000.

During the Relevant Periods, no remuneration was paid by the Group to any of the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

13. INCOME TAX EXPENSES

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Income tax expenses comprise:					
Current PRC enterprise income tax	—	19,273	56,849	22,919	41,441
Deferred taxation (see note 30)	—	4,593	5,051	2,179	(477)
	—	23,866	61,900	25,098	40,964

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for the Relevant Periods.

The statutory tax rate of Global Milk Singapore was 18% during the period from 8 October 2007 to 31 December 2007 and the year ended 31 December 2008, and 17% for the year ended 31 December 2009 and the six months ended 30 June 2010. No provision for Singapore income tax has been made as the Group did not derive any taxable income in Singapore during the Relevant Periods.

The statutory tax rate the Company's PRC subsidiaries for the Relevant Periods are as follows:

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June
		2008	2009	2010
	%	%	%	%
Daqing Dairy (note (i) below)	N/A	25	25	25
Changqing Dairy (note (ii) below)	N/A	N/A	25	25

Notes:

i. The Group acquired the entire equity interest of Daqing Dairy on 25 July 2008.

ii. The Group acquired the entire equity interest of Changqing Dairy on 16 November 2009.

The income tax expenses during the Relevant Periods can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	—	78,001	195,369	79,538	149,339
Tax at the PRC enterprise income tax rate (note (i) below)	—	19,500	48,842	19,885	37,335
Effect of sales rebates (note (ii) below) and other expenses that are not deductible for tax purpose	—	3,604	6,720	2,344	685
Tax effect of income not taxable for tax purpose	—	(1,317)	(327)	—	—
Withholding income tax provision on dividend from the PRC subsidiaries	—	1,928	6,463	2,869	—
Effect of unrecognised deductible losses and deductible temporary differences	—	151	202	—	2,944
	—	23,866	61,900	25,098	40,964

Notes:

(i) The PRC income tax rate represents the income tax rate applicable to Daqing Dairy of which the Group's principal operations are substantially based throughout the Relevant Periods.

(ii) Pursuant to the relevant laws and regulations in the PRC, during the period from 8 October 2007 to 31 December 2007 and the two years ended 31 December 2009, certain sales rebates payable to customers are non-deductible for tax purpose as the Group did not obtain the relevant tax deduction documents from its customers. The PRC Legal advisers of the Company represented that the sales rebate arrangement is legal and valid in accordance with the law and regulations in the PRC. The directors of the Company represented that in view of a substantial number of customers involved, it was not practicable and the cost would be out of benefit for the Group to obtain such tax deduction documents from the customers. As such, the related amounts have been accounted for as non-deductible item for tax purpose.

14. DIVIDENDS

No dividend has been paid or proposed by the Company during the Relevant Periods.

15. EARNINGS PER SHARE

The calculation of the earnings per share for each of the Relevant Periods is based on the profit attributable to the equity holders of the Company for the Relevant Periods and on the weighted average number of 551,000,727 shares, 551,000,727 shares, 551,000,727 shares, 551,000,727 shares and 714,807,689 shares in issue during the period from 8 Oct 2007 to 31 December 2007, the years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively.

The weighted average number of shares for the purpose of calculating the basic earnings per share for the Relevant Periods has been determined as if the Group Reorganisation had been effective on 8 October 2007 and the effect of the 1,000-for-one share sub-division in note 28 and the Capitalisation Issue as detailed in Appendix VI to this prospectus are adjusted retrospectively.

There were no potential dilutive shares in existence during the Relevant Periods and therefore, no diluted earnings per share amounts have been presented.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group						
COST						
At 8 October 2007, 31 December 2007 and 1 January 2008	—	—	—	—	—	—
Additions relating to Daqing Dairy Acquisition (see note 31 (a))	10,901	60,195	715	4,774	59,281	135,866
Additions	—	1,869	578	500	80,477	83,424
Transfer	95,403	26,248	—	—	(121,651)	—
Disposals	(3,336)	(4,186)	(35)	(3)	—	(7,560)
At 31 December 2008 and 1 January 2009	102,968	84,126	1,258	5,271	18,107	211,730
Addition relating to Changqing Dairy Acquisition (see note 31 (b))	—	—	—	301	226,165	226,466
Additions	—	66,070	3,141	3,530	55,468	128,209
Transfer	47,654	3,946	—	—	(51,600)	—
Disposals	(245)	(442)	(32)	—	—	(719)
At 31 December 2009	150,377	153,700	4,367	9,102	248,140	565,686
Additions	—	1,837	1,834	889	2,726	7,286
Transfer	9,788	10,278	1,855	60	(21,981)	—
Disposals	(110)	—	—	(400)	—	(510)
At 30 June 2010	160,055	165,815	8,056	9,651	228,885	572,462
ACCUMULATED DEPRECIATION						
At 8 October 2007, 31 December 2007 and 1 January 2008	—	—	—	—	—	—
Provided for the year	2,886	3,791	86	270	—	7,033
Eliminated on disposals	(743)	(626)	(3)	(1)	—	(1,373)

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2008 and 1 January 2009	2,143	3,165	83	269	—	5,660
Provided for the year	8,162	9,741	400	892	—	19,195
Eliminated on disposals	(47)	(104)	(11)	—	—	(162)
At 31 December 2009	10,258	12,802	472	1,161	—	24,693
Provided for the period	3,751	7,791	525	661	—	12,728
Eliminated on disposals	(48)	—	—	(105)	—	(153)
At 30 June 2010	13,961	20,593	997	1,717	—	37,268
CARRYING VALUES						
At 31 December 2007	—	—	—	—	—	—
At 31 December 2008	100,825	80,961	1,175	5,002	18,107	206,070
At 31 December 2009	140,119	140,898	3,895	7,941	248,140	540,993
At 30 June 2010	146,094	145,222	7,059	7,934	228,885	535,194

The above items of property, plant and equipment, other than construction in progress, after taking into account of their estimate residual values, are depreciated on a straight-line basis at the following rates per annum:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	8 years

The buildings shown above are situated on land use rights in the PRC which are held by the Group under medium-term lease.

As at 31 December 2008 and 31 December 2009, the Group pledged its property, plant and equipment with a net book value of RMB67,708,000 andRMB43,192,000, respectively to banks to secure banking facilities granted to the Group.

17. PREPAID LEASE PAYMENTS

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
The Group				
Analysed for reporting purpose as:				
— Non-current assets	—	30,772	39,555	39,228
— Current assets	—	655	847	847
	—	31,427	40,402	40,075

The amounts represent land use rights in respect of land situated in the PRC and held under medium-term leases. Land use rights are released on a straight-line basis over the relevant terms of the land use rights certificate.

As at 31 December 2008 and 31 December 2009, the Group pledged its land use right with a net book value of RMB31,427,000 and RMB9,630,000, respectively to banks to secure banking facilities granted to the Group.

18. INTANGIBLE ASSETS

	Trademarks
	RMB'000
The Group	
COST	
At 8 October 2007, 31 December 2007 and 1 January 2008	—
Additions relating to Daqing Dairy Acquisition (see note 31 (a))	15,000
At 31 December 2008 and I January 2009	15,000
Acquired from Dazheng Real Estate, a related company (see note 34 (a) and note 34 (b))	200
At 31 December 2009 and 30 June 2010	15,200
ACCUMULATED AMORTISATION	
At 8 October 2007, 31 December 2007 and 1 January 2008	—
Amortised for the year	625
At 31 December 2008 and 1 January 2009	625
Amortised for the year	1,520
At 31 December 2009	2,145
Amortised for the period	760
At 30 June 2010	2,905
CARRYING VALUES	
At 31 December 2007	—
At 31 December 2008	14,375
At 31 December 2009	13,055
At 30 June 2010	12,295

The amounts were amortised on a straight-line basis over a period of 10 years.

19. INVESTMENT IN A SUBSIDIARY

	31 December 2009	30 June 2010
	RMB'000	RMB'000
The Company		
Unlisted investments, at cost	—	318,776

The amount as at 31 December 2009 and 30 June 2010 represented the Company's investment in Global Milk Singapore of S$1 (equivalent to RMB5) and RMB318,776,000. During the six-months period ended 30 June 2010, an amount due from Global Milk Singapore of RMB318,766,000 was capitalised as investment (see note 21).

20. LOAN RECEIVABLE

The amount represented loan granted to Changqing Dairy which was unsecured, carried interest at the rates of 6.2% and 5.3% per annum for the year ended 31 December 2008 and for the period from 1 January 2009 to 15 November 2009, respectively and the amount is fully repayable by 31 October 2011. The amount has been eliminated upon the Changqing Dairy Acquisition (see note 31 (b)).

21. AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary of RMB 318,776,000 as at 31 December 2009 (comprising of S$42,000,000 and US$16,825,000) represented an advance granted by the Company to Global Milk Singapore in December 2009, which was unsecured, interest-free and was capitalised as the Company's investment cost in Global Milk Singapore during the six months ended 30 June 2010.

22. INVENTORIES

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Raw materials	—	27,136	8,907	12,362
Finished goods	—	20,772	15,542	8,688
	—	47,908	24,449	21,050

23. TRADE AND OTHER RECEIVABLES

		The Group				The Company	
		As at 31 December			As at 30 June	As at 31 December	As at 30 June
	NOTES	2007	2008	2009	2010	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	a	—	9,600	12,853	9,370	—	—
Advances to suppliers	b	—	791	3,926	1,408	—	—
Interest receivable from Changqing Dairy	c	—	1,531	—	—	—	—
Prepayments		—	—	6,706	5,044	—	5,044
Amount due from Daqing Baixinyuan (see note 34 (a))	d	—	—	251	251	—	—
Others		—	147	469	135	642	642
		—	12,069	24,205	16,208	642	5,686

Notes:

(a) **Trade receivables**

The trade receivables as at 31 December 2008, 31 December 2009 and 30 June 2010 comprise amounts receivable from the sales of goods.

No interest is charged on the trade receivables.

Before accepting any new customer, the Group gathers and assesses the credit information of the potential customer in considering the customers' quality and determining the credit limits for that customer.

The Group generally allows an average credit period of 30 days to its trade customers. The aged analysis of the Group's trade receivables presented based on invoice date as at the end of each of the reporting period is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	—	8,654	12,804	9,341
Over 30 days but within one year	—	863	49	29
Over one year	—	83	—	—
	—	9,600	12,853	9,370

Aging of the Group's trade receivables which are past due but not impaired are as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Over 30 days but within one year	—	863	49	29
Over one year	—	83	—	—
	—	946	49	29

The Group did not provide any allowance on the remaining past due receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

(b) **Advances to suppliers**

The amounts mainly comprise deposits for purchase of raw materials. As at 31 December 2009, out of the Group's total outstanding balance of RMB3,926,000, an amount of RMB1,646,000 represents an advance to Jintianran Dairy (see note 34 (a)).

(c) **Interest receivable from Changqing Dairy**

The amount represented interest receivable relating to the loan granted to Changqing Dairy (see note 20) which has been waived upon the Changqing Dairy Acquisition (see note 31 (b)).

(d) **Amount due from Daqing Baixinyuan**

The amount is unsecured, interest-free and is repayable on demand.

24. BANK BALANCES AND CASH

The Group's bank balances carry market interest rate of 0.72%, 0.36%, 0.36% and 0.36% per annum as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, respectively.

The Group's and the Company's bank balances and cash denominated in currencies other than functional currency of the relevant group entities were as follows:

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Currency:						
Singapore Dollars	23	13	523	522	1	—
United States Dollars	—	8	1,441	2,790	—	1,876

The Group's bank balances and cash denominated in RMB are not a freely convertible currency in the international market. The remittance of RMB out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

25. TRADE AND OTHER PAYABLES

		The Group				The Company	
		As at 31 December			As at 30 June	As at 31 December	As at 30 June
	NOTES	2007	2008	2009	2010	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	a	—	1,333	5,554	8,509	—	—
Advances from customers	b	—	13,404	11,835	16,674	—	—
Daqing Dairy Acquisition consideration payable (see note 31 (a))	c	—	318,776	—	—		
Amount due to Mr Zhao	d	23	65	90	257	26	192
Interest-free advance from a third party	e	—	30,000	—	—	—	—
Interest-free advance from 大慶市萬隆久盛經貿有限公司 (Daqing Wan Long Jiu Sheng Trading Co., Ltd.#, "Daqing Wanlong"), a related party (see note 34(a))	f	—	—	—	50,000	—	—
Amount due to Dazheng Real Estate (see note 34 (a))	g	—	2,061	200	200	—	—
Payable on acquisition of property, plant and equipment:							
— Dazheng Building (see note 34 (a))	g	—	4,726	7,244	7,244	—	—
— Others		—	1,180	22,561	21,232	—	—
		—	5,906	29,805	28,476	—	—
Other tax payables	h	—	3,507	8,610	16,301	—	—
Accrued expenses		—	2,004	10,130	17,407	260	2,343
Others		—	412	376	1,763	—	—
		23	377,468	66,600	139,587	286	2,535

The English name is for identification purpose only.

Notes:

(a) **Trade payables**

The Group's trade payables principally comprise amounts outstanding for trade purchases. Payment terms with suppliers are on an average credit period of 30 days from the time when the goods are received from suppliers.

The aged analysis of the Group's trade payables presented based on invoice date as at the end of each of the reporting period is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	—	231	3,244	6,268
Over 30 days but within one year	—	1,065	2,273	2,241
Over one year	—	37	37	—
	—	1,333	5,554	8,509

(b) **Advances from customers**

The amounts mainly comprise deposits for supply of goods to customers.

(c) **Daqing Dairy Acquisition consideration payable**

The amount represented the outstanding purchase consideration relating to Daqing Dairy Acquisition (note 31 (a)) which was interest-free, unsecured and had no fixed repayment term. The amount has been settled during the year ended 31 December 2009.

(d) **Amount due to Mr Zhao**

The amount is interest-free, unsecured and has no fixed repayment term. The directors of the Company have represented that the outstanding amount due to Mr Zhao will be fully settled immediately prior to the Listing.

(e) **Interest-free advance from a third party**

As at 31 December 2008, the amount represented an interest-free and unsecured advance granted by a third party in December 2008. The amount has no fixed repayment term and was subsequently fully settled in May 2009.

(f) **Interest-free advance from Daqing Wanlong**

As at 30 June 2010, the amount represents an interest-free and unsecured advance granted by Daqing Wanlong in 2010. The amount has no fixed repayment term.

(g) **Amount due to Dazheng Real Estate/Payable on acquisition of property, plant and equipment to Dazheng Building**

The amounts are interest-free, unsecured and are repayable on demand.

(h) **Other tax payables**

Included in the Group's other tax payables is an amount of RMB1,738,000, RMB6,553,000 and RMB14,139,000 as at 31 December 2008, 31 December 2009 and 30 June 2010, respectively related to value added tax payable.

26. BORROWINGS

		The Group				The Company	
		As at 31 December			As at 30 June	As at 31 December	As at 30 June
	NOTES	2007	2008	2009	2010	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	a						
— Secured	b	—	30,000	30,000	—	—	—
— Unsecured	c	—	30,000	170,000	100,000	—	—
		—	60,000	200,000	100,000	—	—
Loans from Investors (as defined in note 28)	d	—	—	102,275	76,514	102,275	76,514
		—	60,000	302,275	176,514	102,275	76,514
Carrying amounts repayable:							
— On demand or within one year		—	60,000	302,275	—	102,275	—
— More than one year, but not exceeding two years		—	—	—	76,514	—	76,514
— More than two year, but not exceeding five years		—	—	—	100,000	—	—
		—	60,000	302,275	176,514	102,275	76,514
Less: Amounts due within one year shown under current liabilities		—	(60,000)	(302,275)	—	(102,275)	—
		—	—	—	176,514	—	76,514

Notes:

(a) The Group's bank borrowings carry effective interest rate per annum as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	%	%	%	%
Effective interest rates:				
Fixed interest rates borrowings	N/A	6.9-7.5	5.3-7.3	5.3-11.3

(b) **Secured bank borrowings**

As at 31 December 2008 and 31 December 2009, the Group pledged its property, plant and equipment (see note 16) and its land use rights (see note 17) to secure the bank borrowing of RMB30,000,000.

(c) **Unsecured bank borrowings**

As at 31 December 2009, bank borrowing of RMB40,000,000 was guaranteed by Dazheng Building (see note 34 (a)), and bank borrowing of RMB100,000,000 was guaranteed by Daqing Baixinyuan (see note 34 (a)).

As at 31 December 2008 and 31 December 2009 bank borrowing of RMB30,000,000 and RMB30,000,000 was guaranteed by third parties, respectively.

As at 30 June 2010, bank borrowings of RMB100,000,000 were guaranteed by a third party and are repayable wholly in 2013.

(d) **Loans from Investors**

As at 31 December 2009, the amounts represented loans of S$21 million (equivalent to RMB102,275,000) granted by the Investors on 20 November 2009 which was unsecured, interest-free and repayable on 28 February 2010. Processing fee of 2% of the principal loan amount is payable to the Investors (as defined in note 28). Immediately prior to 28 February 2010, being the maturity date of the loans, Mr Zhao and one of the Investors repaid the loan and processing fee of S$9.87 million and S$11.55 million, respectively for and on behalf of the Company (see note 32).

As at 30 June 2010, the amounts represent loans of S$15.75 million (equivalent to RMB76,514,000) ("Second Loan") granted by the Investors under Second Series Funding Agreement on 28 January 2010 ("SSFA"). Pursuant to the SSFA and the supplementary agreement dated 10 May 2010, the loans are unsecured and bear interest at the rate of 10% per annum. Processing fee of 2% of the principal loan amount has been paid to the Investors. Whilst pursuant to the SSFA, this loan is wholly repayable in September 2011, approximately 9.2% (or approximately HK$93.4 million) of the proceeds from the Company from the Global Offering will be used for paying down this loan and the interests accrued thereon.

27. SUBSCRIPTION MONEY RECEIVED

The Group and the Company

As at 31 December 2009, the amount represents the subscription consideration amounting to S$21 million (equivalent to RMB102,275,000) received from the Investors (as defined in note 28), which has been subsequently settled by the issuance of shares of the Company (see note 28 (d)).

Pursuant to the investment agreement entered into between the Company and the Investors, the subscription price for the shares shall be based on 6 times price earnings ratio of the Group's net profit after tax ("NPAT") for the financial year ended 31 December 2009 on the bases of a deemed NPAT of RMB100 million.

Should NPAT for the financial year ended 31 December 2009 is less than RMB95 million, the Company shall provide for price abetment based on the actual NPAT to be refunded to each Investors.

As the NPAT of the Group for the year ended 31 December 2009 is larger than RMB100 million, no price abetment was made. The amount of subscription money received is then reclassified to equity during the six-months period ended 30 June 2010.

Further, in the event that the NPAT for the year ended 31 December 2010 is less than RMB200 million and the listing of the Company on the Stock Exchange or any other stock exchange acceptable to the Investors has not been completed, the Investors shall be entitled to renegotiate the subscription price for the shares.

28. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Ordinary shares		
Authorised:		
On date of incorporation and as at 31 December 2009 (HK$0.01 each)	38,000,000	380
Subdivision of shares on 3 February 2010 (HK$0.00001 each)	37,962,000,000	—
At 30 June 2010	38,000,000,000	380

	Number of shares	Share capital	
		HK$'000	RMB'000
Issued:			
1 share allotted and issued on date of incorporation	1	—	—
Issue of shares on acquisition of Global Milk Singapore	550	—	—
At 31 December 2009 (HK$0.01 each)	551	—	—
Subdivision of shares on 3 February 2010 (HK$0.00001 each)	550,449	—	—
Issue of shares on 4 February 2010	191,000	—	—
Issue of shares on 24 March 2010	15,879	—	—
At 30 June 2010	757,879	—	—

The movements in the Company's authorised and issued ordinary share capital during the period from 15 October 2009 (date of incorporation) to 30 June 2010 are as follows:

(a) The Company was incorporated in the Cayman Islands on 15 October 2009 with an authorised share capital of HK$380,000, divided into 38,000,000 ordinary shares of HK$0.01 each in the Company. At the date of incorporation, one share of HK$0.01 was allotted and issued fully paid at par to the Third Party, which was subsequently transferred to Mr Zhao.

(b) On 15 October 2009, Mr Zhao transferred his 100% shareholding in Global Milk Singapore to the Company pursuant to a share sale and purchase agreement at the same date in consideration of the Company issuing 550 ordinary shares of HK$0.01 each in the Company, credit as fully paid, to Mr Zhao.

(c) On 3 February 2010, each ordinary share of HK$0.01 in the authorised and issued share capital of the Company was subdivided into 1,000 ordinary shares of HK$0.00001 such that its resultant authorised share capital was HK$380,000 divided into 38,000,000,000 ordinary shares of HK$0.00001 each in the Company and its resultant issued share capital was HK$5.51 divided into 551,000 ordinary shares of HK$0.00001 each in the Company.

(d) On 4 February 2010, pursuant to an investment agreement dated 20 November 2009 (the "Investment Agreement") entered into among certain investors (the "Investors"), Mr Zhao CW, Mr Zhao and the Company, the Company issued an aggregate of 127,829 ordinary shares of HK$0.00001 each in the Company to the Investors, for a consideration of S$21.0 million (equivalent to RMB102,275,000).

(e) Pursuant to a share subscription agreement dated 20 November 2009 entered into between the Company and Mr Zhao, on 4 February 2010, the Company issued an aggregate of 63,171 ordinary shares of HK$0.00001 each to Mr Zhao, for a consideration of RMB125,000,000.

(f) On 24 March 2010, pursuant the SSFA entered into between the Company and the Investors, the Company issued an aggregate of 15,879 ordinary shares of HK$0.00001 each to the Investors for a consideration of S$5.25 million (equivalent to RMB25,505,000) ("Subscription Consideration").

All of the shares issued by the Company during the period subsequent to the date of incorporation of the Company rank pari passu with the then existing shares in all respects.

The share capital balance as at 31 December 2007 and 31 December 2008 represented paid in share capital of Global Milk Singapore of S$1 (equivalent to RMB5).

29. RESERVES

	Other paid-in capital	Share premium	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Subscription money received	114,868	—	—	114,868
Loss and total comprehensive expenses for the period from 15 October 2009 (date of incorporation) to 31 December 2009	—	—	(285)	(285)
At 31 December 2009	114,868	—	(285)	114,583
Issue of shares to Mr Zhao	(114,868)	125,000	—	10,132
Issue of shares to Investors	—	127,780	—	127,780
Loss and total comprehensive expenses for the six months ended 30 June 2010	—	—	(5,729)	(5,729)
At 30 June 2010	—	252,780	(6,014)	246,766

30. DEFERRED TAX ASSET/LIABILITIES

The Group

The following are the Group's deferred tax (asset) liabilities recognised and the movements thereon, during the Relevant Periods:

	Temporary difference relating to impairment loss of assets	Fair value adjustments on acquisition	Withholding tax on undistributed dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 8 October 2007, 31 December 2007 and 1 January 2008	—	—	—	—
Additions relating to Daqing Dairy Acquisition (see note 31 (a))	(4,734)	15,826	3,162	14,254
Charge (credit) to profit or loss	4,734	(2,069)	1,928	4,593
At 31 December 2008 and 1 January 2009	—	13,757	5,090	18,847
Charge (credit) to profit or loss	—	(1,412)	6,463	5,051
At 31 December 2009	—	12,345	11,553	23,898
Charge (credit) to profit or loss	—	(477)	—	(477)
At 30 June 2010	—	11,868	11,553	23,421

In accordance to PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to be payable by the Company's PRC operating subsidiaries based on their profits generated from 2008 onwards to "non-resident" investors who do not have an establishment or place of business in the PRC. According to the "Agreement between the Government of the People's Republic of China and the Government of the Republic of Singapore for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income", where the Singapore resident company directly owns at least 25% of the capital of the PRC company, 5% dividend withholding tax rate is applicable.

Pursuant to the resolution of board of Global Milk Singapore, the shareholder of Daqing Dairy, Global Milk Singapore has given an irrevocable undertaking that Global Milk Singapore will not procure Daqing Dairy to remit any dividend out of its profits for the year ending 31 December 2010. Accordingly, the net profit of Daqing Dairy, the Group's principal operating subsidiary, for the year ending 31 December 2010 will be retained and not be distributed. At 30 June 2010, the aggregate amount of temporary difference associated with undistributed earnings of Daqing Dairy for which deferred tax liability has not been recognised was RMB5.2 million. No liability has been recognised in respect of this amount because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will neither reverse nor subject to withholding tax in the foreseeable future.

31. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of 100% equity interest in Daqing Dairy by Global Milk Singapore (the "Daqing Dairy Acquisition")

On 26 December 2007, Global Milk Singapore entered into an equity transfer agreement with 潘曉峰 (Mr Pan Xiao Feng, "Mr Pan"), 徐忠傑 (Mr Xu Zhong Jie, "Mr Xu") and 杜偉 (Mr Du Wei, "Mr Du") (Mr Pan, Mr Xu and Mr Du are hereinafter collectively referred to as "Daqing Dairy Previous Shareholders") whereby Global Milk Singapore acquired from Daqing Dairy Previous Shareholders their entire equity interests in Daqing Dairy for a total considerations of approximately RMB318.78 million. Subsequent to this transaction completed on 25 July 2008, Daqing Dairy became a wholly owned subsidiary of Global Milk Singapore.

Details of net assets acquired relating to the Daqing Dairy Acquisition are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	118,599	17,267	135,866
Intangible assets — trademark	—	15,000	15,000
Prepaid lease payments	6,536	25,164	31,700
Deposits for acquisition of property, plant and equipment	56,367	—	56,367
Deferred tax assets	4,734	—	4,734
Inventories	51,796	5,875	57,671
Trade and other receivables	13,281	—	13,281
Bank balances and cash	93,150	—	93,150
Trade and other payables	(22,254)	—	(22,254)
Obligations under finance lease	(820)	—	(820)
Income tax liabilities	(11,663)	—	(11,663)
Bank borrowings	(30,000)	—	(30,000)
Deferred tax liabilities	—	(18,988)	(18,988)
	279,726	44,318	324,044
Discount on acquisition			(5,268)
Total consideration recorded as payable for the year ended 31 December 2008 and was settled during the year ended 31 December 2009			318,776
Cash inflow/outflow regarding to Daqing Dairy Acquisition:			
— Bank balances and cash acquired during the year ended 31 December 2008			93,150
— Consideration paid during the year ended 31 December 2009			(318,776)

Included in the revenue and profit for the year ended 31 December 2008 are RMB197,369,000 and RMB48,913,000 attributable to the acquired business generated by Daqing Dairy, respectively.

Had the business acquisition been effected at 1 January 2008, the revenue and profit for the year for the Group would have been RMB433,316,000, and RMB117,456,000, respectively. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and result of operations of the Group that would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future result. In determining the 'pro-forma' revenue and profit of the Group had Daqing Dairy been acquired at the beginning of the year ended 31 December 2008, the directors have calculated depreciation of property, plant and equipment, amortisation of intangible assets and release of prepaid lease payments on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(b) **Acquisition of Changqing Dairy by Daqing Dairy (the "Changqing Dairy Acquisition")**

On 16 November 2009, Daqing Dairy entered into an equity transfer agreement with Mr Pan whereby Daqing Dairy acquired from Mr Pan his entire equity interests in Changqing Dairy for a cash payment of RMB10,000,000. Subsequent to this transaction completed on 16 November 2009 ("Changqing Dairy Acquisition Date"), Changqing Dairy became a wholly owned subsidiary of Daqing Dairy.

Details of net assets acquired relating to the Changqing Dairy Acquisition are as follows:

	RMB'000
Property, plant and equipment	226,466
Prepaid lease payments	9,630
Other receivables	1,824
Bank balances and cash	42,908
Other payables	(18,720)
Long-term payable due to Daqing Dairy	(202,489)
Interest payable to Daqing Dairy	(9,619)
Bank borrowings	(40,000)
	10,000
Consideration paid	10,000
Net cash inflow arising from acquisition of Changqing Dairy:	
Bank balances and cash acquired	42,908
Less: Consideration paid	10,000
	32,908

As at Changqing Dairy Acquisition Date, Changqing Dairy had not commenced its business and the production facility was still under construction. As such, the Changqing Dairy Acquisition was regarded as an asset acquisition.

32. NON-CASH TRANSACTIONS

The Group entered into the following significant non-cash investing and financing activities which are not reflected in the consolidated statements of cash flow:

(a) Immediately prior to 28 February 2010, being the maturity date of the loans granted by the Investors under the Investment Agreement, Mr Zhao and one of the Investors ("One Investor") repaid the loans of S$21,000,000 (approximately RMB102,275,000, which is RMB102,018,000 after adjustment of exchange gain) and the 2% processing fee payable of S$420,000 (approximately RMB2,040,000) for and on behalf of the Company (see note 26(d)). Mr Zhao and One Investor repaid S$9,870,000 (approximately RMB47,948,000) and S$11,550,000 (approximately RMB56,110,000), respectively. Accordingly, there are amounts due to Mr Zhao of RMB47,948,000 and One Investor of RMB56,110,000.

(b) Pursuant to the SSFA dated 28 February 2010, the Investors would advance Second Loan of S$15,750,000 (note 26 (d)) and pay Subscription Consideration to subscribe 15,879 ordinary shares at total consideration of S$5,250,000 (note 28 (f)). The Investors charged the Group S$210,000 processing fee in advance which represented portion of 2% on the Second Loan as stated in the SSFA. Accordingly, the total proceeds to be received by the Group under the SSFA would be S$20,790,000.

The One Investor paid the Company a sum of S$9,240,000 (approximately RMB 44,888,000) for itself and on behalf of the other Investors towards the loans under SSFA. Further, the amount of S$11,550,000 (approximately RMB56,110,000) owed to One Investor as described in (a) above was settled by applying this amount towards the remaining Second Loan of S$6,300,000 (after deduction of processing fee of S$210,000) and Subscription Consideration of S$5,250,000.

(c) As described in (a) above, Mr Zhao repaid S$9,870,000 (approximately RMB 47,948,000) on behalf of the Company. RMB10,132,000 are applied to settle subscription money receivable from Mr Zhao. The Company then repaid the remaining RMB37,816,000 to Mr Zhao.

33. RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC Government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme during the Relevant Periods are disclosed in note 11.

34. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

The directors of the Company consider that the following entities are related parties of the Group:

Name of related party

— Mr Zhao CW (note (i) below)
— Dazheng Building (note (i) below)
— Daqing Baixinyuan (note (i) below)
— Dazheng Real Estate (note (ii) below)
— Mr Zhao (note (i) below)
— Mr Xia Yuan Jun (note (iii) below)
— Mr Pan (note (iii) below)
— Jintianran Dairy (note (iii) below)
— Changqing Dairy (note (iii) below)
— Daqing Wanlong (note (iv) below)
— Global Dairy Products (Canada) Inc. ("Global Dairy Canada", note (v) below)

Notes:

i. Mr Zhao CW, an executive director and Chairman of the Company and the father of Mr Zhao (the Chief Executive Officer of the Company), is the executive chairman of Sino Construction Limited ("Sino Construction"). Mr Zhao CW stepped down from the position as chief executive officer of Sino Construction in April 2010. Sino Construction is listed on the Singapore Exchange Securities Trading Limited and Mr Zhao CW indirectly controls more than 30% of the equity interest in Sino Construction. Dazheng Building and Daqing Baixinyuan are wholly owned subsidiaries of Sino Construction.

ii. Mr Zhao CW is the legal representative and the sole director of and directly controls 20% of the equity interest in Dazheng Real Estate.

iii. Mr Xia Yuan Jun, the executive director and Deputy Chief Executive Officer of the Company, directly controlled 30% of the equity interest in Jintianran Dairy prior to 23 December 2008 and Mr Pan, the former executive director of Daqing Dairy, was the executive director and legal representative of Jintianran Dairy between 19 December 2008 and 26 December 2009. Mr Pan was also the sole shareholder and legal person representative of Changqing Dairy from 7 August 2008 (date of establishment) to Changqing Dairy Acquisition Date. Jintianran Dairy ceased to be related party of the Group on 27 December 2009 and accordingly, the Financial Information does not disclose the transactions between the Group and Jintianran Dairy subsequent to 27 December 2009 as related party transactions.

iv. Ms Cao Yan Xia (曹硯霞) and Mr Li Zhan Jun (李戰軍) directly controlled 100% of the equity interest eligible to vote at general meetings of Daqing Wanlong as to 2% and 98%, respectively. Ms Cao Yan Xia is the sister of Madam Cao Yan Ming who is the mother of Mr Zhao, the controlling shareholder, executive director and Chief Executive Officer of the Company, and Mr Li Zhan Jun is Ms Cao Yan Xia's husband.

v. Mr Zhao, the executive Director and Chief Executive Officer of the Company, is a director of Global Dairy Canada and Madam Cao Yan Ming ("Madam Cao"), Mr Zhao's mother, controls all the shares eligible to vote at general meetings of Global Dairy Canada.

(b) **Significant related party transactions**

The Group has the following transactions with related parties during the Relevant Periods:

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of raw materials to:					
— Jintianran Dairy	—	—	17,001	—	—
Sales of scrap materials to:					
— Daqing Baixinyuan	—	—	251	—	—
Loans granted to:					
— Changqing Dairy*	—	150,000	52,489	50,000	—
Interest charged to:					
— Changqing Dairy*	—	1,531	8,088	4,014	—
Purchase property, plant and equipment from:					
— Dazheng Building	—	66,106	10,358	—	—
Purchase of trademark from:					
— Dazheng Real Estate	—	—	200	200	—
Trademark fees charge by:					
— Dazheng Real Estate	—	1,858	—	—	—
Purchase of whole milk powder from:					
— Jintianran Dairy	—	—	33,380	10,000	N/A
Interest-free advance granted by:					
— Daqing Wanlong	—	—	—	—	50,000
Licence fee paid to:					
— Global Dairy Canada **	—	—	—	—	—

* The amounts represent the loans granted to and the related interest charged to Changqing Dairy prior to the Chang Dairy Acquisition.

** During the six months ended 30 June 2010, the Group paid licence fee of HK$1.00 to Global Dairy Canada in respect of the right to use the name of Global Dairy Canada.

(c) **Balances with related parties**

Saved as disclosed in notes 20, 23, 25, 26 and 27 in respect of balances with certain related parties, the Group and the Company has no other outstanding balance with related parties at the end of each reporting period.

(d) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the Relevant Periods were as follows:

	For the period from 8 October 2007 to 31 December 2007	Year ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and allowances	—	128	371	163	264
Retirement benefits scheme contributions	—	6	21	8	11
	—	134	392	171	275

The remuneration of key management is determined with reference to the performance to individuals and market trends.

35. CAPITAL COMMITMENTS

At the end of each reporting period, the Group had the following capital commitments:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:				
— contracted for but not provided in the Financial Information	—	50,906	10,297	9,720

II DIRECTORS EMOLUMENTS

Saved as disclosed in this report, no other remuneration has been paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Relevant Periods.

Under the arrangement currently in force, the aggregate amount of the directors' fees and emoluments for the year ending 31 December 2010 is estimated to be approximately RMB0.8 million.

III. SUBSEQUENT EVENT

Subsequent to 30 June 2010, the following significant event took place:

Capitalisation issue of the Company

Pursuant to the written resolutions of all shareholders entitled to vote at general meetings of the Company, which were passed on 10 October 2010, an amount of approximately HK$7,571.22 standing to the credit of the share premium account of the Company be capitalised and applied to pay up in full at par a total of 757,122,121 new shares for allotment and issue to the shareholders of the Company whose names appear on the register of members of the Company on 9 October 2010 and details of which are set out in the paragraph headed "Further Information about the Group — Written resolutions of our Shareholders passed on 10 October 2010" in Appendix VI "Statutory and General Information" to the Prospectus.

IV. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements of the Company or any of companies now comprising of the Group have been prepared in respect of any period subsequent to 30 June 2010.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company.

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 October 2010

The Directors
Da Qing Dairy Ltd
Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the financial information (the "Daqing Dairy Group Financial Information") relating to 大慶乳品廠有限責任公司 (Da Qing Dairy Ltd, "Daqing Dairy") and its subsidiary, 黑龍江常慶乳業有限責任公司 (Heilongjiang Chang Qing Dairy Products Co., Ltd.#, "Changqing Dairy") (Daqing Dairy and Changqing Dairy are hereinafter collectively referred to as the "Daqing Dairy Group") for the year ended 31 December 2007, the period from 1 January 2008 to 24 July 2008 (the date prior to Daqing Dairy Acquisition (as defined below)), the two years ended 31 December 2009 and the six months ended 30 June 2010 (the three years ended 31 December 2009, the six months ended 30 June 2010 and the period from 1 January 2008 to 24 July 2008 are hereinafter collectively referred to as the "Daqing Dairy Track Record Periods"), for inclusion in the prospectus of Global Dairy Holdings Limited dated 15 October 2010 (the "Prospectus") in connection with the initial listing (the "Listing") of the shares of Global Dairy Holdings Limited on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

大慶市牧工商聯合公司乳品廠 (Daqing City Animal Husbandry Trade Joint Company's dairy factory#, "Daqing Joint Company Dairy Factory"), the predecessor of Daqing Dairy, was established as a state-owned enterprise by 大慶市牧工商聯合公司 (Daqing City Animal Husbandry Trade Joint Company#) on 1 December 1970 as its factory unit in the People's Republic of China (the "PRC"). On 23 October 1984, Daqing Joint Company Dairy Factory was renamed as 大慶乳品廠 (Daqing Dairy Factory#, "Daqing Dairy Factory"). In October 1997, pursuant to the first capital restructuring, Daqing Dairy Factory was converted into a limited liability enterprise with the name of 大慶乳品有限責任公司 (Daqing Dairy Products Co., Ltd#, "Daqing Dairy Products"). In 1998, Daqing Dairy Products underwent a second capital restructuring whereas Daqing Dairy Products was converted into a wholly private-owned limited liabilities enterprise. On 9 March 1999, Daqing Dairy Products changed its name to its current name, 大慶乳品廠有限責任公司 (Da Qing Dairy Ltd). Global Milk Products Pte. Ltd. ("Global Milk Singapore"), the current immediate holding company of Daqing Dairy, entered into an equity transfer agreement dated 26 December 2007 with 潘曉峰 (Mr Pan Xiao Feng, "Mr Pan"), 徐忠傑 (Mr Xu Zhong Jie, "Mr Xu") and 杜偉 (Mr Du Wei, "Mr Du") (Mr Pan, Mr Xu and Mr Du are hereinafter collectively referred to as "Daqing Dairy Previous Shareholders") whereby Global Milk Singapore acquired from Daqing Dairy Previous Shareholders their entire equity interest in Daqing

Dairy, for a total consideration of approximately RMB318.78 million ("Daqing Dairy Acquisition"). Subsequent to this transaction completed on 25 July 2008, Daqing Dairy became a wholly owned subsidiary of Global Milk Singapore. Details of the above are more fully explained in the paragraph headed "History and Development" in the Section "History, Reorganisation and Group Structure" to the Prospectus.

Particulars of Changqing Dairy at the end of each respective reporting period and the date of this report are as follows:

Name of the company	Place and date of establishment	Fully paid registered capital at the date of this report	Attributable equity interest held by Daqing Dairy as at 31 December 2009	30 June 2010	the date of this report	Principal activities
			%	%	%	
Changqing Dairy*	PRC 7 August 2008	RMB10,000,000	100	100	100	Manufacture, marketing and sales of dairy products

* *Private limited liability company.*

The English names are for identification purpose only.

Daqing Dairy and Changqing Dairy have adopted 31 December as their financial year end date.

The statutory financial statements of Daqing Dairy for the three years ended 31 December 2009 and Changqing Dairy for the period from 7 August 2008 (the date of establishment) to 31 December 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 黑龍江方正會計師事務所有限責任公司 (Heilongjiang Fang Zheng CPA Ltd.#), certified public accountants registered in the PRC. No audited financial statements have been prepared for Daqing Dairy and Changqing Dairy for the six months ended 30 June 2010 as there is no such statutory requirement.

For the purposes of this report, the directors of Daqing Dairy have prepared the consolidated financial statements of the Daqing Dairy Group for the Daqing Dairy Track Record Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Daqing Dairy Group Underlying Financial Statements"). We have undertaken an independent audit on the Daqing Dairy Group Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have examined the Daqing Dairy Group Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Daqing Dairy Group Financial Information for the Daqing Dairy Track Record Periods set out in this report has been prepared from the Daqing Dairy Group Underlying Financial Statements. No adjustments are considered necessary to the Daqing Dairy Group Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Daqing Dairy Group Underlying Financial Statements are the responsibility of the directors of Daqing Dairy who approved their issue. The directors of Global Dairy Holdings Limited are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Daqing Dairy Group Financial Information set out in this report from the Daqing Dairy Group Underlying Financial Statements, to form an independent opinion on the Daqing Dairy Group Financial Information, and to report our opinion to you.

In our opinion, the Daqing Dairy Group Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Daqing Dairy Group as at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and 30 June 2010, and of the consolidated results and consolidated cash flows of the Daqing Dairy Group for the year ended 31 December 2007, the period from 1 January 2008 to 24 July 2008, the two years ended 31 December 2009 and the six months ended 30 June 2010.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Daqing Dairy Group for the six months ended 30 June 2009 together with the notes thereon have been extracted from the Daqing Dairy Group's unaudited consolidated financial statements for the same period (the "30 June 2009 Daqing Dairy Group Financial Information") which was prepared by the directors of Daqing Dairy solely for the purpose of this report. We have reviewed the 30 June 2009 Daqing Dairy Group Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 30 June 2009 Daqing Dairy Group Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2009 Daqing Dairy Group Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2009 Daqing Dairy Group Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Daqing Dairy Group Financial Information which conform with IFRSs.

I. DAQING DAIRY GROUP FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	7	305,463	235,947	433,316	510,035	212,192	373,867
Cost of sales		(148,336)	(114,366)	(217,284)	(270,631)	(115,933)	(182,626)
Gross profit		157,127	121,581	216,032	239,404	96,259	191,241
Other gains and losses	8	207	(18,700)	(16,929)	5,601	4,145	71
Selling and distribution expenses		(14,937)	(12,916)	(18,543)	(18,934)	(6,268)	(20,297)
Administrative expenses		(10,466)	(8,775)	(16,890)	(17,047)	(8,067)	(10,921)
Finance costs	9	(142)	(410)	(1,833)	(9,025)	(3,772)	(3,115)
Profit before taxation	10	131,789	80,780	161,837	199,999	82,297	156,979
Income tax expenses	12	(47,085)	(24,729)	(48,736)	(56,849)	(22,919)	(41,441)
Profit and total comprehensive income for the year/period		84,704	56,051	113,101	143,150	59,378	115,538

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS						
Property, plant and equipment	14	139,659	118,599	190,366	528,912	524,014
Prepaid lease payments	15	6,480	6,401	6,345	15,648	15,580
Intangible asset	16	—	—	—	180	170
Deposits for acquisition of property, plant and equipment	17	261	56,367	586	3,135	—
Loan receivable	18	—	—	150,000	—	—
Deferred tax asset	19	—	4,734	—	—	—
		146,400	186,101	347,297	547,875	539,764
CURRENT ASSETS						
Inventories	20	49,378	51,796	47,908	24,449	21,050
Trade and other receivables	21	20,947	13,281	12,069	24,205	11,164
Prepaid lease payments	15	135	135	135	327	327
Bank balances and cash	22	49,867	93,150	68,499	182,008	312,047
		120,327	158,362	128,611	230,989	344,588
CURRENT LIABILITIES						
Trade and other payables	23	18,646	22,254	58,627	66,247	136,987
Obligations under finance lease	24	1,927	820	—	—	—
Income tax liabilities		22,479	11,663	20,505	32,691	51,901
Bank borrowings	25	—	30,000	60,000	200,000	—
		43,052	64,737	139,132	298,938	188,888
NET CURRENT ASSETS (LIABILITIES)		77,275	93,625	(10,521)	(67,949)	155,700
TOTAL ASSETS LESS CURRENT LIABILITIES		223,675	279,726	336,776	479,926	695,464
CAPITAL AND RESERVES						
Paid-in capital	26	120,000	120,000	120,000	120,000	120,000
Reserves		103,675	159,726	216,776	359,926	475,464
TOTAL EQUITY		223,675	279,726	336,776	479,926	595,464
NON-CURRENT LIABILITY						
Borrowings	25	—	—	—	—	100,000
		223,675	279,726	336,776	479,926	695,464

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	Capital reserve	Statutory surplus reserve	Retained earnings/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000 (note (i) below)	RMB'000	RMB'000
For each of the three years ended 31 December 2009 and the six months ended 30 June 2010					
At 1 January 2007	17,310	—	—	(28,848)	(11,538)
Profit and total comprehensive income for the year	—	—	—	84,704	84,704
Capital injection by Daqing Dairy Previous Shareholders	102,690	9,826	—	—	112,516
Waiver of advances granted by Mr Cao, a former equity owner of Daqing Dairy (note (ii) below)	—	37,993	—	—	37,993
Transfer	—	—	5,586	(5,586)	—
At 31 December 2007 and 1 January 2008	120,000	47,819	5,586	50,270	223,675
Profit and total comprehensive income for the year	—	—	—	113,101	113,101
Transfer	—	—	11,310	(11,310)	—
At 31 December 2008 and 1 January 2009	120,000	47,819	16,896	152,061	336,776
Profit and total comprehensive income for the year	—	—	—	143,150	143,150
Transfer	—	—	14,362	(14,362)	—
At 31 December 2009	120,000	47,819	31,258	280,849	479,926
Profit and total comprehensive income for the period	—	—	—	115,538	115,538
At 30 June 2010	120,000	47,819	31,258	396,387	595,464

	Paid-in capital	Capital reserve	Statutory surplus reserve	Retained earnings/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000 (note (i) below)	RMB'000	RMB'000
For the period from 1 January 2008 to 24 July 2008					
At 1 January 2008	120,000	47,819	5,586	50,270	223,675
Profit and total comprehensive income for the period	—	—	—	56,051	56,051
At 24 July 2008	120,000	47,819	5,586	106,321	279,726
For the period from 1 January 2009 to 30 June 2009 (unaudited)					
At 1 January 2009	120,000	47,819	16,896	152,061	336,776
Total comprehensive income for the period	—	—	—	59,378	59,378
At 30 June 2009	120,000	47,819	16,896	211,439	396,154

Notes:

i. *Statutory surplus reserve*

As stipulated by the relevant laws and regulations for enterprises in the PRC, Daqing Dairy and Changqing Dairy are required to maintain a statutory surplus reserve fund which is non-distributable. The appropriation to such reserve is made out of net profit after taxation of the statutory financial statements of Daqing Dairy and Changqing Dairy. The statutory surplus reserve fund can be used to make up prior year/period losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

ii. *Waiver of advances granted by a former equity owner of Daqing Dairy*

The amount represents waiver of advances granted by a former equity owner of Daqing Dairy during the year ended 31 December 2007.

D. CONSOLIDATED STATEMENTS OF CASH FLOW

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES						
Profit before taxation	131,789	80,780	161,837	199,999	82,297	156,979
Adjustments for:						
Finance costs	142	410	1,833	9,025	3,772	3,115
Interest income	(207)	(236)	(2,007)	(8,490)	(4,166)	(231)
Depreciation of property, plant and equipment	7,265	5,389	10,859	15,688	6,957	11,859
Impairment loss of property, plant and equipment	—	18,936	18,936	—	—	—
Release of prepaid lease payments	101	79	135	135	68	68
Amortisation of intangible asset	—	—	—	20	10	10
Losses on disposals of property, plant and equipment	—	—	—	250	21	160
Operating cash flows before movements in working capital	139,090	105,358	191,593	216,627	88,959	171,960
(Increase) decrease in inventories	(40,979)	(2,418)	1,470	23,459	(6,086)	3,399
(Increase) decrease in trade and other receivables	(5,222)	7,667	10,410	(11,843)	(32,767)	13,041
Increase (decrease) in trade and other payables	14,542	3,607	4,074	13,239	(5,385)	22,069
Cash generated from operations	107,431	114,214	207,547	241,482	44,723	210,469
Income tax paid	(24,606)	(40,279)	(50,710)	(44,663)	(16,432)	(22,231)
Interest paid	(142)	(410)	(1,833)	(9,025)	(3,772)	(3,115)
NET CASH FROM OPERATING ACTIVITIES	82,683	73,525	155,004	187,794	24,517	185,123

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
INVESTING ACTIVITIES						
Interest received	207	236	476	402	152	231
Proceeds on disposals of property, plant and equipment	—	—	6,187	191	73	165
Purchase of property, plant and equipment	(61,291)	(59,371)	(81,108)	(125,297)	(41,495)	(5,480)
Amount advanced to Changqing Dairy	—	—	(150,000)	(52,489)	(50,000)	—
Net cash inflow relating to Changqing Dairy Acquisition (see note 28)	—	—	—	32,908	—	—
NET CASH USED IN INVESTING ACTIVITIES	(61,084)	(59,135)	(224,445)	(144,285)	(91,270)	(5,084)
FINANCNG ACTIVITIES						
Capital injected by Daqing Dairy Previous Shareholders	33,700	—	—	—	—	—
Bank borrowings raised	—	30,000	70,000	160,000	130,000	100,000
Amount advanced from (repaid to) a third party	—	—	30,000	(30,000)	(30,000)	—
Amount advanced from a related party	—	—	—	—	—	50,000
Repayments of bank borrowings	(6,000)	—	(10,000)	(60,000)	(30,000)	(200,000)
Repayments of obligations under finance lease	(1,373)	(1,107)	(1,927)	—	—	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	26,327	28,893	88,073	70,000	70,000	(50,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	47,926	43,283	18,632	113,509	3,247	130,039
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	1,941	49,867	49,867	68,499	68,499	182,008
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash	49,867	93,150	68,499	182,008	71,746	312,047

E. NOTES TO DAQING DAIRY GROUP FINANCIAL INFORMATION

1. GENERAL

Daqing Dairy is a private limited company incorporated in the PRC.

Both the addresses of the registered office and the principal place of business of Daqing Dairy is 18 Kilometer An Sa Road, Gaoxin District, Daqing City, Heilongjiang Province, PRC.

The Daqing Dairy Group Financial Information of the Daqing Dairy Group is presented in Renminbi ("RMB"), the currency of the primary economic environment in which Daqing Dairy and Changqing Dairy operate (the functional currency of Daqing Dairy and Changqing Dairy).

The Daqing Dairy Group is mainly engaged in the manufacture, marketing and sales of dairy products.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting the Daqing Dairy Group Financial Information of the Daqing Dairy Group for the Daqing Dairy Track Record Periods, the Daqing Dairy Group has consistently adopted the International Accounting Standards ("IASs") and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are effective for the Daqing Dairy Group's financial year beginning on 1 January 2010 throughout the Daqing Dairy Track Record Periods, except as described below:

IFRS 3 (2008) "*Business Combinations"* has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. IFRS 3 (2004) "*Business Combinations"* has been applied to business combinations for which the acquisition date is before 1 January 2010.

IAS 27 (2008) "*Consolidated and Separate Financial Statements"* has been applied consistently throughout the Daqing Dairy Track Record Periods with the following exceptions which have been applied prospectively from 1 January 2010:

(i) total comprehensive income is attributed to the owners of the Company and non-controlling interests even if this results in the non-controlling interests having a deficit balance; and

(ii) changes of the Daqing Dairy Group's ownership interest in a subsidiary are accounted for as equity transactions.

Other IFRSs have been applied consistently throughout the Daqing Dairy Track Record Periods.

At the date of this report, IASB has issued the following new and revised standards, amendments or interpretations which are not yet effective. The Daqing Dairy Group has not early adopted these standards, amendments or interpretations in the preparation of the Daqing Dairy Group Financial Information for the Daqing Dairy Track Record Periods.

IFRSs (Amendments)	Improvements to HKFRSs 2010[1]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendment)	Classification of Rights Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
IFRS 9	Financial Instruments[5]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

2 Effective for annual periods beginning on or after 1 February 2010

3 Effective for annual periods beginning on or after 1 July 2010

4 Effective for annual periods beginning on or after 1 January 2011

5 Effective for annual periods beginning on or after 1 January 2013

The directors of Daqing Dairy anticipate that the application of the above new or revised standards and interpretations will have no material impact on the Daqing Dairy Group Financial Information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Daqing Dairy Group Financial Information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The Daqing Dairy Group Financial Information has been prepared in accordance with the following accounting policies which conform to IFRSs issued by the IASB. These policies have been consistently applied throughout the Daqing Dairy Track Record Periods. In addition, the Daqing Dairy Group Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The Daqing Dairy Group Financial Information incorporated the financial statements of Daqing Dairy and the entity controlled by Daqing Dairy (its subsidiary). Control is achieved where Daqing Dairy has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiary acquired or disposed of during the Daqing Dairy Track Record Periods 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 subsidiary to bring their accounting policies into line with those used by the Daqing Dairy Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

Business combinations prior to 1 January 2010

The acquisitions of businesses under business combination are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Daqing Dairy Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Daqing Dairy Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Daqing Dairy Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step.

Business combinations on or after 1 January 2010

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 Daqing Dairy Group, liabilities incurred by the Daqing Dairy Group to former owners of the acquiree and the equity interests issued by the Daqing Dairy Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised 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 Daqing Dairy 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 that Standard.

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 Daqing Dairy 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 recognised immediately in profit or loss as a bargain purchase gain.

Where a business combination is achieved in stages, the Daqing Dairy Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Daqing Dairy Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Daqing Dairy 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 discounts and sales related taxes.

Revenue from sale of goods is recognised when goods are delivered and title has 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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 Daqing Dairy Group as lessee

Assets held under finance leases are recognised as assets of the entity at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised immediately to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Daqing Dairy Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of Daqing Dairy and Changqing Dairy, transactions in currencies other than the functional currency of the entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 retranslated at the rates prevailing at that date. 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 included in profit or loss in the year/period in which they arise.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. 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 years and it further excludes items that are never taxable or deductible. The Daqing Dairy Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Daqing Dairy Group Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. 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 recognised for taxable temporary differences associated with investments in subsidiaries, except where the Daqing Dairy 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year/period in which the liability is settled or the asset realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Daqing Dairy Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Borrowing costs

Borrowing costs directly attributable 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 costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year/period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Property, plant and equipment

Property, plant and equipment, 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 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 represents 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 recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised 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 recognised in profit or loss in the year/period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represent payments for leasehold land and are released over the lease terms on a straight-line basis. Prepaid lease payments which are to be released in the next twelve months or less are classified as current assets.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- how the intangible asset will generate probable future economic benefits.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment of tangible assets and intangible assets

At the end of each reporting period, the Daqing Dairy Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 recognised as an expense immediately.

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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Daqing Dairy Group's financial assets are classified into loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised 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 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 recognised on an effective interest basis for debt instruments.

Impairment of financial assets

Loans and receivables 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 the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted. The 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-organisation.

For certain categories of financial asset, such as trade receivables, assets 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 Daqing Dairy Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised 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 recognised 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 losses was recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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 Daqing Dairy Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments 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 recognised on an effective interest basis and is included in finance costs.

Financial liabilities

Financial liabilities (including bank borrowings, trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Daqing Dairy Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Daqing Dairy 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 recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCE OF ESTIMATION

In the application of the Daqing Dairy Group's accounting policies, which are described in note 3, the directors of Daqing Dairy are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year/period in which the estimate is revised if the revision affects only that period, or in the year/period of the revision and future periods if the revision affects both current and future periods.

The following are the 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:

(a) Estimated impairment of inventories

The Daqing Dairy Group assesses periodically if the inventories have been suffered from any impairment in accordance with the accounting policy stated in note 3.

The identification of impairment of inventories requires the use of judgment and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and impairment loss in the year/period in which such estimate has been changed. The directors of Daqing Dairy are satisfied that this risk is minimal and no allowance for obsolete and slow moving inventories was provided during the Daqing Dairy Track Record Periods.

(b) **Estimated impairment of trade and other receivables**

As explained in note 3, trade and other receivables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The identification of bad and doubtful debts requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the year/period in which such estimate has been changed. The directors of Daqing Dairy are satisfied that this risk is minimal and no allowance for doubtful debts was provided during the Daqing Dairy Track Record Periods.

(c) **Useful life and residual value of property, plant and equipment**

The management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions and may vary significantly as a result of technical innovation and keen competition from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

5. CAPITAL RISK MANAGEMENT

The Daqing Dairy Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Daqing Dairy Group's overall strategy remains unchanged during the Daqing Dairy Track Record Periods.

The capital structure of the Daqing Dairy Group consists of net debts, which includes bank borrowings and obligations under finance lease, cash and cash equivalents and equity, comprising paid-in capital, reserves and retained earnings.

The directors of Daqing Dairy review the capital structure regularly. The Daqing Dairy Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through capital injection as well as the issue of new debts or the redemption of existing debts.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:					
Loans and receivables (including cash and cash equivalents)	64,413	105,084	229,777	195,581	321,803
Financial liabilities:					
Liabilities measured at amortised costs	10,146	37,950	99,712	235,935	188,948

(b) Financial risk management objectives and polices

The Daqing Dairy Group's major financial instruments include trade and other receivables, loan receivable, trade and other payables, bank borrowings, obligations under finance lease and bank balances and cash. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The directors of Daqing Dairy manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Daqing Dairy Group's overall strategy remains unchanged during the Daqing Dairy Track Record Periods.

(c) Market risk

The Daqing Dairy Group's activities expose it primarily to the market risks including interest rate risk (note 6 (d)) and foreign currency risk (note 6 (e)). There has been no change to the Daqing Dairy Group's exposure to these market risks or the manner in which it manages and measures the risks during the Daqing Dairy Track Record Periods.

(d) Interest rate risk management

The fair value interest rate risk of the Daqing Dairy Group relates primarily to fixed rate bank borrowings. The Daqing Dairy 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 arise.

The Daqing Dairy Group's cash flow interest rate risk relates primarily to variable rate bank balances and loan receivable. The directors of Daqing Dairy consider that the Daqing Dairy Group is not exposed to significant interest rate risks attributable to variable rate bank balances and thus, no sensitivity analysis to interest rate risk is presented.

(e) **Foreign currency risk management**

All of the Daqing Dairy Group's transactions are dominated in RMB (the functional currency of the Daqing Dairy Group) and thus, the directors of Daqing Dairy consider that Daqing Dairy Group is not exposed to significant foreign currency risk. Hence, no sensitivity analysis to foreign currency risk is presented.

(f) **Credit risk management**

The Daqing Dairy Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and 30 June 2010 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the respective consolidated statement of financial position.

In order to minimise the credit risk, the directors of Daqing Dairy have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of Daqing Dairy review the recoverability of each trade debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Daqing Dairy consider that the Daqing Dairy Group's credit risk is significantly reduced.

The Daqing Dairy Group has concentration of credit risk as the Daqing Dairy Group's trade receivables as at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and 30 June 2010 of approximately RMB7,248,000, RMB6,303,000, RMB7,035,000, RMB8,974,000 and RMB 9,037,000, respectively, representing 64%, 63%, 73%, 70% and 96% of total trade receivables, respectively, were derived from five major customers. In order to minimise the credit risk, the directors of Daqing Dairy continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts. The Daqing Dairy Group has no significant concentration of credit risk on the remaining trade receivables, with exposure spread over a number of counterparties and customers.

The Daqing Dairy Group has concentration of credit risk on liquid funds which are deposited mainly with several banks in the PRC. However, the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation or banks with good credit rating assigned by international credit-rating agencies and with good reputation.

(g) **Liquidity risk management**

Ultimate responsibility for liquidity risk rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Daqing Dairy Group's short, medium and long-term funding and liquidity management requirements. The Daqing Dairy Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The following tables detail the Daqing Dairy Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and 30 June 2010.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Daqing Dairy Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities							
As at 31 December 2007							
Trade and other payables		8,219	—	—	—	8,219	8,219
Obligations under finance lease	3.5	504	1,546	—	—	2,050	1,927
		8,723	1,546	—	—	10,269	10,146
As at 24 July 2008							
Trade and other payables		7,130	—	—	—	7,130	7,130
Obligations under finance lease	3.5	504	353	—	—	857	820
Fixed interest rates borrowings	7.5	—	31,707	—	—	31,707	30,000
		7,634	32,060	—	—	39,694	37,950
As at 31 December 2008							
Trade and other payables		39,712	—	—	—	39,712	39,712
Fixed interest rates borrowings	7.2	—	62,439	—	—	62,439	60,000
		39,712	62,439	—	—	102,151	99,712

	Weighted average interest rate	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2009							
Trade and other payables		35,935	—	—	—	35,935	35,935
Fixed interest rates borrowings	5.6	100,291	103,636	—	—	203,927	200,000
		136,226	103,636	—	—	239,862	235,935
As at 30 June 2010							
Trade and other payables		88,948	—	—	—	88,948	88,948
Fixed interest rates borrowings	5.3	1,338	3,972	5,310	104,856	115,476	100,000
		90,286	3,972	5,310	104,856	204,424	188,948

(h) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transaction as input.

The directors of Daqing Dairy consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Daqing Dairy Group Financial Information approximate their fair values at the end of each reporting period.

7. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the net amounts received and receivable for sales of goods to customers during the Daqing Dairy Track Record Periods.

(b) **Segment information**

The Daqing Dairy Group operates and manages its business as a single segment that includes primarily the manufacture and sales of milk powder products. The Daqing Dairy Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the profit of the Daqing Dairy Group for the year/period when making decisions about allocating resources and assessing performance of the Daqing Dairy Group. As no other discrete financial information is available for assessment of performance of different products, no segment information is presented.

Information about products

Analysis of revenue

The following table sets forth a breakdown of the Daqing Dairy Group's revenue by major products during the Daqing Dairy Track Record Periods:

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue from:						
Sales of milk powder products						
- whole milk	83,604	28,689	65,034	61,671	32,063	26,100
- formula milk	221,859	207,258	366,482	431,605	173,022	335,508
	305,463	235,947	431,516	493,276	205,085	361,608
Sales of ice cream products	—	—	1,800	16,759	7,107	12,259
	305,463	235,947	433,316	510,035	212,192	373,867

Information about geographical areas

All of the Daqing Dairy Group's revenue is derived from customers based in the PRC and all of the Daqing Dairy Group's identifiable assets are also located in the PRC and thus, no geographical information has been presented.

Information about major customers

The following table sets forth a breakdown of the Daqing Dairy Group's customer of the corresponding year/period contributing over 10% of the Daqing Dairy Group's total revenue:

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December		Six months ended 30 June	
			2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Customer A	41,376	*	*	*	*	*

* *Less than 10%*

8. OTHER GAINS AND LOSSES

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Other gains and losses comprise:						
Interest income from:						
— Changqing Dairy (see note 30 (a) and note 30 (b))	—	—	1,531	8,088	4,014	—
— Others	207	236	476	402	152	231
	207	236	2,007	8,490	4,166	231
Loss on disposals of property, plant and equipment	—	—	—	(250)	(21)	(160)
Impairment loss of property, plant and equipment	—	(18,936)	(18,936)	—	—	—
Loss on sales of raw materials to 黑龍江金天然乳業有限責任公司 (Heilongjiang Jintianran Dairy Co., Ltd.#, "Jintianran Dairy"), a related company (see note 30 (a) and note 30 (b))	—	—	—	(2,890)	—	—
Gain on sales of scarp materials to 大慶市百信源商品混凝土有限公司 (Daqing City Baixinyuan Concrete Products Co., Ltd.#, "Daqing Baixinyuan"), a related company (see note 30 (a) and note 30 (b))	—	—	—	251	—	—
	207	(18,700)	(16,929)	5,601	4,145	71

The English names are for identification purpose only.

9. FINANCE COSTS

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Finance costs comprise:						
Interest on:						
— Bank borrowings	31	324	1,710	9,025	3,772	3,115
— Finance lease	111	86	123	—	—	—
	142	410	1,833	9,025	3,772	3,115

10. PROFIT BEFORE TAXATION

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation has been arrived at after charging:						
Staff cost (including directors):						
— Salaries and wages	2,850	3,334	6,329	7,865	4,099	4,708
— Retirement benefit scheme contributions	336	372	592	568	279	343
	3,186	3,706	6,921	8,433	4,378	5,051
Depreciation and amortisation:						
— Property, plant and equipment	7,265	5,389	10,859	15,688	6,957	11,859
— Intangible asset	—	—	—	20	10	10
	7,265	5,389	10,859	15,708	6,967	11,869
Release of prepaid lease payments	101	79	135	135	68	68
Cost of inventories recognised as an expense	148,336	114,366	217,284	270,631	115,933	182,626
Research and development expenses	36	34	74	104	49	58
Auditors' remuneration	50	25	50	100	100	200
Trademark fee charged by 大慶市大正房地產開發有限公司 (Daqing City Dazheng Real Estate Development Co., Ltd.#, "Dazheng Real Estate"), a related party (see note 30 (a) and note 30 (b))	4,425	4,068	5,926	—	—	—

The English names are for identification purpose only.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of the emoluments paid to directors of Daqing Dairy during the Daqing Dairy Track Record Periods are as follows:

	Year ended 31 December 2007			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
— Mr Pan	—	—	56	56
— 胡明 (Mr Hu Ming, "Mr Hu")	—	—	45	45
— 曹學儉 (Mr Cao Xue Jian, "Mr Cao")	—	—	—	—
— 王興才 (Mr Wang Xing Cai)	—	—	—	—
— 楊學軍 (Mr Yang Xue Jun)	—	—	—	—
— 周英才 (Mr Zhou Ying Cai)	—	—	—	—
— 李志富 (Mr Li Zhi Fu)	—	—	—	—
— 崔國新 (Mr Cui Guo Xin)	—	—	—	—
	—	—	101	101

	For the period from 1 January 2008 to 24 July 2008			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive director:				
— Mr Pan	—	—	49	49

	Year ended 31 December 2008			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive director:				
— Mr Pan	—	1	84	85

	Year ended 31 December 2009			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
— Mr Pan	—	3	85	88
— Mr Zhao	—	—	—	—
	—	3	85	88

	Six months ended 30 June 2010			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive director:				
— Mr Zhao	—	1	55	56

	Six months ended 30 June 2009 (unaudited)			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive director:				
— Mr Pan	—	1	43	44

During the Daqing Dairy Track Record Periods, no remuneration was paid by the Daqing Dairy Group to the directors of Daqing Dairy as an inducement to join or upon joining the Daqing Dairy Group or as compensation for loss of office. None of the directors has waived any remuneration during the Daqing Dairy Track Record Periods.

(b) **Employees' emoluments**

Of the five individuals with the highest emoluments in the Daqing Dairy Group, 2, 1, 1, 1, 1 and 1 were directors of Daqing Dairy during the year ended 31 December 2007, the period from 1 January 2008 to 24 July 2008, the year ended 31 December 2008 and 31 December 2009 and the six months ended 30 June 2009 and 30 June 2010, respectively, details of whose emoluments are included in the disclosures above.

The emoluments of the remaining 3, 4, 4, 4, 4 and 4 individuals during the year ended 31 December 2007, the period from 1 January 2008 to 24 July 2008, the year ended 31 December 2008 and 31 December 2009 and the six months ended 30 June 2009 and 30 June 2010, respectively, were as follows:

	Year ended 31 December	For the period from 1 January 2008 to 24 July	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Salaries and allowances	101	116	209	218	111	173
Performance related bonus	—	—	—	—	—	—
Retirement benefit scheme contributions	1	5	9	11	5	5
	102	121	218	229	116	178

The emoluments of each of the five highest paid individuals (others than directors) during these years/periods were within HK$1,000,000.

During the Daqing Dairy Track Record Periods, no remuneration was paid by the Daqing Dairy Group to any of the five individuals with the highest emoluments in the Daqing Dairy Group as an inducement to join or upon joining the Daqing Dairy Group or as compensation for loss of office.

12. INCOME TAX EXPENSES

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Income tax expenses comprise:						
Current PRC enterprise income tax	47,085	29,463	48,736	56,849	22,919	41,441
Deferred taxation	—	(4,734)	—	—	—	—
	47,085	24,729	48,736	56,849	22,919	41,441

The Daqing Dairy Group is subject to PRC Enterprise Income Tax at the following statutory tax rates:

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2010
	%	%	%	%	%
Daqing Dairy	33	25	25	25	25
Changqing Dairy	N/A	N/A	N/A	25	25

The income tax expenses during the Daqing Dairy Track Record Periods can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	131,789	80,780	161,837	199,999	82,297	156,979
Tax at the PRC enterprise income tax rate	43,490	20,195	40,459	50,000	20,574	39,245
Effect of sales rebates (note below) and other expenses that are not deductible for tax purposes	3,595	4,534	8,126	6,647	2,345	685
Effect of unrecognised deductible losses and deductible temporary differences for tax purposes	—	—	151	202	—	1,511
	47,085	24,729	48,736	56,849	22,919	41,441

Note:

Pursuant to the relevant laws and regulations in the PRC, during the three years ended 31 December 2009, certain sales rebates payable to customers are non-deductible for tax purpose as the Daqing Dairy Group did not obtain the relevant tax deduction documents from its customers. The PRC Legal advisers of Global Dairy Holdings Limited represented that the sales rebate arrangement is legal and valid in accordance with the law and regulations in the PRC. The directors of Daqing Dairy represented that in view of a substantial number of customers involved, it was not practicable and the cost would be out of benefit for the Daqing Dairy Group to obtain such tax deduction documents from the customers. As such, the related amounts have been accounted for as non-deductible item for tax purpose.

13. DIVIDENDS

No dividend has been paid or proposed by Daqing Dairy during the Daqing Dairy Track Record Periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the three years ended 31 December 2009 and the six months ended 30 June 2010						
COST						
At 1 January 2007	15,924	20,027	375	297	—	36,623
Additions	—	72,937	746	3,466	59,281	136,430
At 31 December 2007 and 1 January 2008	15,924	92,964	1,121	3,763	59,281	173,053
Additions	—	2,999	691	2,522	80,477	86,689
Transfer	95,403	26,248	—	—	(121,651)	—
Disposals	(6,551)	(39,051)	(150)	(10)	—	(45,762)
At 31 December 2008 and 1 January 2009	104,776	83,160	1,662	6,275	18,107	213,980
Additions relating to Changqing Dairy Acquisition (note 28)	—	—	—	301	226,165	226,466
Additions	—	66,070	3,141	3,530	55,468	128,209
Transfer	47,654	3,946	—	—	(51,600)	—
Disposals	(337)	(1,836)	(51)	—	—	(2,224)
At 31 December 2009	152,093	151,340	4,752	10,106	248,140	566,431
Additions	—	1,837	1,834	889	2,726	7,286
Transfer	9,788	10,278	1,855	60	(21,981)	—
Disposals	(325)	—	—	(441)	—	(766)
At 30 June 2010	161,556	163,455	8,441	10,614	228,885	572,951
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2007	11,687	14,059	260	123	—	26,129
Provided for the year	626	6,280	61	298	—	7,265
At 31 December 2007 and 1 January 2008	12,313	20,339	321	421	—	33,394
Provided for the year	1,904	8,174	204	577	—	10,859
Impairment loss	1,054	17,882	—	—	—	18,936
Eliminated on disposals	(6,598)	(32,857)	(111)	(9)	—	(39,575)

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2008 and 1 January 2009	8,673	13,538	414	989	—	23,614
Provided for the year	5,791	8,538	423	936	—	15,688
Eliminated on disposals	(285)	(1,470)	(28)	—	—	(1,783)
At 31 December 2009	14,179	20,606	809	1,925	—	37,519
Provided for the period	3,523	7,121	533	682	—	11,859
Eliminated on disposals	(305)	—	—	(136)	—	(441)
At 30 June 2010	17,397	27,727	1,342	2,471	—	48,937
For the period from 1 January 2008 to 24 July 2008						
COST						
At 1 January 2008	15,924	92,964	1,121	3,763	59,281	173,053
Additions during the period	—	1,130	113	2,022	—	3,265
At 24 July 2008	15,924	94,094	1,234	5,785	59,281	176,318
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2008	12,313	20,339	321	421	—	33,394
Provided for the period	312	4,685	108	284	—	5,389
Impairment loss	1,054	17,882	—	—	—	18,936
At 24 July 2008	13,679	42,906	429	705	—	57,719
CARRYING VALUES						
At 31 December 2007	3,611	72,625	800	3,342	59,281	139,659
At 24 July 2008	2,245	51,188	805	5,080	59,281	118,599
At 31 December 2008	96,103	69,622	1,248	5,286	18,107	190,366
At 31 December 2009	137,914	130,734	3,943	8,181	248,140	528,912
At 30 June 2010	144,159	135,728	7,099	8,143	228,885	524,014

The above items of property, plant and equipment, other than construction in progress, after taking into account of their estimate residual values, are depreciated on a straight-line basis at the following rates per annum:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	8 years

The buildings shown above are situated on land use rights in the PRC which are held by the Daqing Dairy Group under medium-term lease.

As at 31 December 2008 and 31 December 2009, the Daqing Dairy Group pledged its property, plant and equipment with a net book value of RMB64,235,000 and RMB43,192,000, respectively to banks to secure banking facilities granted to the Daqing Dairy Group.

15. PREPAID LEASE PAYMENTS

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Analysed for reporting purpose as:					
- Non-current assets	6,480	6,401	6,345	15,648	15,580
- Current assets	135	135	135	327	327
	6,615	6,536	6,480	15,975	15,907

The amounts represent land use rights in respect of land situated in the PRC and held under medium-term leases. Land use rights are released on a straight-line basis over the relevant terms of the land use rights certificate.

As at 31 December 2008 and 31 December 2009, the Daqing Dairy Group pledged its land use right with a net book value of RMB6,480,000 and RMB9,630,000, respectively to banks to secure banking facilities granted to the Daqing Dairy Group.

16. INTANGIBLE ASSET

	Trademark
	RMB'000
COST	
At 1 January 2007, 31 December 2007, 24 July 2008 and 31 December 2008	—
Acquired from Dazheng Real Estate, a related company (see note 30 (a) and note 30 (b)) during the year	200
At 31 December 2009 and 30 June 2010	200
ACCUMULATED AMORTISATION	
At 1 January 2007, 31 December 2007, 24 July 2008 and 31 December 2008	—
Amortised for the year	20
At 31 December 2009	20
Amortised for the period	10
At 30 June 2010	30
CARRYING VALUES	
At 31 December 2007, 24 July 2008 and 31 December 2008	—
At 31 December 2009	180
At 30 June 2010	170

The amount was amortised on a straight-line basis over a period of 10 years.

17. DEPOSITS FOR ACQUIISITION OF PROPERTY, PLANT AND EQUIPMENT

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deposits paid to:					
大慶市大正建築安裝有限公司 (Daqing City Dazheng Building Installation Co., Ltd. #, "Dazheng Building"), a related company (see note 30 (a))	—	56,260	—	—	—
Others	261	107	586	3,135	—
	261	56,367	586	3,135	—

The English name is for identification purpose only.

The amounts represented deposits paid for the construction of property, plant and equipment.

18. LOAN RECEIVABLE

The amount represented loan granted to Changqing Dairy which was unsecured, carried interest at market rates which were 6.2% and 5.3% per annum for the year ended 31 December 2008 and for the period from 1 January 2009 to 15 November 2009, respectively and the amount is fully repayable by 31 October 2011. The amount has been eliminated upon Changqing Dairy Acquisition (see note 28).

19. DEFERRED TAX ASSET

The following is deferred tax asset recognised in respect of temporary difference relating to impairment loss of property, plant and equipment and the movements thereon during the Daqing Dairy Track Record Periods:

	Amount
	RMB'000
At 1 January 2007, 31 December 2007 and 1 January 2008	—
Credit to profit or loss	4,734
At 24 July 2008	4,734
Charge to profit or loss	(4,734)
At 31 December 2008, 31 December 2009 and 30 June 2010	—

20. INVENTORIES

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	29,116	29,579	27,136	8,907	12,362
Finished goods	20,262	22,217	20,772	15,542	8,688
	49,378	51,796	47,908	24,449	21,050

21. TRADE AND OTHER RECEIVABLES

	Notes	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	a	11,250	9,965	9,600	12,853	9,370
Advances to suppliers	b	4,105	1,347	791	3,926	1,408
Interest receivable from Changqing Dairy (see note 30 (a))	c	—	—	1,531	—	—
Prepayments		2,296	—	—	6,706	—
Amount due from Daqing Baixinyuan (see note 30 (a))	d	—	—	—	251	251
Others		3,296	1,969	147	469	135
		20,947	13,281	12,069	24,205	11,164

Notes:

(a) **Trade receivables**

The trade receivables as at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and 30 June 2010 comprise amounts receivable from the sales of goods. .

No interest is charged on the trade receivables.

Before accepting any new customer, the Daqing Dairy Group gathers and assesses the credit information of the potential customer in considering the customers' quality and determining the credit limits for that customer.

The Daqing Dairy Group generally allows an average credit period of 30 days to its trade customers. The aged analysis of the Daqing Dairy Group's trade receivables presented based on invoice date as at the end of each of the reporting period is as follows:

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	10,620	9,775	8,654	12,804	9,341
Over 30 days but within one year	630	190	863	49	29
Over one year	—	—	83	—	—
	11,250	9,965	9,600	12,853	9,370

Aging of trade receivables which are past due but not impaired are as follows:

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Over 30 days but within one year	630	190	863	49	29
Over one year	—	—	83	—	—
	630	190	946	49	29

The Daqing Dairy Group did not provide any allowance on the remaining past due receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Daqing Dairy Group does not hold any collateral over these balances.

(b) **Advances to suppliers**

The amounts mainly comprise deposits for purchase of raw materials. As at 31 December 2009, out of the Daqing Dairy Group's total outstanding balance of RMB3,926,000, an amount of RMB1,646,000 represents an advance to Jintianran Dairy, respectively (see note 30 (a)).

(c) **Interest receivable from Changqing Dairy**

The amount represented interest receivable related to the loan granted to Changqing Dairy (see note 18) which has been waived upon the Changqing Dairy Acquisition (see note 28).

(d) **Amount due from Daqing Baixinyuan**

The amount is unsecured, interest-free and repayable on demand.

22. BANK BALANCES AND CASH

The Daqing Dairy Group's bank balances carry market interest rate of 0.72%, 0.72%, 0.36%, 0.36% and 0.36% per annum as at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and 30 June 2010, respectively.

The Daqing Dairy Group's bank balances and cash which are denominated in RMB are not a freely convertible currency in the international market. The remittance of RMB out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

23. TRADE AND OTHER PAYABLES

	Notes	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	a	4,994	1,782	1,333	5,554	8,509
Advances from customers	b	3,282	6,003	13,404	11,835	16,674
Interest-free advance from a third party	c	—	—	30,000	—	—
Interest-free advance from 大慶市萬隆久盛經貿有限公司 (Daqing Wan Long Jiu Sheng Trading Co., Ltd. #, "Daqing Wanlong"), a related party (see note 30 (a))	d	—	—	—	—	50,000
Amount due to Dazheng Real Estate (see note 30 (a))	e	3,225	5,254	2,061	200	200
Payable on acquisition of property, plant and equipment:						
— Dazheng Building (see note 30 (a))	e	—	—	4,726	7,244	7,244
— Others		—	—	1,180	22,561	21,232
		—	—	5,906	29,805	28,476
Other tax payables	f	5,848	6,910	3,507	8,610	16,301
Accrued expenses		1,297	2,211	2,004	9,867	15,064
Others		—	94	412	376	1,763
		18,646	22,254	58,627	66,247	136,987

The English name is for identification purpose only.

Notes:

(a) **Trade payables**

The Daqing Dairy Group's trade payables principally comprise amounts outstanding for trade purchases. Payment terms with suppliers are on an average credit period of 30 days from the time when the goods are received from suppliers.

The aged analysis of the Daqing Dairy Group's trade payables presented based on invoice date as at the end of each of the reporting period is as follows:

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	3,925	—	231	3,244	6,268
Over 30 days but within one year	1,032	1,745	1,065	2,273	2,241
Over one year	37	37	37	37	—
	4,994	1,782	1,333	5,554	8,509

(b) **Advances from customers**

The amounts mainly comprise deposits for supply of goods to customers.

(c) **Interest-free advance from a third party**

As at 31 December 2008, the amount represented an interest-free and unsecured advance granted by a third party in December 2008. The amount has no fixed repayment term and was subsequently fully settled in May 2009.

(d) **Interest-free advance from Daqing Wanlong**

As at 30 June 2010, the amount represents an interest-free and unsecured advance granted by Daqing Wanlong in 2010. The amount has no fixed repayment term.

(e) **Amount due to Dazheng Real Estate/Payable on acquisition of property, plant and equipment to Dazheng Building**

The amounts are interest-free, unsecured and are repayable on demand.

(f) **Other tax payables**

Included in the Daqing Dairy Group's other tax payables is an amount of RMB4,039,000, RMB5,603,000, RMB1,738,000, RMB6,553,000 and RMB 14,139,000 as at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and 30 June 2010, respectively related to value added tax payable.

24. OBLIGATIONS UNDER FINANCE LEASE

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount payable to Dazheng Real Estate under finance lease:					
Within one year	2,050	857	—	—	—
Less: Total future interest expenses	123	37	—	—	—
Present value of finance lease obligations and amount due for settlement within twelve months (shown under current liability)	1,927	820	—	—	—

The Daqing Dairy Group leased certain of its motor vehicles under finance leases with the lease term of eighteen months. Interest rate underlying all obligations under finance leases was fixed at respective contract rates at the rate of 3.5% per annum. These leases had no terms of renewal or purchase options and escalation clauses.

The Daqing Dairy Group's obligations under finance lease were secured by the charge over the leased assets with the carrying value of RMB3,041,000 and RMB2,812,000 as at 31 December 2007 and 24 July 2008, respectively.

25. BANK BORROWINGS

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings					
— Secured	—	—	30,000	30,000	—
— Unsecured	—	30,000	30,000	170,000	100,000
	—	30,000	60,000	200,000	100,000
Carrying amounts repayable:					
— On demand or within one year	—	30,000	60,000	200,000	—
— More than two year, but not exceeding five years	—	—	—	—	100,000
	—	30,000	60,000	200,000	100,000
Less: Amounts due within one year shown under current liabilities	—	(30,000)	(60,000)	(200,000)	—
	—	—	—	—	100,000

The Daqing Dairy Group's bank borrowings carry effective interest rate per annum as follows:

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	%	%	%	%	%
Effective interest rates:					
Fixed interest rate borrowings	N/A	7.5	6.9-7.5	5.3-6.9	5.31

As at 31 December 2008 and 31 December 2009, the Daqing Dairy Group pledged its property, plant and equipment (see note 14) and its land use rights (see note 15) to secure the bank borrowing of RMB30,000,000.

As at 31 December 2009, bank borrowing of RMB40,000,000 was guaranteed by Dazheng Building (see note 30 (a)), and bank borrowing of RMB100,000,000 was guaranteed by Daqing Baixinyuan (see note 30 (a)).

As at 31 December 2008 and 31 December 2009 bank borrowing of RMB30,000,000 and RMB30,000,000 was guaranteed by third parties respectively.

As at 30 June 2010, bank borrowings of RMB100,000,000 were guaranteed by a third party and are repayable wholly in 2013.

26. PAID-IN CAPITAL

	RMB'000
Paid-in capital of Daqing Dairy	
As at 1 January 2007	17,310
Capital contributed by Daqing Dairy Previous Shareholders during the year	102,690
As at 31 December 2007, 24 July 2008, 31 December 2008, 31 December 2009 and 30 June 2010	120,000

27. NON-CASH TRANSACTIONS

The Daqing Dairy Group entered into the following significant non-cash investing and financing activities which are not reflected in the consolidated statements of cash flow:

(a) During the year ended 31 December 2007, the Daqing Dairy Group acquired motor vehicles of RMB3,300,000 from Dazheng Real Estate under finance lease.

(b) During the year ended 31 December 2007, a former equity owner of Daqing Dairy agreed to waive advances of RMB33,949,000 granted to Daqing Dairy.

(c) The Daqing Dairy Previous Shareholders injected property, plant and equipment and prepaid lease payments of RMB78,816,000 as part of capital contributed to Daqing Dairy during the year ended 31 December 2007.

28. ACQUISITION OF A SUBSIDIARY

On 16 November 2009, Daqing Dairy entered into an equity transfer agreement with Mr Pan whereby Daqing Dairy acquired from Mr Pan his entire equity interests in Changqing Dairy for a cash payment of RMB10,000,000. Subsequent to this transaction completed on 16 November 2009 ("Changqing Dairy Acquisition Date"), Changqing Dairy became a wholly owned subsidiary of Daqing Dairy.

Details of net assets acquired relating to the Changqing Dairy Acquisition are as follows:

	RMB'000
Property, plant and equipment	226,466
Prepaid lease payments	9,630
Other receivables	1,824
Bank balances and cash	42,908
Other payables	(18,720)
Long-term payable due to Daqing Dairy	(202,489)
Interest payable to Daqing Dairy	(9,619)
Bank borrowings	(40,000)
	10,000
Consideration paid	10,000
Net cash inflow arising from acquisition of Changqing Dairy	
Bank balances and cash acquired	42,908
Less: Consideration paid	10,000
	32,908

As at the Changqing Dairy Acquisition Date, Changqing Dairy had not commenced its business and the production facility was still under construction. As such, the Changqing Dairy Acquisition was regarded as an asset acquisition.

29. RETIREMENT BENEFIT PLANS

The employees of the Daqing Dairy Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Daqing Dairy Group is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Daqing Dairy Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Daqing Dairy Group in respect of the retirement benefit scheme during the Daqing Dairy Track Record Periods are disclosed in note 10.

30. RELATED PARTY TRANSACTIONS

(a) Related parties of the Daqing Dairy Group

The directors of Daqing Dairy consider that the following entities are related parties of the Daqing Dairy Group:

Name of related party

— Dazheng Building (note (i) below)
— Daqing Baixinyuan (note (i) below)
— Dazheng Real Estate (note (ii) below)
— Mr Xia Yuan Jun (note (iii) below)
— Mr Pan (note (iii) below)
— Jintianran Dairy (note (iii) below)
— Changqing Dairy (note (iii) below)
— Daqing Wanlong (note (iv) below)

Notes:

i. Mr Zhao CW, an executive director and Chairman of Global Dairy Holdings Limited and the father of Mr Zhao (the Chief Executive Officer of Global Dairy Holdings Limited), is the executive chairman of Sino Construction Limited ("Sino Construction"). Mr Zhao CW stepped down from the position as chief executive officer of Sino Construction in April 2010. Sino Construction is listed on the Singapore Exchange Securities Trading Limited and Mr Zhao CW indirectly controls more than 30% of the equity interest in Sino Construction. Dazheng Building and Daqing Baixinyuan are wholly owned subsidiaries of Sino Construction.

ii. Mr Zhao CW is the legal representative and the sole director of and directly controls 20% of the equity interest in Dazheng Real Estate.

iii. Mr Xia Yuan Jun, the executive director and Deputy Chief Executive Officer of Global Dairy Holdings Limited and the general manager of Daqing Dairy and Changqing Dairy, directly controlled 30% of the equity interest in Jintianran Dairy prior to 23 December 2008 and Mr Pan, the former executive director of Daqing Dairy, was the executive director and legal representative of Jintianran Dairy between 19 December 2008 and 26 December 2009. Mr Pan was also the sole shareholder and legal person representative of Changqing Dairy from 7 August 2008 (date of incorporation) to Changqing Dairy Acquisition Date. Jintianran Dairy ceased to be related party of the Daqing Dairy Group on 27 December 2009 and accordingly, the Daqing Dairy Group Financial Information does not disclose the transactions between the Daqing Dairy Group and Jintianran Dairy subsequent to 27 December 2009 as related party transactions.

iv. Ms Cao Yan Xia (曹硯霞) and Mr Li Zhan Jun (李戰軍) directly controlled 100% of the equity interest eligible to vote at general meetings of Daqing Wanlong as to 2% and 98%, respectively. Ms Cao Yan Xia is the sister of Madam Cao Yan Ming who is the mother of Mr Zhao, the controlling shareholder, executive director and Chief Executive Officer of Global Dairy Holdings Limited, and Mr Li Zhan Jun is Ms Cao Yan Xia's husband.

(b) **Significant related party transactions**

The Daqing Dairy Group has the following transactions with related parties during the Daqing Dairy Track Record Periods:

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of raw materials to:						
— Jintianran Dairy	—	—	—	17,001	—	—
Sales of scrap materials to:						
— Daqing Baixinyuan	—	—	—	251	—	—
Loans granted to:						
— Changqing Dairy*	—	—	150,000	52,489	50,000	—
Interest charged to:						
— Changqing Dairy*	—	—	1,531	8,088	4,014	—
Purchase of property, plant and equipment from:						
— Dazheng Building	33,365	—	66,106	10,358	—	—
Purchase of trademark from:						
— Dazheng Real Estate	—	—	—	200	200	—
Trademark fees charged by:						
— Dazheng Real Estate	4,425	4,068	5,926	—	—	—
Purchase of whole milk powder from:						
— Jintianran Dairy	—	—	—	33,380	10,000	—
Interest-free advance granted by:						
— Daqing Wanlong	—	—	—	—	—	50,000

* The amounts represent the loans granted to and the related interest charged to Changqing Dairy prior to the Changqing Dairy Acquisition.

(c) **Balances with related parties**

Saved as disclosed in notes 17, 18, 21 and 23 in respect of balances with certain related parties, the Daqing Dairy Group has no other outstanding balances and transaction with related parties at the end of each reporting period.

(d) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the Daqing Dairy Track Record Periods were as follows:

	Year ended 31 December 2007	For the period from 1 January 2008 to 24 July 2008	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and allowances	183	138	241	279	132	190
Retirement benefits scheme contributions	5	4	9	17	7	9
	188	142	250	296	139	199

The remuneration of key management is determined with reference to the performance of individuals and market trends.

31. CAPITAL COMMITMENTS

At the end of each reporting period, the Daqing Dairy Group had the following capital commitments:

	As at 31 December 2007	As at 24 July 2008	As at 31 December 2008	As at 31 December 2009	As at 30 June 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditures in respect of acquisition of property, plant and equipment which are contracted for but not provided in the Daqing Dairy Group Financial Information	9,105	24,305	50,906	10,297	9,720

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set out in this Appendix does not form part of the Accountants' Report on the financial information of the Group for the period from 8 October 2007 to 31 December 2007, the financial years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 or the Accountants' Report on the financial information of the Daqing Dairy Group for the Track Record Period prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix IA and Appendix IB to this prospectus, respectively, and is included in this prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountants' Report of the Group" set out in Appendix IA to this prospectus.

A. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2010 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2010. This unaudited pro forma forecast basic earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial results of the Group following the Global Offering.

For the year ending 31 December 2010

Forecast consolidated profit after taxation (Notes 1 and 2) . . . . .not less than RMB215 million

Unaudited pro forma forecast earnings per Share (Note 3) . . . . .not less than RMB21.3 cents (approximately HK$0.244)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

(2) The forecast consolidated profit after taxation for the financial year ending 31 December 2010 prepared by our Directors is based on the audited consolidated results of the Group for the six months ended 30 June 2010, the unaudited consolidated management accounts of the Group for the two months ended 31 August 2010 and a forecast of the consolidated results of the Group for the remaining four months ending 31 December 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Company as summarised in the Accountants' Report of the Group as set out in Appendix IA to this prospectus.

(3) The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated results of the Group for the financial year ending 31 December 2010, assuming the Global Offering had been completed on 1 January 2010 and a total of 1,010,500,000 Shares in issue during the entire period, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option.

B. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS PER SHARE

The following unaudited pro forma adjusted net tangible assets per Share prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out in this appendix to illustrate the effect of the Global Offering on the adjusted consolidated net tangible assets of the Group as at 30 June 2010, as if they had taken place on such date.

The unaudited pro forma adjusted net tangible assets per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the equity holders of the Company following the Global Offering. It is prepared based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at 30 June 2010 as shown in the "Accountants' Report of the Group" as set out in Appendix IA to this prospectus and adjusted as described below. The unaudited pro forma adjusted net tangible assets does not form part of the Accountants' Report of the Group.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2010 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share (Note 3)	
	RMB'000	**RMB'000**	**RMB'000**	**RMB**	**HK$**
Based on the Offer Price of HK$3.60 for each Share	536,464	716,256	1,252,720	1.24	1.42
Based on the Offer Price of HK$5.20 for each Share	536,464	1,049,702	1,586,166	1.57	1.80

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2010 was determined as follows:

	RMB'000
Audited consolidated net assets of the Group as at 30 June 2010 as shown in the "Accountants' Report of the Group" as set out in Appendix IA to this prospectus	548,759
Less: Trademarks	12,295
Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2010	536,464

(2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price range of HK$3.60 and HK$5.20 per Share, after deduction of underwriting fees and related expenses payable by the Company but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that a total of 1,010,500,000 Shares are expected to be in issue pursuant to the Global Offering, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option.

(4) The property interests of the Group were valued by Jones Lang LaSalle Sallmanns Limited and the valuation report in respect of which was set out in Appendix IV to this prospectus. The Property Valuers valued the Group's property interests which are currently occupied by the Group for production purpose with reference to 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". According to the valuation report, the property interests of the Group as at 31 July 2010 amounted to approximately RMB254,506,000. Comparing this amount with the unaudited net carrying amounts of the property interests of the Group as at 31 July 2010 of approximately RMB259,259,000, there was a deficit of RMB4,753,000. In the opinion of the Directors, the recoverable amounts of the Group's property interest, together with the related production facilities, are higher than the carrying amount of such assets and accordingly, the Group's property interests have been stated at their carrying amounts and the value of the Group's property interest have not been impaired.

C. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE AND UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS PER SHARE

The following is the text of report, prepared for the purpose of incorporation in this prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF GLOBAL DAIRY HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Global Dairy Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") (the "**Unaudited Pro Forma Financial Information**"), which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the global offering might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 15 October 2010 (the "**Prospectus**"). 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 directors of the Company and 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.

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 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 Hong Kong Institute of Certified Public Accountants. 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 purpose 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 purpose only, based on the judgements 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 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 31 December 2010 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 October 2010

The forecast of our consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2010 is set out in the paragraph headed "Profit Forecast" in the section headed "Financial Information" in this prospectus.

(1) BASES AND ASSUMPTIONS

The forecast of our consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2010 prepared by our Directors is based on the audited consolidated financial statements of our Group for the six months ended 30 June 2010, the unaudited consolidated management accounts of our Group for the two months ended 31 August 2010 and a forecast of the consolidated results of our Group for the remaining four months ending 31 December 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Company as summarised in the Accountants' Report of the Group, the text of which is set out in Appendix IA to this prospectus and is based on the following principal assumptions:

- there will be no material changes in existing political, legal, fiscal, market or economic conditions in Hong Kong, the PRC or any other countries or territories in which the Group currently operates or which are otherwise material to the Group's business or operations;

- there will be no changes in government policies, legislation, regulations or rules in Hong Kong, the PRC or any other countries or territories in which the Group currently operates or with which any member of the Group has arrangements or agreements, which may have a material adverse effect on its business or operations;

- there will be no material change in the bases or rates of taxation or duties, surcharges or other government levies applicable to our activities in Hong Kong, the PRC or any other countries or territories in which the Group operates, except as otherwise disclosed in this prospectus;

- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing; and

- our operations will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of our Directors, including but not limited to the occurrence of natural disasters, epidemics or serious accidents.

(2) LETTERS

Set out below are texts of letters received by our Directors from (i) Deloitte Touche Tohmatsu, our auditors and reporting accountants, and (ii) the Sponsor prepared for the purpose of incorporation in this prospectus in connection with the forecast of our consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2010.

(i) *Letter from Deloitte Touche Tohmatsu*

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 October 2010

The Directors
Global Dairy Holdings Limited
Macquarie Capital Securities Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of Global Dairy Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") attributable to the equity holders of the Company for the year ending 31 December 2010 (the "**Forecast**"), for which the directors of the Company are solely responsible, as set out in the prospectus dated 15 October 2010 issued by the Company (the "**Prospectus**"). The Forecast is prepared based on the audited results of the Group for the six months ended 30 June 2010, the results shown in the unaudited management accounts of the Group for the two months ended 31 August 2010, and a forecast of the results of the Group for the remaining four months of the financial year ending 31 December 2010.

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 of the Company as set out in the section headed "Bases and Assumptions" 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 8 October 2007 to 31 December 2007, the two years ended 31 December 2009 and the six months ended 30 June 2010 as set out in Appendix IA to the Prospectus.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(ii) *Letter from the Sponsor*

MACQUARIE

15 October 2010

The Board of Directors
Global Dairy Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to the equity holders of Global Dairy Holdings Limited (the "Company") for the year ending 31 December 2010 (the "**Profit Forecast**") as set out under the paragraph headed "Profit Forecast for the Year Ending 31 December 2010" in the section headed "Financial Information" in the prospectus of the Company dated 15 October 2010 (the "**Prospectus**").

The Profit Forecast, for which you as the directors of the Company (the "**Directors**") are solely responsible, has been prepared based on the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2010, the unaudited consolidated management accounts of the Group for the two months ended 31 August 2010, and a forecast of the consolidated results of the Group for the remaining four months ending 31 December 2010.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 15 October 2010 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,
For and on behalf of
Macquarie Capital Securities Limited

William Je
Senior Managing Director

Karen Wong
Managing 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 31 July 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 October 2010

The Board of Directors
Global Dairy Holdings Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Global Dairy Holdings Limited (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 31 July 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 nos. 1 and 3 in the PRC, there are no market sales comparables 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 replacing 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.

We have valued the property interest of property no. 2 by the direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

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 and Building Ownership Certificates 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 advisers — Jingtian & Gongcheng, 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. 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 of 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

Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 July 2010 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 July 2010 *RMB*
1.	2 parcels of land, 23 buildings and various structures located at the northern side of Ansa Road Hi-Tech Development Zone Daqing City Heilongjiang Province The PRC	160,290,000	100%	160,290,000
2.	Unit 16, Building D of Century Plaza Dong Feng Xin Cun Sa'ertu District Daqing City Heilongjiang Province The PRC	619,000	100%	619,000
3.	A parcel of land, 8 buildings and various structures located at the northern side of Huayu Road Industrial Park Niujia Town Wuchang City Heilongjiang Province The PRC	93,597,000	100%	93,597,000
	Total:	**254,506,000**		**254,506,000**

VALUATION CERTIFICATE

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 31 July 2010 *RMB*
1.	2 parcels of land, 23 buildings and various structures located at the northern side of Ansa Road Hi-Tech Development Zone Daqing City Heilongjiang Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 188,447.35 sq.m. and 23 buildings and various ancillary structures erected thereon which were completed in various stages between 1970 and 2009. The buildings have a total gross floor area of approximately 40,174.61 sq.m. The buildings mainly include an office building, a dormitory, a canteen, industrial buildings, warehouses, carports, boiler rooms and a guardhouse. The structures mainly include boundary fences, walls, roads and a pool. The land use rights of the property have been granted for various terms expiring on 25 December 2056 and 3 May 2060 for industrial use.	The property is currently occupied by the Group for production purpose.	160,290,000 100% interest attributable to the Group: RMB160,290,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 25 December 2006, the land use rights of a parcel of land with a site area of approximately 188,134.85 sq.m. were contracted to be granted to Da Qing Dairy Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 25 December 2056 for industrial use. The land premium was RMB 6,716,415.
2. Pursuant to a State-owned Land Use Rights Certificate — Da Qing Shi Guo Yong (2007) Di No. 001032, the land use rights of the parcel of land with a site area of approximately 188,134.85 sq.m. have been granted to Da Qing Dairy Ltd. for a term expiring on 25 December 2056 for industrial use.
3. Pursuant to a State-owned Land Use Rights Certificate — Da Qing Guo Yong (2010) Di No. 900797, the land use rights of a parcel of land with a site area of approximately 312.5 sq.m. have been granted to Da Qing Dairy Ltd. for a term expiring on 3 May 2060 for industrial use.
4. Pursuant to 23 Building Ownership Certificates — Qing Fang Quan Zheng Kai Fa Qu Zi Di Nos. NA338042, NA401160, NA401171 and NA402496, Qing Fang Quan Zheng Long Feng Qu Zi Di Nos. 00024979, 00024983, 00026502, 00026503, 00026509, 00026512, 00026518, 00026519, 00026522, 00026500, 00026541, 00026543, 00026549, 00026578, 00029317, 00029318, 00029319, 00030318 and 00030319, 23 buildings with a total gross floor area of approximately 40,174.61 sq.m. are owned by Da Qing Dairy Ltd.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. Da Qing Dairy Ltd. has legally obtained the land use rights of 2 parcels of land mentioned in note 2 and note 3 and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the land use rights of the parcels of land;

b. Da Qing Dairy Ltd. has legally obtained the building ownership rights of the 23 buildings mentioned in note 4 and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the above buildings; and

c. The property is not subject to expropriation, lawsuit, dispute, mortgage, seizure, other third party's rights or other circumstances that may have material adverse effects on it.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2010 *RMB*
2.	Unit 16, Building D of Century Plaza Dong Feng Xin Cun Sa'ertu District Daqing City Heilongjiang Province The PRC	The property comprises a unit on Level 1 of an eight-storey residential and commercial building completed in about 1999. The unit has a gross floor area of approximately 98.20 sq.m. The land use rights of the property have been granted for a term expiring on 24 December 2048 for retail use.	The property is currently occupied by the Group for retail purpose.	619,000 100% interest attributable to the Group: RMB619,000

Notes:

1. Pursuant to a Building Ownership Certificate — Qing Fang Quan Zheng Sa Er Tu Qu Zi Di No. 00031499, a unit with a gross floor area of approximately 98.20 sq.m. is owned by Da Qing Dairy Ltd., a wholly-owned subsidiary of the Company.

2. Pursuant to a State-owned Land Use Rights Certificate — Da Qing Shi Guo Yong (2006) Di No. 002016, the land use rights of the property with an apportioned site area of approximately 24.15 sq.m. have been granted to Da Qing Dairy Ltd.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Da Qing Dairy Ltd has legally obtained the land use rights and the building ownership rights of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the property; and

   b. The property is not subject to expropriation, lawsuit, dispute, mortgage, seizure, other third party's rights or other circumstances that may have material adverse effects on it.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2010 *RMB*
3.	A parcel of land, 8 buildings and various structures located at the northern side of Huayu Road Industrial Park Niujia Town Wuchang City Heilongjiang Province The PRC	The property comprises a parcel of land with a site area of approximately 60,000 sq.m. and eight buildings and various ancillary structures erected thereon which were completed in 2009. The buildings have a total gross floor area of approximately 22,574.85 sq.m. The buildings comprise an office building, an industrial building, a boiler room, a sewage treatment room, a drinking water treatment room, a carport and two guardhouses. The structures mainly include walls, roads, wells and pools. The land use rights of the property have been granted for a term expiring on 23 September 2058 for industrial use.	The property is currently occupied by the Group for production purpose.	93,597,000 100% interest attributable to the Group: RMB93,597,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 24 September 2008, the land use rights of the property with a site area of approximately 60,000 sq.m. were contracted to be granted to Heilongjiang Chang Qing Dairy Products Co., Ltd., a wholly owned subsidiary of the Company, for a term of 50 years expiring on 23 September 2058 for industrial use. The land premium was RMB 9,000,000.

2. Pursuant to a State-owned Land Use Rights Certificate — Wu Guo Yong (2008) Di No. 0322, the land use rights of a parcel of land with a site area of approximately 60,000 sq.m. have been granted to Heilongjiang Chang Qing Dairy Products Co., Ltd. for a term expiring on 23 September 2058 for industrial use.

3. Pursuant to eight Building Ownership Certificates — Wu La Fang Quan Zheng Niu Zi Di Nos. 00013221 to 00013223 and 00013923 to 00013927, eight buildings with a total gross floor area of approximately 22,574.85 sq.m. are owned by Heilongjiang Chang Qing Dairy Products Co., Ltd.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Heilongjiang Chang Qing Dairy Products Co., Ltd. has legally obtained the land use rights of the property and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the land use rights of the property;

   b. Heilongjiang Chang Qing Dairy Products Co., Ltd. has legally obtained the building ownership rights of the eight buildings mentioned in note 3 and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the above buildings; and

   c. The property is not subject to expropriation, lawsuit, dispute, mortgage, seizure, other third party's rights or other circumstances that may have material adverse effects on it.

Set out below is a summary of certain provisions of the Memorandum of Association and the Articles of Association and of certain aspects of the Cayman Companies Law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15 October 2009 under the Cayman Companies Law. The Memorandum of Association and the Articles of Association comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may, by special resolution, alter its Memorandum of Association with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles of Association were conditionally adopted on 10 October 2010 subject to the listing of the Shares on the Stock Exchange. The following is a summary of certain provisions of the Articles of Association which will be in effect immediately prior to the listing of the Shares on the Stock Exchange:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law and the Memorandum of Association and the Articles of Association and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles of Association) and the Memorandum of Association and the Articles of Association, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Companies Law and the Articles of Association and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles of Association) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles of Association relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles of Association or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles of Association, payments 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 be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles of Association, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles of Association. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles of Association, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles of Association, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided among the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors, unless otherwise determined from time to time by the members in general meeting.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law; or

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles of Association.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles of Association in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. 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 an additional or casting vote.

(x) *Register of Directors and Officers*

The Cayman Companies Law and the Articles of Association provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) **Alterations to constitutional documents**

The Articles of Association may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles of Association state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to amend the Articles of Association or to change the name of the Company.

(c) **Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) 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 Cayman 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 the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Cayman Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified 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 general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles of Association relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to 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) **Special resolution majority required**

Pursuant to the Articles of Association, a special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles of Association), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

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 the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association.

(f) **Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles of Association, at any general meeting every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles of Association), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) **Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles of Association (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles of Association, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles of Association)) at such time and place as may be determined by the board.

(h) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles of Association; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles of Association), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles of Association. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) **Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange (as defined in the Articles of Association), it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) 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 ninety-five per cent (95%) in nominal value of the issued 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:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles of Association) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so 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 in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles of Association) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles of Association), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) **Power for the Company to purchase its own shares**

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles of Association).

(l) **Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles of Association relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles of Association) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) **Dividends and other methods of distribution**

Subject to the Cayman Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles of Association provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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 board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, 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 in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. 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.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) **Call on shares and forfeiture of shares**

Subject to the Articles of Association and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) **Inspection of register of members**

Pursuant to the Articles of Association the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles of Association), unless the register is closed in accordance with the Articles of Association.

(q) **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 of a chairman.

Save as otherwise provided by the Articles of Association the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) **Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles of Association relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(s) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution among the members of the 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 *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution among the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members 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.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of 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. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) **Untraceable members**

Pursuant to the Articles of Association, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12-year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles of Association) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles of Association), has elapsed from the date of such advertisement and the Designated Stock Exchange (as defined in the Articles of Association) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) **Subscription rights reserve**

The Articles of Association provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) **Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The 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 amount of its authorised share capital.

(b) **Share capital**

The Cayman 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 premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums 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 Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the 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, the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles of Association includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) **Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Furthermore, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person 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 the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's length basis.

(d) **Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the 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 the 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, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) **Dividends and distributions**

With the exception of section 34 of the Cayman Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) **Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) **Management**

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) **Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the 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 the company's affairs and to explain its transactions.

(i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) **Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 27 October 2009.

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 the 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.

(k) **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.

(l) **Loans to directors**

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) **Inspection of corporate records**

Members of the Company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Articles of Association.

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 the directors may, from time to time, think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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.

(n) **Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) among them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) **Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the 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.

(q) **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 court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents 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 is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 15 October 2009. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance and our principal place of business in Hong Kong is at 35th floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong. Ms Queenie Ho has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong. Our Company changed its name from Global Milk Holdings Limited to Global Milk Holdings Limited 環球乳業控股有限公司 on 9 February 2010. On 31 May 2010, our Company further changed its name from Global Milk Holdings Limited 環球乳業控股有限公司 to Global Dairy Holdings Limited 環球乳業控股有限公司.

As our Company is incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution which comprises the Memorandum of Association and the Articles of Association. A summary of the relevant aspects of the Cayman Companies Law and certain provisions of the Articles of Association is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

(a) As at the date of incorporation of our Company, its authorised share capital was HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. On the same date, one ordinary share of HK$0.01 of our Company was allotted and issued fully paid to Codan Trust Company (Cayman) Limited, which share was subsequently transferred to Mr Zhao on the same day as well.

(b) On 15 October 2009, Mr Zhao transferred his 100% shareholding in Global Milk Singapore to our Company pursuant to a share sale and purchase agreement dated 15 October 2009 in consideration of our Company issuing 550 ordinary shares of HK$0.01 each credited as fully paid, to him.

(c) On 18 November 2009, Mr Zhao transferred an aggregate of 57 shares of HK$0.01 each to Kenmoore for a consideration of US$6,005,830.90 pursuant to a share transfer agreement dated 1 November 2009 made between Kenmoore and Mr Zhao.

(d) On 3 February 2010, each share of HK$0.01 in the authorised and issued share capital of our Company was subdivided into 1,000 Shares such that our resultant authorised share capital was HK$380,000 divided into 38,000,000,000 Shares and our resultant issued share capital was HK$5.51 divided into 551,000 Shares, of which 494,000 Shares were held by Mr Zhao and 57,000 Shares were held by Kenmoore.

(e) On 4 February 2010, pursuant to an investment agreement dated 20 November 2009 entered into among the Pre-IPO Investors, Mr Zhao CW, Mr Zhao and our Company, our Company issued an aggregate of 127,829 Shares to the Pre-IPO Investors, for a consideration of S$21.0 million (approximately RMB102.3 million).

(f) On 4 February 2010, pursuant to a share subscription agreement dated 20 November 2009 entered into between our Company and Mr Zhao, our Company issued an aggregate of 63,171 Shares to Mr Zhao, for a consideration of RMB125.0 million.

(g) On 24 March 2010, pursuant to a second series funding agreement dated 28 January 2010 (as amended and supplemented by a supplementary agreement dated 10 May 2010) entered into between our Company, the Pre-IPO Investors, Mr Zhao and Mr Zhao CW, our Company issued an aggregate of 15,879 Shares to the Pre-IPO Investors for an aggregate consideration of S$5.25 million (approximately RMB25.5 million).

Immediately following completion of the Capitalisation Issue, the Global Offering and the sale of the Sale Shares (assuming that the Over-allotment Option is not exercised and no options have been granted under the Share Option Scheme), the authorised share capital of our Company will be HK$380,000 divided into 38,000,000,000 Shares, of which 1,010,500,000 Shares will be issued fully paid or credited as fully paid, and 36,989,500,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our Shareholders passed on 10 October 2010" in this Appendix and pursuant to the Share Option Scheme, we do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

3. Changes in the share capital of our subsidiaries

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

Global Milk Singapore

On 15 October 2009, Mr Zhao transferred the single ordinary share in the issued capital of Global Milk Singapore owned by him to our Company pursuant to a share sale and purchase agreement in consideration for our Company issuing 550 ordinary shares of HK$0.01 each to him, credited as fully paid.

Changqing Dairy

Pursuant to an equity transfer agreement dated 16 November 2009, Mr Pan transferred the entire equity interest in Changqing Dairy to Daqing Dairy for a consideration of RMB10 million.

Save as set out above and in the paragraph headed "Reorganisation and Share Transfer after the Reorganisation" in this Appendix, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our Shareholders passed on 10 October 2010

Pursuant to the written resolutions of all shareholders entitled to vote at general meetings of our Company, which were passed on 10 October 2010:

(a) an amount of approximately HK$7,571.22 standing to the credit of the share premium account of our Company be capitalised and applied to pay up in full at par a total of 757,122,121 new Shares for allotment and issue to our Shareholders whose names appear on the register of members of our Company (the "**Qualifying Member**") as at the close of business on 9 October 2010 (the "**Record Date**") (or as they may direct) in proportion of their respective shareholding as at the Record Date (the "**Capitalisation Issue**") and in order to ensure that each Qualifying Member holds Shares in integral multiples of board lots of 1,000 Shares, and to address a rounding adjustment in effecting the Capitalisation Issue, Shares in the number set against each Qualifying Member's name as set out in this written resolution be allotted and issued, and such new Shares to be allotted and issued pursuant to this written resolution shall rank *pari passu* in all respects with the existing Shares;

(b) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued (including any Shares which may be issued pursuant to the Capitalisation Issue, the Global Offering, the exercise of the Over-allotment Option or any options which will be granted under the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:

(1) the Global Offering was approved and our Directors were authorised to determine and approve the Offer Price for the Offer Shares and the allotment and issue pursuant to the offering of Hong Kong Offer Shares and the placing of the International Placing Shares in the United States with qualified institutional buyers within the meaning of Rule 144A of the US Securities Act or another available exemption from the registration requirements under the US Securities Act, and outside the United States (including with professional, institutional and corporate investors and other investors who the Company anticipate to have a sizeable demand for the Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S, at the Offer Price on the terms and subject to the conditions set out in this prospectus subject to such modifications as may be decided by our Directors or any committee thereof appointed for such purpose and our Directors or any such committee were authorised to allot and issue the Shares;

(2) the Over-Allotment Option pursuant to which the Sole Global Coordinator on behalf of the International Underwriters may require our Company to allot and issue up to an aggregate of 37,893,000 additional new Shares and the Selling Shareholders to sell up to an aggregate of 16,239,000 additional Shares, representing in aggregate 15% of the number of Shares initially being offered under the Global Offering to cover over allocations in the International Placing was approved and our Directors were authorised to take such actions as they consider necessary to give effect to the Over-allotment Option;

(3) the rules of the Share Option Scheme were approved and adopted, and that our Directors or any committee thereof established by our Board were authorised, at their sole discretion, to: (i) administer the Share Option Scheme; and (ii) modify/amend the Share Option Scheme from time to time as requested by the Stock Exchange;

(4) our Directors or any committee thereof were authorised to grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (i) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (ii) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (iii) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;

(c) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company 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 by way of 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 of Association or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options which may be granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by our Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but before any exercise of the Over-allotment Option;

For the purpose of this paragraph, "Rights Issue" means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognised regulatory body or any stock exchange applicable to our Company);

(d) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but before the exercise of the Over-allotment Option;

(e) the general mandate to allot, issue and deal with Shares as mentioned in paragraph (c) 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 pursuant to the mandate to repurchase Shares referred to in paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the completion of Capitalisation Issue and the Global Offering before the exercise of the Over-allotment Option was approved;

(f) the adoption of the Memorandum of Association; and

(g) the adoption of the Articles of Association conditionally pending the Listing.

Each of the general mandates referred to in paragraphs (c), (d) and (e) above will remain in effect until whichever is the earliest of:

(1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

(2) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(3) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(1) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on 10 October 2010 by all our Shareholders, a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to repurchase our Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following completion of the Capitalisation Issue and the Global Offering but before the exercise of the Over-allotment Option, details of which have been described above in the paragraph headed "Written resolutions of our Shareholders passed on 10 October 2010".

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Cayman Companies Law. We are not permitted to repurchase our Shares 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 from time to time.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(2) Reasons for repurchases

Our Directors believe that it is in the best interests of our Group and our Shareholders for our Directors to have general authority from our Shareholders to enable them to repurchase our 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 our Directors believe that such repurchases will benefit our Group and our Shareholders as a whole.

(3) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Group's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(4) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their Associates currently intends to sell any Shares to us.

Our 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 in the general meeting of our Company is increased, such increase will be treated as an acquisition for the purposes of 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, our 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.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. REORGANISATION AND SHARE TRANSFER AFTER THE REORGANISATION

1. Reorganisation

The Reorganisation which was effected in preparation for the Listing, whereby our Company became the holding company of the Group, included the following major steps:

(a) Global Milk Singapore was an investment vehicle incorporated in Singapore on 15 September 2006 as a private company limited by shares and it allotted and issued one ordinary share to Mr Abdul Jabbar Bin Karam Din as the first subscriber upon incorporation. On 8 October 2007 Mr Abdul Jabbar Bin Karam Din transferred the single share in the issued capital of Global Milk Singapore to Mr Zhao.

(b) Global Milk Singapore entered into an equity transfer agreement dated 26 December 2007 with Mr Pan, Mr Xu and Mr Du to acquire from them the entire equity interest of Daqing Dairy, for a consideration determined with reference to Daqing Dairy's net asset value which was valued at approximately RMB318.78 million as at 31 December 2007 as stated in the "Daqing Dairy Valuation Report (Hei Jian Xing Ping Bao Zi [2008] No. 020))" dated 7 March 2008 (《大慶乳品廠有限責任公司評估報告書》黑建興評報字[2008]第020號) issued by Heilongjiang Jian Xing Asset Valuation Co., Ltd (黑龍江省建興資產評估有限公司).

(c) Our Company was incorporated in the Cayman Islands on 15 October 2009 as the holding company of our Group. Immediately following incorporation, the single ordinary share of HK$0.01 allotted and issued to the first subscriber was transferred to Mr Zhao.

(d) Our Company entered into a share sale and purchase agreement dated 15 October 2009 with Mr Zhao to acquire from Mr Zhao the single ordinary share representing the entire issued share capital in Global Milk Singapore for a consideration of S$1.00, such consideration being satisfied by our Company allotting and issuing 550 ordinary shares of HK$0.01 each to Mr Zhao, credited as fully paid.

(e) Kenmoore entered into a share transfer agreement dated 1 November 2009 with Mr Zhao to acquire from him 10.3% of the entire issued share capital in our Company for a consideration of approximately US$6.01 million.

(f) Changqing Dairy was established in the PRC on 7 August 2008 as a sole shareholder limited liability company by Mr Pan with a registered capital of RMB10 million. Pursuant to an equity transfer agreement dated 16 November 2009, Mr Pan transferred the entire equity interest in Changqing Dairy to Daqing Dairy for a consideration of RMB10 million.

(g) Our Company entered into an investment agreement dated 20 November 2009 with the Pre-IPO Investors, pursuant to which the Pre-IPO Investors agreed to provide our Company with a S$21.0 million (approximately RMB102.3 million) three-month bridging loan and subscribed for an aggregate of 127,829 Shares for an aggregate subscription price of S$21.0 million (approximately RMB102.3 million). Simultaneously, our Company entered into a subscription agreement with Mr Zhao, pursuant to which Mr Zhao agreed to subscribe for 63,171 Shares for a consideration of RMB125.0 million.

(h) On 28 January 2010, our Company entered into a second series funding agreement with the Pre-IPO Investors, as amended and supplemented by a supplementary agreement dated 10 May 2010 made between our Company, the Pre-IPO Investors, Mr Zhao and Mr Zhao CW, pursuant to which the Pre-IPO Investors agreed to provide our Company with a loan of S$15.75 million (approximately RMB76.51 million) and subscribed for an aggregate of 15,879 Shares for an aggregate consideration of S$5.25 million (approximately RMB25.5 million).

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

(a) a sale and purchase agreement dated 15 October 2009 made between our Company and Mr Zhao in relation to the transfer of the entire issued share capital in Global Milk Singapore by Mr Zhao to our Company in consideration of our Company issuing 550 ordinary shares of HK$0.01 each to Mr Zhao, credited as fully paid;

(b) an equity transfer agreement dated 16 November 2009 made between Mr Pan and Daqing Dairy pursuant to which Mr Pan transferred the entire equity interest in Changqing Dairy to Daqing Dairy for a consideration of RMB10 million;

(c) an investment agreement dated 20 November 2009 made among our Company, the Pre-IPO Investors, Mr Zhao CW and Mr Zhao pursuant to which the Pre-IPO Investors agreed to provide our Company with a S$21.0 million three-month bridging loan and subscribe for new Shares for an aggregate purchase consideration of S$21.0 million;

(d) a subscription agreement dated 20 November 2009 made between our Company and Mr Zhao pursuant to which Mr Zhao subscribed for 63,171 Shares for a consideration of RMB125.0 million;

(e) a second series funding agreement dated 28 January 2010 ("**SSFA**") made among our Company, the Pre-IPO Investors, Mr Zhao and Mr Zhao CW pursuant to which the Pre-IPO Investors agreed to provide our Company with a loan of S$15.75 million and subscribe for new Shares for an aggregate purchase consideration of S$5.25 million;

(f) an assumption of debt agreement dated 28 February 2010 made among our Company, Mr Zhao and Kenmoore pursuant to which our Company agreed and acknowledged that an aggregate sum of S$21.42 million was owed by it to Mr Zhao and Kenmoore in view of their repayment, for and on behalf of our Company, of the bridging loan granted by the Pre-IPO Investors to our Company and related processing fees pursuant to the investment agreement described in paragraph (c) above;

(g) a collaboration agreement dated 28 April 2010 entered into among our Company, Global Dairy Canada, Mr Zhao and Madam Cao Yan Ming pursuant to which the parties agreed to jointly introduce certain new dairy products to be developed and manufactured by us;

(h) a supplementary agreement dated 10 May 2010 made among our Company, the Pre-IPO Investors, Mr Zhao and Mr Zhao CW pursuant to which the parties agreed to supplement and amend clauses 4.1 and 4.5 of the SSFA, being the repayment terms of the loan of S$15.75 million advanced by the Pre-IPO Investors to our Company under the SSFA;

(i) a call option agreement dated 17 August 2010 made between our Company and Madam Cao Yan Ming pursuant to which Madam Cao Yan Ming irrevocably and unconditionally granted to our Company an option to require her to transfer the entire issued share capital of Global Dairy Canada free from all encumbrances to our Company or such other member of our Group as may be nominated by our Company for a consideration of one (1) Canadian Dollar (CAN$1.00) for each common share without par value in the capital of Global Dairy Canada during the option period as defined therein;

(j) a deed of non-competition dated 14 October 2010 entered into by our Controlling Shareholder in favour of our Company, details of which are disclosed in the section headed "Relationship with the Controlling Shareholder" in this prospectus;

(k) a deed of indemnity dated 14 October 2010 entered into between our Controlling Shareholder and our Company for itself and as trustee for its subsidiaries under which our Controlling Shareholder provided certain indemnities in favour of our Group containing, among others, the indemnities referred to the paragraph headed "Tax indemnity" in the section "Other Information" in this Appendix;

(l) a deed of indemnity in Chinese dated 14 October 2010 entered into between our Company and Mr Pan pursuant to which Mr Pan undertook to indemnify our Group against (i) any claim by any third parties, tax or other governmental authorities (whether in the PRC or elsewhere) for any taxation liabilities, damages, loss, contingent liabilities, penalties, costs and expenses that may have arisen prior to or as a result of our acquisition of Daqing Dairy and Changqing Dairy; and (ii) any loss resulting from any breach of contracts executed by Daqing Dairy and Changqing Dairy, negligence in their operation or non-compliance with applicable laws that has arisen in connection with their business prior to our acquisition of Daqing Dairy and Changqing Dairy or that has resulted from our acquisition of Daqing Dairy and Changqing Dairy;

(m) a deed of indemnity in Chinese dated 14 October 2010 entered into between our Company and Mr Du pursuant to which Mr Du undertook to indemnify our Group against (i) any claim by any third parties, tax or other governmental authorities (whether in the PRC or elsewhere) for any taxation liabilities, damages, loss, contingent liabilities, penalties, costs and expenses that may have arisen prior to or as a result of our acquisition of Daqing Dairy; and (ii) any loss resulting from any breach of contracts executed by Daqing Dairy, negligence in its operation or non-compliance with applicable laws that has arisen in connection with its business prior to our acquisition of Daqing Dairy or that has resulted from our acquisition of Daqing Dairy; and

(n) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of our Group

(a) As at the Latest Practicable Date, we have registered the following trademarks in the following jurisdictions:

Trademark	Place of registration	Class	Registration number	Duration
	PRC	29	129197	31 October 1979 till 28 February 2013
优利健 YOURGEN	PRC	29	4021449	28 March 2006 till 27 March 2016
环球	PRC	29	4476558	28 August 2007 till 27 August 2017
巧芙	PRC	29	4941248	14 August 2008 till 13 August 2018
	PRC	29	6891205	28 March 2010 till 27 March 2020
	PRC	30	6713193	7 April 2010 till 6 April 2020
A Global Dairy (Note 1) B Global Dairy	Hong Kong	5 and 29	301619127	20 May 2010 till 19 May 2020

Trademark	Place of registration	Class	Registration number	Duration
A (Note 1) Global Milk B Global Milk	Hong Kong	5 and 29	301590921	19 April 2010 till 18 April 2020
A (Note 1) 環球乳業 B 環球乳業	Hong Kong	5 and 29	301590994	19 April 2010 till 18 April 2020
A B	Hong Kong	5 and 29	301591010	19 April 2010 till 18 April 2020
Emilon	Hong Kong	5 and 29	301591029	19 April 2010 till 18 April 2020
爱美樂	Hong Kong	5 and 29	301591038	19 April 2010 till 18 April 2020

Note 1: "A" denotes the trademark registered in colour whereas "B" denotes the same trademark registered in black and white in the manner in which they are registered with the Trade Marks Registry of Hong Kong.

(b) As at the Latest Practicable Date, we have applied for the registration of the following trademarks in the following jurisdictions:

Trademark	Place of application	Class	Application number	Application Date
A, B (Note 2)	Hong Kong	5 and 29	301725949	29 September 2010
Emilon 爱美樂	PRC	29	7768365	19 October 2009
仕加	PRC	5	7544802	15 July 2009
	PRC	29	7544801	15 July 2009
	PRC	29	7164611	13 January 2009
舒力健	PRC	29	6799148	23 June 2008
庆乳 QINGRU	PRC	5	6713195	12 May 2008
	PRC	29	6713194	12 May 2008
Emilon 爱美樂	PRC	5	6639773	7 April 2008
	PRC	29	6098418	11 June 2007
	PRC	30	6639775	7 April 2008
庆乳	PRC	5	6639772	7 April 2008
	PRC	29	6639774	7 April 2008
	PRC	30	6639777	7 April 2008

Note 2: "A" denotes the trademark filed in colour whereas "B" denotes the same trademark filed in black and white in the manner in which they are filed with the Trade Marks Registry of Hong Kong.

Trademark	Place of application	Class	Application number	Application Date
	PRC	5	6639776	7 April 2008
	PRC	30	6639778	7 April 2008
仕加 C+	PRC	5	8586724	18 August 2010
	PRC	29	8586707	18 August 2010
仕加	PRC	5	8586721	18 August 2010
	PRC	29	8586711	18 August 2010

(c) As at the Latest Practicable Date, we have registered the following design patents in the PRC:

Patent	Proprietor	Registration period	Patent number
Packaging bag (1)	Daqing Dairy	10 years from 26 May 2000	ZL00327131.5
Packaging bag (2)	Daqing Dairy	10 years from 26 May 2000	ZL00327130.7
Packaging bag (3)	Daqing Dairy	10 years from 26 May 2000	ZL00327129.3

(d) As at the Latest Practicable Date, we have registered the following domain names:

Domain names	Duration of registration
huanqiuruye.com	25 January 2010 till 25 January 2011
milkglobal.com	25 January 2010 till 25 January 2011
dqrpc.com	22 August 2007 till 22 August 2013
global-milk.com	25 January 2010 till 25 January 2011
global-dairy.com.cn	19 May 2010 till 19 May 2011
globaldairy.com.cn	19 May 2010 till 19 May 2011

3. Further information about our PRC subsidiaries

(a) Daqing Dairy

(i)	nature of the company	:	wholly foreign-owned enterprise
(ii)	term of business operation	:	from 20 September 1984 till 19 August 2038
(iii)	total amount of investment	:	RMB360 million
(iv)	registered capital	:	RMB120 million
(v)	attributable interest of the company	:	100%

(vi)	scope of business	:	Production, sale, import and export of "Da Qing" brand milk powder with low sugar content (A), milk and dairy products and cold beverages (expiry date of Food Hygiene Permit is 18 September 2011)(大慶牌降糖奶粉(A)、乳和乳製品、冷凍飲品的生產、銷售及進出品貿易(食品衛生許可證有效期至2011年9月18日))

(b) *Changqing Dairy*

(i)	nature of the company	:	sole shareholder limited liability company
(ii)	term of business operation	:	none
(iii)	registered capital	:	RMB10 million
(iv)	attributable interest of the company	:	100%
(v)	scope of business	:	Approved business: production and sale of liquid milk and dairy products, cold beverages and ice cream (the production business shall be conducted after obtaining Hygiene Permit Certificate) (許可經營項目：液體乳及乳製品、冷凍飲品及食用冰製造、銷售(在取得衛生許可證後方可從事生產經營))

D. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Directors' service contracts

Each of our Directors has entered into a service contract or an appointment letter (as the case may be) with us for an initial fixed term of three years commencing on the Listing Date which may only be terminated in accordance with the provisions of the service contract or the appointment letter (as the case may be) or by either party giving to the other not less than three months' notice in writing.

Each of our Directors is entitled to the respective basic salary under their respective service contracts or appointment letters set out below. Each of the Executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our Executive Directors in respect of any financial year may not exceed 5% of our audited consolidated or combined net profit (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of our Directors under the current service contracts or appointment letters with our Company are as follows:

Name	Annual Amount
Mr Zhao CW	RMB1,000,000
Mr Zhao	RMB1,000,000
Mr Xia	RMB600,000
Mr Fu	RMB600,000
Mr Daniel Fong	RMB600,000
Ms Carman Chan	RMB300,000
Mr Alexander Cheung	RMB300,000
Mr Zhang	RMB300,000

Save as aforesaid, none of our Directors has or is proposed to have a service contract or an appointment letter (as the case may be) with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

We have not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determine by us within one year without payment of compensation (other than statutory compensation).

2. Directors' remuneration during the Track Record Period

For the three and a half years ended 30 June 2010, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was RMB254,838.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three and a half years ended 30 June 2010 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (including discretionary bonus) for the financial year ending 31 December 2010 will be approximately RMB1.2 million.

E. DISCLOSURE OF INTERESTS

1. Disclosure of Interests

(a) Interests and short positions of our Directors in our share capital and our associated corporations following completion of the Capitalisation Issue and the Global Offering

Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors and chief executive in the Shares, underlying shares and debentures of our Company and our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are 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 recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Long Position in Shares

Name of Director	Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr Zhao	Registered owner	557,172,000	55.1%

(b) Interests and short positions of the substantial Shareholders in the Shares and underlying shares

Save as disclosed below, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in our Shares and underlying shares of our Company which, once our Shares are listed, would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme):

Long Position in Shares

Name	Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr Zhao	Registered owner	557,172,000	55.1%

2. Disclaimers

Save as disclosed in this prospectus:

(a) none of our Directors nor any of the parties listed in the section headed "Other Information — Consents of experts" of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of its subsidiaries;

(b) none of our Directors nor any of the parties listed in the section headed "Other Information — Consents of experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business; and

(c) none of our Directors or their associates or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of the Group.

F. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the written resolutions of all the Shareholders passed on 10 October 2010 and adopted by the written resolutions of the Board passed on 10 October 2010 (the "**Adoption Date**"). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to reward Participants (as defined in paragraph 2 below) who have contributed to the Group and to encourage Participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and its Shareholders as a whole.

2. Who may join

Our Board may offer ("**Offer**") to the directors (including executive directors, non-executive directors and independent non-executive directors and any of their respective associates) and employees (including any of their associates) of our Group, companies owned by directors of our Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of our Group who our Board considers, in its sole discretion, have contributed or will contribute to our Group (the "**Participants**") to take up options ("**Options**") at a price calculated in accordance with paragraph 4 below. An Offer shall remain open for acceptance by the Participant concerned for 28 days from the Business Day on which the Board resolves to make an Offer, or the grant of an Option to a Participant whether or not the Offer is subject to Shareholders' approval on the terms of the Share Option Scheme ("**Date of Grant**") provided that no such Offer shall be open for acceptance after the expiry of the period to be determined and notified by our Board to the Participant who accepts an Offer in accordance with the terms of the Share Option Scheme or a person entitled to any such Option in consequence of the death of the original grantee or the personal representative of such person ("**Grantee**") at the time of making an Offer which shall not expire later than 10 years from the Date of Grant ("**Option Period**") or after the Share Option Scheme is terminated or after the Participant has ceased to be a Participant. An Offer is deemed to be accepted when our Company receives from the Grantee the Offer letter signed by the Grantee specifying the number of Shares in respect of which the Offer is accepted, and a remittance to our Company of HK$1.00 as consideration for the grant of Option. Such remittance is not refundable in any circumstances. The Offer shall specify the terms on which the Option is granted. Such terms may at the discretion of our Board, include among other things, (i) the minimum period for which an Option must be held before it can be exercised; and/or (ii) a performance target that must be reached before the Option can be exercised in whole or in part; and (iii) any other terms, all of which may be imposed (or not imposed) either on a case-by-case basis or generally.

3. Grant of Options to connected persons or any of their associates

Any grant of Options to any Director, chief executive or substantial shareholder (as such term is defined in the Listing Rules) of our Company, or any of their respective associates under the Share Option Scheme or any other share option schemes of our Company or any of its Subsidiaries shall be subject to the prior approval of the independent non-executive directors of our Company (excluding independent non-executive directors who are the proposed Grantees of the Options in question). Where any grant of Options to a substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled or outstanding) to such person in the 12 month period up to and including the date of such grant:

(a) representing in aggregate over 0.1 per cent. of the Shares in issue on the date of such grant; and

(b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant, in excess of HK$5 million, such further grant of Options shall be subject to prior approval by resolution of the Shareholders (voting by way of poll). Our Company shall send a circular to the Shareholders in accordance with the Listing Rules and all connected persons of our Company shall abstain from voting in favour of the resolution at such general meeting of the Shareholders. Any proposed change in the terms of the Options granted to a Grantee who is a substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates, must be approved by the Shareholders in general meeting.

4. Subscription Price

Subject to adjustments made in a situation contemplated under paragraph 9 below, the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option ("**Subscription Price**") shall be determined by our Board in its absolute discretion but in any event shall not be less than the higher of:

(a) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a Business Day;

(b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the Date of Grant; and

(c) the nominal value of the Shares.

5. Maximum number of Shares under the Scheme Mandate Limit

(a) The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of our Company shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of Shares in issue on the Listing Date (not taking into account any Shares which may be allotted and issued under the Over-allotment Option) (the "**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and (as the case may be) such other share option schemes of our Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

Our Company may renew the Scheme Mandate Limit at any time subject to prior Shareholders' approval but in any event, the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of our Company under the limit as refreshed must not exceed 10% of the Shares in issue (including Shares which may be allotted and issued under the Over-allotment Option) as at the date of our Shareholders' approval of the renewed limit. Options previously granted under the Share Option Scheme and any other share option schemes of′ our Company (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

(b) Notwithstanding the foregoing, our Company may grant Options beyond the Scheme Mandate Limit to Participants if:

(i) separate Shareholders' approval has been obtained for granting Options beyond the Scheme Mandate Limit to Participants specifically identified by our Company before such Shareholders' approval is sought; and

(ii) our Company, in connection with the seeking of such separate Shareholders' approval, has first sent a circular to Shareholders containing such information as may be required by the Listing Rules then prevailing to be included in such circular.

(c) Subject to paragraph 5(d) below, the maximum number of Shares issued and to be issued upon exercise of the Options granted to each Grantee under the Share Option Scheme (including both exercised and outstanding Options) in any 12-month period shall not (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of our Company other than those options granted pursuant to specific approval by our Shareholders in a general meeting) exceed 1% of the Shares in issue for the time being (the "**Individual Limit**").

(d) Where any further grant of Options to a Participant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. Our Company must send a circular to the Shareholders disclosing the identity of the Participant in question, the number and terms of the Options to be granted (and Options previously granted to such Participant) and such other information required under the Listing Rules.

(e) At any time, the maximum number of Shares which may be issued upon exercise of all Options which then have been granted and have yet to be exercised under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed 30% of the Shares in issue from time to time (the "**Scheme Limit**").

6. Time of exercise of option

Subject to any restrictions applicable under the Listing Rules, an Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the Option Period.

7. Rights are personal to grantees

An Option is personal to the Grantee and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Option.

8. (a) **Rights on termination of employment**

(i) If the Grantee ceases to be a Participant by reason of the termination of his employment or directorship on the grounds of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or, has become insolvent or has made any arrangements or compromise with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other grounds on which an employer would be entitled to terminate his employment summarily, his Option will lapse automatically (to the extent not already exercised) and not be exercisable on or after the date of termination of his employment.

(ii) If the Grantee who is an employee or a director of our Company or another member of the Group ceases to be a Participant for any reason other than his death or termination of his employment or directorship on one or more of the grounds specified in paragraph 8(a)(i) above, the Option shall lapse (to the extent not already exercised) on the date of cessation or termination of his employment and shall on that day cease to be exercisable.

(b) **Rights on death**

(i) If the Grantee ceases to be a Participant by reason of his death before exercising his Option in full and none of the events which would be a ground for termination of his employment as described in paragraph 8(a)(i) above have arisen, his personal representative(s) may exercise the Option up to the Grantee's entitlement as at the date of death (to the extent not already exercised) within a period of twelve months following the date of his death.

(ii) Subject as herein provided:

where any of the events set out in paragraphs 10 to 13 occurs prior to his death or within such period of 6 months following his death, then his personal representative(s) may so exercise the Option only within such of the various periods respectively set out in such paragraphs provided further that if within a period of 3 years prior to the Grantee's death, the Grantee had committed any of the acts specified in paragraph 8(a)(i) above which would have entitled our Company to terminate his employment prior to his death, our Board may at any time forthwith terminate the Option (to the extent not already exercised) by written notice to the Grantee's legal personal representative(s) and/or to the extent the Option has been exercised in whole or in part by his legal personal representative(s), but Shares have not been allotted, he shall be deemed not to have so exercised such Option and our Company shall return to him the amount of the Subscription Price for the Shares received by our Company in respect of the purported exercise of such Option.

(c) **Rights on cessation to be a Participant in respect of a Grantee not being an employee or a director**

If a Grantee who is not an employee or a director of our Company or another member of the Group ceases to be a Participant as and when determined by the Board by resolution for any reason other than his death, our Board may by written notice to such Grantee within one month from the date of such cessation determine the period within which the Option (or such remaining part thereof) shall be exercisable following the date of such cessation.

9. Effect of alterations to share capital

In the event of an alteration in the capital structure of our Company, whilst any Option remains exercisable, by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or, consolidation of shares, or reduction of the share capital of our Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party), such corresponding adjustments (if any) shall be made to:

(a) the number or nominal amount of Shares subject to the Option so far as unexercised; or

(b) the Subscription Price,

or any combination thereof, provided that:

(AA) any such adjustments give a Grantee the same proportion of the equity capital of our Company as that to which that Grantee was previously entitled; and

(BB) notwithstanding paragraph 9(AA) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalisation issue, should be made in accordance with the acceptable adjustments set out in the Supplemental Guidance on Listing Rules 17.03 issued by the Stock Exchange on 5 September 2005 and such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time;

but no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value.

10. Rights on a general offer by way of takeover

In the event of a general offer by way of takeover (other than by way of scheme of arrangement) being made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, our Company shall forthwith notify all the Grantees and any Grantee (or his legal personal representative) shall be entitled to exercise the Option in full (to the extent not already exercised) or to the extent as notified by our Company at any time within such period as shall be notified by our Company.

11. Rights on a general offer by way of scheme of arrangement

In the event of a general offer by way of scheme of arrangement being made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith notify all the Grantees and any Grantee (or his legal personal representative) may at any time thereafter, (but before such time as shall be notified by our Company) exercise the Option either to its full extent or to the extent notified by our Company.

12. Rights on winding up

In the event a notice is given by our Company to the Shareholders to convene a Shareholders' meeting to consider and, if thought fit, approve a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to all Grantees and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by our Company) exercise the Option either to its full extent or to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than three Business Days prior to the date of the proposed Shareholders' meeting, allot and issue and register in the name of the Grantee such number of Shares to the Grantee which fall to be issued on such exercise.

13. Rights on a compromise or arrangement

In the event a compromise or arrangement (other than a scheme of arrangement) between our Company and its members or creditors is proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice to all the Grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a compromise or arrangement, and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by our Company) exercise the Option either to its full extent or to the extent notified by our Company and our Company shall as soon as possible and in any event no later than three Business Days prior to the date of the proposed Shareholders' meeting, allot and issue and register in the name of the Grantee such number of Shares which fall to be issued on such exercise.

14. Ranking of Shares

The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Memorandum of Association and Articles of Association of our Company for the time being in force and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which these Shares are allotted on exercise of the Option and accordingly shall entitle the holders to participate in all dividend or other distributions paid or made after the date on which the Shares are allotted other than any dividends or distributions previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the date on which the Shares are allotted.

15. Period of the Share Option Scheme

Options may be granted to the Participants under the Share Option Scheme during the period of 10 years commencing on the Adoption Date.

16. Alterations to the Share Option Scheme

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Participants, and changes to the authority of the Board in relation to any alteration of the terms of the Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

17. Conditions of the Share Option Scheme

The Share Option Scheme shall take effect subject to:

(a) the passing of the resolution by our Shareholders to approve and adopt the Share Option Scheme and to authorise the Board to grant Options thereunder and to allot and issue Shares pursuant to the exercise of any Options;

(b) the Listing Committee granting approval of the listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options (subject to an initial limit of 10% of the aggregate number of Shares in issue on the Listing Date (being 101,050,000 Shares)); and

(c) the commencement of trading of the Shares on the Main Board of the Stock Exchange.

18. Lapse of Option

An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:

(a) the expiry of the Option Period (subject to the provisions of this Share Option Scheme);

(b) the expiry of the periods referred to in paragraphs 8(a), 8(b), 8(c), 10 to 13 above respectively,

(c) the expiry of the period referred to in paragraph 10 above, subject to any court of competent jurisdiction making an order to prohibit the offeror from acquiring the remaining Shares in the Offer, the relevant period within which Options may be exercised shall not begin to run until the discharge of the order in question or unless the Offer lapses or is withdrawn before that date;

(d) the date of commencement of the winding-up of our Company;

(e) the date on which the Grantee ceases to be a Participant as referred to in paragraph 8(a)(i) above;

(f) the date on which the Grantee commits a breach of paragraph 7 above; and

(g) subject to paragraph 8(a)(ii), the date the Grantee ceases to be a Participant for any other reason.

19. Termination of the Share Option Scheme

Our Company by ordinary resolution in general meeting or our Board may at anytime terminate the Share Option Scheme and in such event no further Options may be granted but in all other respects the Share Option Scheme shall remain in full force and effect in respect of Options which are granted during the life of the Share Option Scheme and which remain unexpired immediately prior to termination of the operation of the Share Option Scheme.

20. Restriction on Grant of Option

In addition, a grant of Options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published as prescribed by the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

(a) the date of the board meeting of our Company (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

(b) the deadline for our Company to publish an announcement of its 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 ending on the date of the results announcement, no Option may be granted.

21. Cancellation

Any Options granted but not exercised may be cancelled if the Participant so agrees.

22. Options granted under the Share Option Scheme

Options granted under the Share Option Scheme do not carry any right to vote, or any right, dividend, transfer or any other rights, including those arising on the liquidation of our Company.

23. Administration of the Share Option Scheme

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters (save as otherwise provided in the Share Option Scheme) shall be final and binding on all parties.

24. Present Status of the Share Option Scheme

As at the date of this prospectus, no Option has been granted or agreed to be granted pursuant to the Share Option Scheme.

G. OTHER INFORMATION

1. Tax indemnity

Our Controlling Shareholder has under a deed of indemnity referred to in paragraph (k) of the section headed "Summary of the Material Contracts" in this Appendix, given indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things, (i) any taxation liability which might be payable by any member of the Group arising on the death of any person on or before the date on which the obligations of the Underwriters under the Underwriting Agreement become unconditional (the "**Unconditional Date**"); (ii) any taxation liability which might be payable by any member of the Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received or entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the Unconditional Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation liability is chargeable against or attributable to any other person, firm or company, unless such taxation liability is also discharged by such other person, firm or company; and (iii) all costs (including all legal costs), charges, expenses, interest, penalties or other liabilities which are properly incurred by our Company or any other member of the Group in connection with, among others, paragraphs (i) and (ii) above or in any legal proceedings related thereto.

Our Controlling Shareholder will however, not be liable under the deed of indemnity for taxation to the extent that:

- full provision has been made for such taxation liability in the audited consolidated accounts of our Group as set out in Appendix IA to this prospectus for the three years ended 31 December 2009 and the six months ended 30 June 2010 ("**Accounts**"); or

- the taxation liability for which any member of the Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Unconditional Date;

- the taxation liability would not have arisen but for any act or omission by any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected after the Unconditional Date unless carried out, made or entered into:

  (i) pursuant to a legally binding commitment created on or before the Unconditional Date; or

  (ii) pursuant to an obligation imposed by any law, regulation or requirement having the force of law on or before the Unconditional Date; or

- the taxation liability is discharged by another person who is not a member of our Group and that none of the members of our Group is required to reimburse or indemnify such person in respect of the discharge of the taxation liability;

- the claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities of the PRC or any other authority in any part of the world coming into force after the Unconditional Date or to the extent such claim arises or is increased by an increase in rates of taxation liability after the Unconditional Date with retrospective effect; and

- any provision or reserve made for taxation liability in the Accounts which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce our Controlling Shareholder's liability in respect of any taxation shall not be available in respect of any such liability arising thereafter.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of Hong Kong, the Cayman Islands, Singapore and the PRC, being jurisdictions in which one or more of the companies comprising the Group were incorporated.

2. Litigation

As at the Latest Practicable Date, neither we nor any of our subsidiaries are/is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

3. Preliminary Expenses

Our estimated preliminary expenses are approximately RMB63,000 and have been paid by us.

4. Sponsor

The Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, Shares to be issued pursuant to the Capitalisation Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and, the Shares that may be issued upon the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2010 (being the date to which our latest audited consolidated statements of comprehensive income were made up).

6. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

7. Particulars of the Selling Shareholders

	Description	Address	Number of Sale Shares
Kenmoore	A company incorporated in the BVI and a Pre-IPO Investor	Horizon Chambers P.O. Box 4622 Road Town, Tortola BVI	44,586,000
Venstar Investments	A company incorporated in Singapore and a Pre-IPO Investor	61 Robinson Road #13-03 Robinson Centre Singapore 068893	9,228,000
2G Capital	A company incorporated in Singapore and a Pre-IPO Investor	5 Shenton Way #21-05 UIC Building Singapore 068808	11,074,000

	Description	Address	Number of Sale Shares
NF Capital	A company incorporated in the Cayman Islands and a Pre-IPO Investor	c/o Offshore Incorporations (Cayman) Limited Scotia Centre, 4th Floor P.O. Box 2804 George Town Grand Cayman KY1-1112 Cayman Islands	11,074,000
Magic Carpet	A company incorporated in the Cayman Islands and a Pre-IPO Investor	c/o Campbell Corporate Services Limited Scotia Centre P.O. Box 268 George Town Grand Cayman KY1-1104 Cayman Islands	11,074,000
Providence SOGF	A company incorporated in Singapore and a Pre-IPO Investor	50 Raffles Place #33-06 Singapore Land Tower Singapore 048623	2,768,000
Blooming Global	A company incorporated in the BVI and a Pre-IPO Investor	OMC Chambers Wickhams Cay I Road Town, Tortola BVI	2,152,000
Broad Idea	A company incorporated in the BVI and a Pre-IPO Investor	P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola BVI	4,308,000
Mr Lee	A Singapore natural person and a Pre-IPO Investor	65 Nee Soon Road Singapore 788563	9,228,000
Mr Chua	A Singapore natural person and a Pre-IPO Investor	81 Toa Payoh Lorong 4 #23-432 Singapore 310081	2,768,000
		Total:	108,260,000

8. Miscellaneous

(1) Save as disclosed in this prospectus:

(a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) neither our Company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;

(e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;

(f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(g) we have no outstanding convertible debt securities; and

(h) there is no arrangement under which future dividends are waived or agreed to be waived.

(2) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 12 months immediately preceding the date of this prospectus.

9. Promoters

Our Company has no promoter for the purpose of the Listing Rules. Within two years immediately preceding to the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to, or is proposed to be paid, allotted or given to, any promoter in connection with the Global Offering or the related transactions described in this prospectus.

10. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Macquarie Capital Securities Limited	A licensed corporation licensed 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
Deloitte Touche Tohmatsu	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC legal advisers to our Company
Jones Lang LaSalle Sallmanns Limited	Property valuer

11. Consents of experts

Each of Macquarie Capital Securities Limited, Deloitte Touche Tohmatsu, Conyers Dill & Pearman, Jingtian & Gongcheng and Jones Lang LaSalle Sallmanns Limited has given and has not withdrawn its respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of its subsidiaries.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provide by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the **white**, **yellow** and **green** Application Forms;

(b) the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI to this prospectus;

(c) copies of the material contracts referred to in the paragraph headed "Summary of the Material Contracts" in Appendix VI to this prospectus; and

(d) a statement of particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Stephenson Harwood at 35th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including 30 October 2010:

(1) the Memorandum of Association and the Articles of Association of the Company;

(2) the Accountants' Reports prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendices IA and 1B to this prospectus;

(3) the audited financial information (i) relating to our Group for the period from 8 October 2007 to 31 December 2007, and the two financial years ended 31 December 2009 and the six months ended 30 June 2010, and (ii) relating to Daqing Dairy and Changqing Dairy for the year ended 31 December 2007, the period from 1 January 2008 to 24 July 2008, the two years ended 31 December 2009 and the six months ended 30 June 2010;

(4) the report prepared by Deloitte Touche Tohmatsu relating to the unaudited pro forma financial information of our Company, the texts of which are set out in Appendix II to this prospectus;

(5) the letters prepared by (i) Deloitte Touche Tohmatsu and (ii) the Sponsor relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;

(6) the letter, summary of values and valuation certificates relating to the property interests of the Group prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this prospectus;

(7) the material contracts referred to in the section headed "Summary of the Material Contracts" in Appendix VI to this prospectus;

(8) the service contracts or appointment letters (as the case may be) with our Directors, referred to in the section headed "Directors' service contracts" in Appendix VI to this prospectus;

(9) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Companies Law referred to in Appendix V to this prospectus;

(10) the written consents referred to in the section headed "Consents of experts" in Appendix VI to this prospectus;

(11) the legal opinions prepared by Jingtian & Gongcheng, our legal adviser as to the PRC laws, in respect of certain aspects of the Group and the property interests of the Group;

(12) the Cayman Companies Law;

(13) the statement of particulars of the Selling Shareholders including their names, addresses and description; and

(14) the rules of the Share Option Scheme.

Global Dairy Holdings Limited
環球乳業控股有限公司