
INDUSTRY OVERVIEW

We have engaged Euromonitor International, an experienced consultant in the dairy sector, to prepare an industry report for use in this document. Euromonitor International prepared its report based on its in-house database, independent third-party reports and publicly available data from reputable industry organizations. Where necessary, Euromonitor International contacts companies operating in the industry to gather and synthesize information about the market, prices and other relevant information. Euromonitor International has assumed that the information and data which it relied on are complete and accurate.

Euromonitor International has provided part of the statistical and graphical information contained in this section. Euromonitor International has advised that: (i) some of the information in its database is derived from estimates from industry sources or subjective judgments; and (ii) the information in the database of other data collection agencies may differ from the information in its database.

We believe that the sources of the information in this section 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 part has been omitted that would render such information false or misleading. No independent verification has been carried out on any facts or statistics that are directly or indirectly derived from official government and non-official sources. The official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

Unless and except as otherwise specified, the market and industry information and data presented in this section are derived from the industry report prepared by Euromonitor International.

China’s dairy sector has seen significant developments in both quality and quantity of raw milk and dairy products in recent years. China’s rapid urbanization has been the driving force behind the growth in consumption of dairy products, particularly high-end and high-priced dairy products. The rise in per capita annual disposable income of urban residents, lifestyle changes and shifts in consumer spending patterns have contributed to the increasing popularity of dairy products in China. In addition, as a result of the increasing demand for safe and high-quality dairy products and the development of the high-end dairy market in China, dairy products manufacturers are increasingly focused on securing direct, stable and reliable supplies of premium raw milk, the quality of which significantly enhances the quality, unit production volume and taste of consumable dairy products. Furthermore, in recent years, there has been a gradual increase in the number of large-scale dairy farms utilizing modern technologies and advanced farming method to meet the increasing demand for premium raw milk. These changes, coupled with the PRC Government’s nationwide policies promoting safer and higher quality dairy products for consumers, are helping to propel the continued evolution of China’s dairy farming industry.

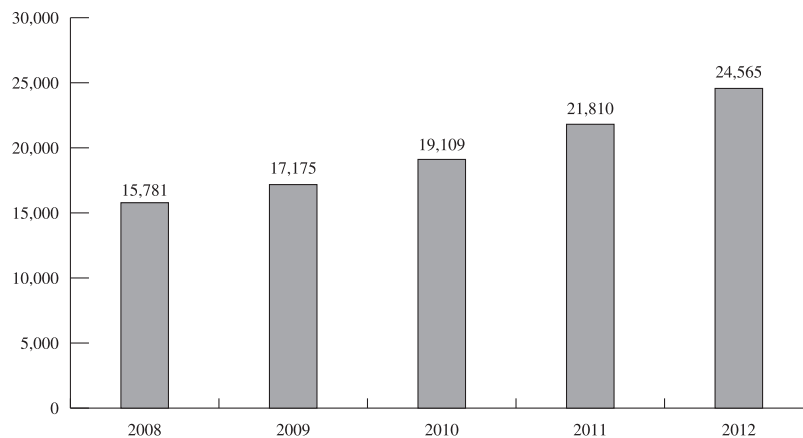
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THE MARKET FOR DAIRY PRODUCTS IN CHINA

Consumption of Dairy Products

Urbanization in China has enabled its rural population to migrate to urban areas to seek higher wages. According to *National Bureau of Statistics of China* (中華人民共和國國家統計局), China’s total population was 1,354.0 million in 2012. Its urban population had risen from 624.0 million in 2008 to 711.8 million in 2012, accounting for 47.0% and 52.6%, respectively, of the total population. This progressive increase in urban population as well as significant improvements in the standard of living, fueled by China’s rapid economic growth, continue to raise average incomes and boost the spending power of China’s consumers. According to *National Bureau of Statistics of China*, the per capita annual disposable income of urban residents in China increased from approximately RMB15,781 in 2008 to approximately RMB24,565 in 2012, representing a CAGR of 11.7%. The following chart sets forth the per capita annual disposable income of urban residents in China from 2008 to 2012:

Per Capita Annual Disposable Income of Urban Residents in China (2008–2012)

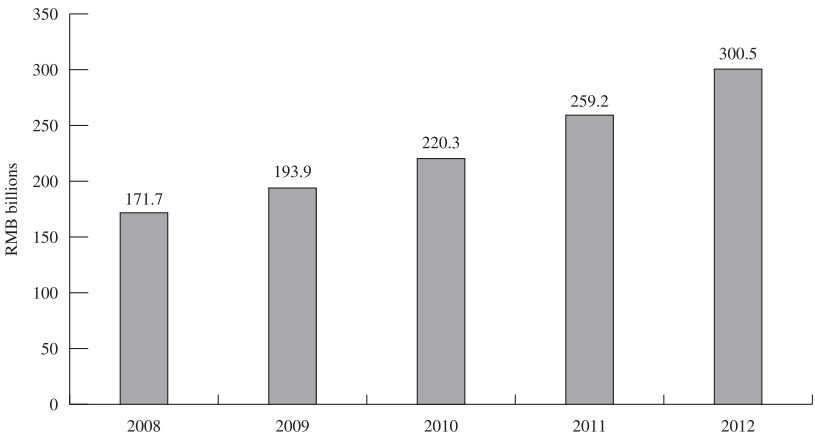


Source: *National Bureau of Statistics of China*

According to *Euromonitor International*, increasing disposable income has a positive impact on the dairy market, particularly on the premium dairy products market. Furthermore, urban residents consume far more dairy products than rural residents. In 2011, the annual per capita consumption of white milk was 13.7kg for the urban residents, but only 1.7kg for the rural residents. As a result, the rise in per capita annual disposable income of urban residents, along with lifestyle changes and shifts in consumer spending patterns, has led to an increase in the consumption of dairy products in China. According to *Euromonitor International*, the total value of retail sales of dairy products in China grew from approximately RMB171.7 billion in 2008 to approximately RMB300.5 billion in 2012, representing a CAGR of 15.0%, as illustrated in the chart below:

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Value of Retail Sales of Dairy Products in China (2008–2012)

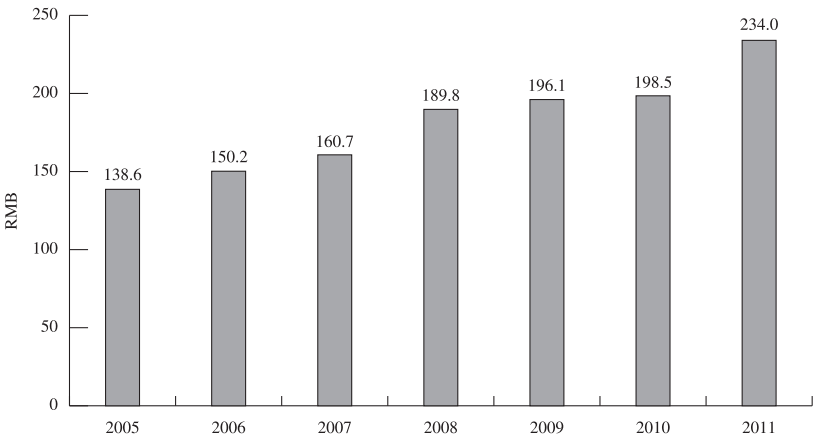


Source: Euromonitor International

Furthermore, the value of retail sales of dairy products in China is expected to continue to grow, and is forecast by *Euromonitor International* to increase at a CAGR of 12.1% from 2013 to 2017.

The per capita annual consumption of dairy products of urban residents increased from RMB138.6 in 2005 to RMB189.8 in 2008. However, the melamine incident in 2008 had a significant negative impact on the consumption of dairy products in China, particularly of dairy products manufactured using domestically produced raw milk. Per capita annual consumption experienced a slow growth from 2008 to 2010. Following a recovery of consumer confidence in domestic dairy products that primarily resulted from the PRC Government’s introduction of more stringent quality control measures and food safety laws in response to the incident, per capita annual consumption of dairy products in China increased to RMB234.0 in 2011. The chart below sets forth per capita annual consumption of dairy products of urban residents in China from 2005 to 2011:

Per Capita Annual Consumption of Dairy Products of Urban Residents in China (2005–2011)



Source: Euromonitor International, *China Dairy Statistical Yearbook 2012* (中國統計年鑒 — 2012)

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Key Dairy Products Manufacturers in China

China’s dairy products market is fragmented. While Mengniu Group, Yili Group and Bright Dairy Group are the three largest dairy products manufacturers in China with a consolidated market share of 21.8% in 2012, each of the remaining market players has no more than 2.0% market share.

Demand for High-quality Dairy Products

Historically, the supply of raw milk from dairy farms to dairy products manufacturers was largely dependent upon a network of mostly independent milk stations and agents who collected milk from individual, small- and mid-scale farms and delivered it to dairy products manufacturers. With over one million milk suppliers, the lack of a regulated collection process led to the melamine incident in 2008, which involved product tampering and raw milk contamination. The incident has resulted in a greater focus on product safety and quality, the preference by dairy products manufacturers for sourcing raw milk from reputable suppliers for their dairy products, and increased government support of the development of safe and high-quality dairy products. Due in part to this incident, sales of premium raw milk have increased significantly since 2009.

According to *Euromonitor International*, there has been a significant shift in the demand for high-priced premium dairy products since 2008, the year in which the melamine incident occurred, due to consumers’ focus on product safety and quality. Premium liquid milk, which is recognized as premium products by their product claims and typically sold at a retail selling price that is at least 30% higher than that of regular liquid milk products, accounted for 8.4% of the market in terms of the value of retail sales in 2008. However, the market share of premium liquid milk increased to 14.9% in 2012. In addition, the value of retail sales of premium liquid milk increased from RMB10.2 billion in 2008 to RMB30.4 billion in 2012, representing a CAGR of 31.4%.

To meet consumer demand for safe and high-quality dairy products, dairy products manufacturers in China have increased their focus on offering high-end dairy products, such as Mengniu’s *Milk Deluxe* (特侖蘇), Yili’s *Satine* (金典) and Bright Dairy’s *U⁺* (優⁺). These are perceived as premium dairy products and distinguished by their prices, which are significantly higher than the prices of regular dairy products. Because the safety and quality of raw milk are critical to the production of high-end dairy products, dairy products manufacturers now seek to procure high-quality raw milk from reputable suppliers that operate larger scale and more modernized dairy farms to ensure their access to safe raw milk.

The melamine incident in 2008 also prompted the PRC Government to implement and enforce stricter regulations regarding food safety, such as the *Food Safety Law of the PRC* (中華人民共和國食品安全法) and the *Conditions for Admission to the Dairy Product Processing Industry* (乳產品加工行業准入條件), and to improve and tighten the oversight of food safety controls and standards. The enforcement of new laws, stricter regimes and more severe punishments is expected to ultimately benefit larger and more modernized dairy farming companies, from whom downstream dairy products manufacturers are expected to increase their supplies of raw milk as they exert greater control over the supply chain. For more information regarding the food safety regulations, see “Regulations — The Laws and Regulations Relating to the Industry.”

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Demand for Premium Raw Milk in China

As a result of the emerging demand for safe and high-quality dairy products and the development of high-end dairy products in China, dairy products manufacturers are focused on securing direct, stable and reliable sources of premium raw milk. The quality of raw milk has a significant effect on the quality, unit production volume and taste of consumable dairy products. Premium raw milk not only minimizes the risk of potential contamination, but also improves the taste, and hence the profitability, of dairy products. Furthermore, the government’s increasing focus on developing safe and high-quality dairy products has also promoted the development of the high-end segment of the dairy products industry, which in turn has expanded the market for premium raw milk. Dairy farms seeking to produce raw milk that meets high safety and quality standards must adhere to strict requirements and procedures at each stage of the raw milk production process and select dairy cows with specific genetic requirements. As such, only a limited number of dairy farms in China have the scale, technologies, facilities and know-how to produce premium raw milk that meets the specifications of dairy products manufacturers for their high-end dairy products.

Recent Developments in the Dairy Products Market in China

In early August 2013, Fonterra Co-operative Group Limited (“Fonterra”) informed authorities in New Zealand that certain batches of its whey protein concentrate produced at a Fonterra processing facility in New Zealand contained *Clostridium botulinum*, a strain of bacteria that can cause a potentially fatal paralytic illness known as botulism. The news prompted the PRC Government to impose restrictions on the imports of certain Fonterra products into China, and led to the recall of certain brands of dairy products that were suspected of containing the tainted ingredient or were packaged in the said New Zealand facility. However, on 28 August 2013, Fonterra and New Zealand government officials issued statements confirming that further testing revealed the bacteria found in Fonterra products to be *Clostridium sporogenes*, which, according to the statements, is not associated with any known food safety issues and is not capable of causing botulism.

In August 2013, a number of foreign manufacturers whose infant formula is sold in China were investigated and fined by the PRC Government for price-fixing and anti-competitive practices. Following the investigation, some foreign manufacturers significantly reduced the prices of their infant formula in the PRC market. If this trend continues, domestic infant formula manufacturers could potentially face increased competition from these foreign manufacturers, and consequently be forced to lower the selling prices of their own infant formula products. In such event, these domestic infant formula manufacturers could seek to renegotiate their raw milk supply contracts with their raw milk suppliers to reduce the selling prices of raw milk.

In addition, in July 2013, there were controversial reports regarding infant formula products manufactured by certain domestic brands that were found to contain trans-fatty acids. While experts disagree as to whether such content poses a health risk to infants, and although the levels of trans-fatty acids found in these domestic brands of infant formula are purported to be within national and international safety standards, any such adverse publicity could have a negative impact on demand for, and sales of, PRC branded infant formula products, which could in turn curtail demand for raw milk supplies in general.

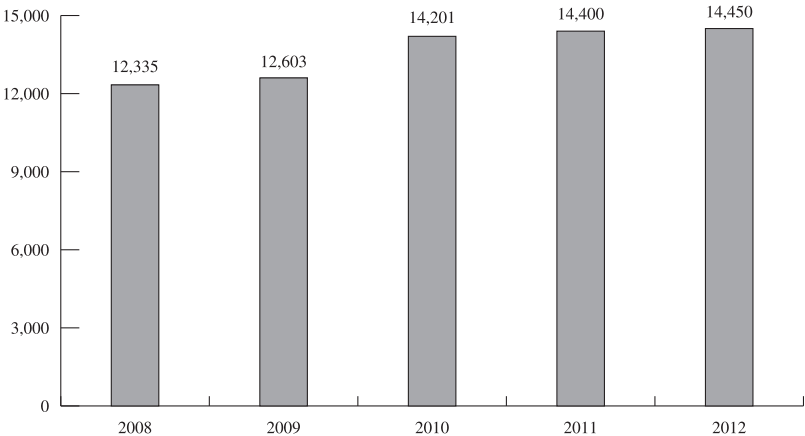
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DAIRY FARMING INDUSTRY IN CHINA

Overview

The dairy farming industry in China continues to be extremely fragmented and is largely dominated by individual farms with fewer than 20 cows per farm. However, there has been a gradual increase in the number of large-scale farms in recent years due to the significantly higher efficiency and productivity of farms with scale, the introduction of more favorable government policies towards such farms in the wake of the melamine incident in 2008, and a greater focus on the safety and quality of raw milk supplies. According to *Euromonitor International*, the number of large-scale dairy farms had risen from 453 farms in 2008 to 1,133 farms in 2012, representing a CAGR of 25.8%. Large-scale dairy farms, representing less than 0.1% of the total number of dairy farms in China in 2012, accounted for 16.1% of total raw milk production in China in the same year. In addition, after the melamine incident in 2008, many individual farms and small-scale farms slaughtered or sold their cows, resulting in relatively flat growth in the number of dairy cows in China. However, as China’s dairy market gradually recovered, the number of dairy cows increased from 12.3 million in 2008 to 14.5 million in 2012, as shown in the chart below:

Number of Dairy Cows in China ('000s) (2008–2012)



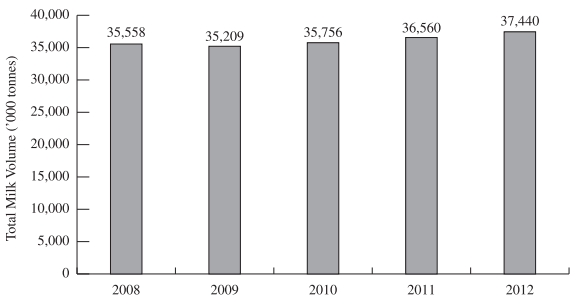
Source: *Euromonitor International*

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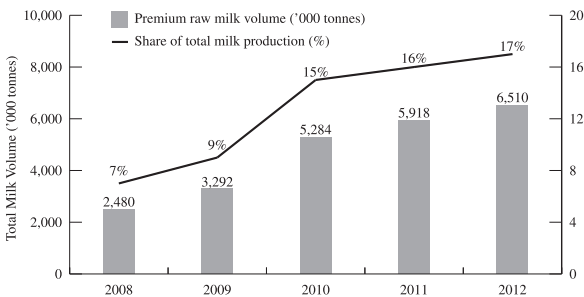
Raw Milk Production in China

According to *Euromonitor International* and *China Dairy Statistical Yearbook 2012*, raw milk production in China grew rapidly at a CAGR of 20.0% between 2000 and 2008 due in part to a rise in the average annual milk yield per cow, which increased from 2.6 tonnes in 2000 to 4.6 tonnes in 2008. While the melamine incident in 2008 reduced demand and led to a temporary decrease in levels of raw milk production compared to production levels in 2007, raw milk production gradually recovered from 2009 to 2011 and further increased in 2012, along with the increased average annual milk yield per cow of 5.5 tonnes in 2012. In particular, the production of premium raw milk, a majority of which is undertaken by large-scale dairy farms, increased rapidly from 2009 to 2011, and continued to increase in 2012. The charts below show the total raw milk production and premium raw milk production in China from 2008 to 2012:

**Raw Milk Production in China
(’000 tonnes) (2008–2012)**



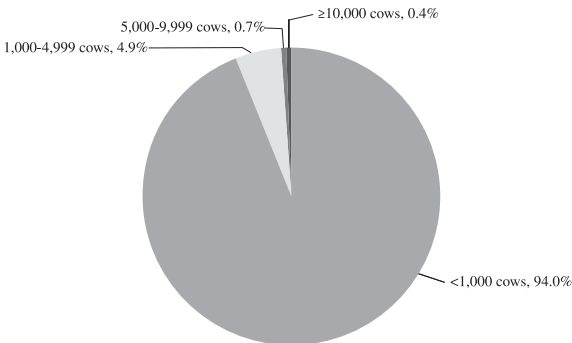
**Premium Raw Milk Production in China
(2008–2012)**



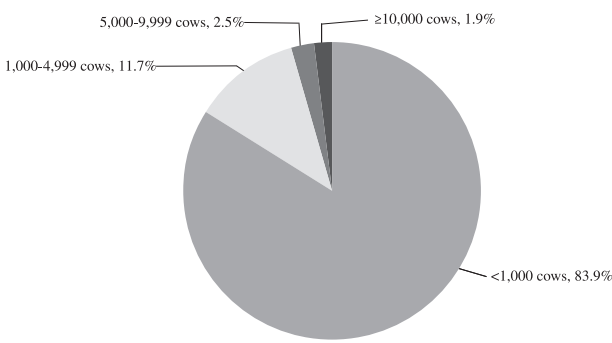
Source: *Euromonitor International*

Additionally, the market share of large-scale dairy farms in terms of raw milk production had increased from 2008 to 2012. According to *Euromonitor International*, raw milk produced by large-scale farms accounted for 6.0% of China’s total raw milk production in 2008; by 2012, this number had increased to 16.1%. The charts below set forth the proportion of raw milk in China produced by farms of different sizes in 2008 and in 2012.

Production of Raw Milk by Dairy Farm Size (2008)



Production of Raw Milk by Dairy Farm Size (2012)



Source: *Euromonitor International*

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Assessment of Raw Milk Quality

Raw milk quality is assessed based on four indicators, namely microbe count, SCC, protein content and fat content. Dairy farming companies constantly monitor these four indicators and take efforts to improve raw milk quality by excelling in these four areas. In terms of these four indicators, the average quality of raw milk in China continues to be low compared to that in other countries. In addition, China’s raw milk standards are significantly lower than the standards adopted by the EU, which is among the world’s highest industrial standards for raw milk and other dairy products. The assessment of raw milk quality involves a safety standard assessment and nutritional standard assessment. For safety purposes, any raw milk offered for sale within the EU must meet basic milk quality requirements with a microbe count of not more than 100K/ml and a SCC of not more than 400K/ml. In China, the new industry standard requires microbe count of not more than 2,000K/ml and there is no requirement for SCC. For nutritional purposes, the PRC Government requires raw milk to have a minimum protein content and fat content of 2.8% and 3.1%, respectively, while the EU does not impose a nutritional standard for raw milk. The table below sets forth the respective quality requirements of raw milk in China and the EU:

	<u>China Standard⁽¹⁾⁽²⁾</u>	<u>EU Standard⁽²⁾⁽³⁾</u>
Safety Standard		
Microbe count ⁽⁴⁾	≤2,000K/ml	≤100K/ml
SCC ⁽⁴⁾	N/A	≤400K/ml
Nutritional Standard		
Protein ⁽⁵⁾	≥2.8%	N/A
Fat ⁽⁵⁾	≥3.1%	N/A

Notes:

- (1) As set forth in the National Food Safety Standard — Raw Milk published on 26 March 2010.
- (2) Indicators for freshly milked raw milk and before treatment.
- (3) As set forth in the Raw Milk quality standards in Council Directive 92/46/EEC adopted in the EU.
- (4) Microbe count and SCC are two of the major indicators used to determine the safety of raw milk. Generally, a lower SCC indicates better animal health, while a lower microbe count indicates improved sanitation. The China Standard does not impose a maximum SCC requirement.
- (5) Fat content and protein content are two major indicators used to determine the nutritional value of raw milk. Generally, a higher fat and protein content indicates higher quality. The EU Standard does not impose a minimum fat or protein requirement.

Sources: Ministry of Health of the PRC, EUR-Lex, a database of EU Law

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Safety standard

In recent years, China has seen an increase in consumer demand for high-quality dairy products that are safe and nutritious. High-quality raw milk is primarily used to manufacture high-end dairy products. Defects in raw milk cannot be removed during processing and often become more pronounced when the raw milk is processed. It is therefore critical for raw milk to have a low microbe count and low SCC, which indicate a safe and high-quality product. In the United States, certain methods to assess safety, including the SCC and standard plate count, or the SPC, are mandated by the federal *Grade “A” Pasteurized Milk Ordinance*, which is a document that specifies the safety standards of Grade “A” milk.

- *Microbe count*: Raw milk at the time of leaving the udder of healthy cows normally contains very low numbers of micro-organisms. The health and hygiene of the cow, the environment in which the cow is housed and milked, and the procedures used in cleaning and sanitizing the milking and storage equipment are all key factors that affect the microbe count of raw milk. A low microbe count in raw milk generally indicates good quality and a low risk of contamination.
- *SCC*: Somatic cells originate from inside a cow’s udder. One characteristic feature of cows with mastitis, an infection of the udder, is a significant elevation in the number of somatic cells in raw milk. Raw milk from uninfected mammary glands usually contains a low SCC, which is an indication of its safety and high quality.

Nutritional standard

Milk provides various kinds of nutrients, including protein and fat which are of significant importance.

- *Milk proteins*: The protein in cow’s milk promotes the healthy growth and development of human body, transports various nutrients throughout the body and boosts the immune system. The level of protein content can be increased with improvements in both the nutritional quality of feed and herd management. As a result, raw milk with a high level of protein content is considered premium quality milk from a well-managed farm.
- *Milk fat*: Milk contains all the major vitamins, while the fat-soluble vitamins A, D, E and K are found mainly in milk fat. Similar to protein content, the fat content of raw milk can be increased with improvements in both the nutritional quality of feed and herd management. As a result, raw milk with a high fat content is considered premium quality milk from a well-managed farm.

Raw Milk Pricing

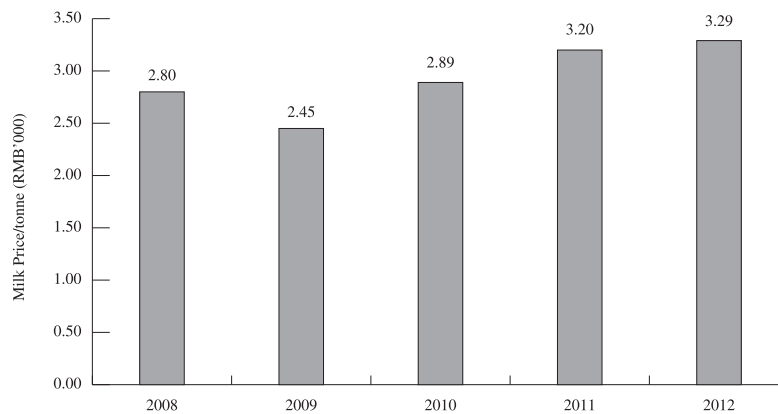
For large-scale dairy farms with direct arrangements with dairy products manufacturers, prices are typically set through specific bilateral contracts. Premium raw milk producers generally have more bargaining power over prices, particularly when the supply of premium raw milk falls short of demand.

Several factors affect the price of raw milk, including the quality of raw milk as measured by metrics, such as protein content and fat content, as well as safety standards, and the price of feed. These factors in turn are affected by changes in the prices of key commodities such as corn, shifts in raw milk

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supply by region and overall changes in competitive market dynamics for processed dairy products. Market demand for dairy products also has a material impact on the price of raw milk. In 2009, raw milk prices in China decreased dramatically as demand for dairy products saw a significant decline nationwide due to the 2008 melamine incident. When demand began to recover in 2010 and caused raw milk demand to outstrip supply, the price of raw milk rebounded in 2010. Raw milk prices continued to rise from 2011 to 2012. Furthermore, according to *Euromonitor International*, raw milk price increases were more obvious for premium raw milk than for low-grade raw milk. The chart below sets forth the average prices of raw milk from major production regions of China since 2008:

Average Price of Raw Milk from Major Production Regions of China (2008–2012)



Source: *Euromonitor International*

Classification of Raw Milk Quality

The quality of raw milk is reflected in its selling price, and high-quality raw milk is generally sold at a higher price than low-quality milk in same regions in the same year. According to *Euromonitor International* and based on its trade interviews with industry experts and dairy farming companies, the classification of raw milk quality, based on the average selling price in major production regions in 2012, is as follows:

- *Low-grade raw milk*: Raw milk of a comparatively lower quality, typically with an average selling price lower than RMB3,000 per tonne.
- *Mid-grade raw milk*: Raw milk of a medium quality, typically with an average selling price of between RMB3,000 to RMB3,800 per tonne.
- *Premium raw milk*: Raw milk of a premium quality, typically with an average selling price higher than RMB3,800 per tonne.
- *Super premium raw milk*: Raw milk of a super premium quality, typically with an average selling price higher than RMB4,000 per tonne.

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Development of Large-scale Dairy Farms

The number of large-scale dairy farms has gradually increased in recent years, driven by the growing demand of consumers for premium raw milk as well as dairy products manufacturers’ increasing focus on securing direct, stable and reliable supplies of raw milk. With an attempt to secure direct, stable and reliable supplies of premium raw milk, dairy products manufacturers thrive to keep a well-maintained relationships with the dairy farms and are willing to provide business supports at various levels.

Compared with other large-scale dairy farms, mega-scale dairy farms grew at a faster rate. Large-scale farms, particularly the mega-scale farms, typically receive higher levels of capital investments, utilize more advanced technologies and employ more advanced and standardized farming methods, which generally enable them to achieve higher quality milk and higher milk yield than farms of a smaller scale. While the number of large-scale farms has increased, there are still significantly fewer large-scale dairy farms in China than in more developed markets.

The PRC Government has, both at a national and regional level, implemented several policies to support the development and expansion of larger scale farms. At the provincial government level, initiatives have been implemented including the arrangement of a special budget by the NDRC to fund the reconstruction and expansion of large-scale dairy farms with standardized operating methods. Large-scale farms utilizing more efficient farming methods, such as the industrialized free stall farming method and improved feed management, lead to more efficient use of land than smaller scale farms. The number of large-scale dairy farms in China is expected to increase and, combined with an increase in the overall demand for dairy products, drive the continued growth of the dairy farming industry and raw milk supplies.

Competitive Landscape of the Dairy Farming Industry in China

The dairy farming industry remains under-developed in China. According to *Euromonitor International*, more than 99.9% of over two million dairy farms in China had fewer than 1,000 cows in 2012. The following table sets forth the top ten dairy farming companies in China in terms of raw milk production volume in 2012:

Top 10 Dairy Farming Companies — Ranking by Raw Milk Production Volume in 2012⁽¹⁾

Ranking	Company Name	Unit: '000 tonnes
1	China Modern Dairy Holdings Ltd. ⁽³⁾	497.0
2	Liaoning Huishan Dairy Group ⁽²⁾	388.7
3	Beijing Sanyuan Lvhe Dairy Co., Ltd. ⁽²⁾	224.2
4	Our Group⁽³⁾	168.0
5	Shanghai Dairy Group Co., Ltd. ⁽²⁾	154.2
6	Jilin Guangze Dairy Farm Co., Ltd. ⁽²⁾	116.9
7	Tianjin Jialihe Dairy Farm Co., Ltd. ⁽³⁾	104.7
8	Dongying Aoya Modern Dairy Farm Co., Ltd. ⁽³⁾	77.2
9	Shanghai Bright Holstein Dairy Farm Co., Ltd. ⁽²⁾	59.0
10	Nanjing Dairy (Group) Co., Ltd. ⁽²⁾	53.6

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Notes:

- (1) Ranking is based on raw milk produced by cows in dairy farms that the relevant company operates directly. Raw milk produced by cows in dairy farms that are not directly operated by such company or that are simply managed by such company are not included in the ranking data.
- (2) Dairy farms directly operated by the relevant company in 2012 included both self-owned and non self-owned dairy farms.
- (3) All dairy farms directly operated by the relevant company in 2012 were self-owned dairy farms. Self-owned dairy farms refer to dairy farms that are wholly or partially owned by the relevant company. In the case of partially self-owned dairy farms, the relevant company usually owns the majority shares of such dairy farms or has decision-making influences on them.

Source: Euromonitor International

The following table sets forth the top ten dairy farming companies in China in terms of herd size as of 31 December 2012:

Top 10 Dairy Farming Companies — Ranking by Herd Size as of 31 December 2012⁽¹⁾

Ranking	Company Name	Unit: '000 heads
1	China Modern Dairy Holdings Ltd. ⁽³⁾	176.3
2	Liaoning Huishan Dairy Group ⁽²⁾	119.0
3	Beijing Sanyuan Lvhe Dairy Co., Ltd. ⁽²⁾	45.0
4	Shanghai Dairy Group Co., Ltd. ⁽²⁾	40.8
5	Our Group⁽³⁾	37.0
6	Jilin Guangze Dairy Farm Co., Ltd. ⁽²⁾	31.3
7	Tianjin Jialihe Dairy Farm Co., Ltd. ⁽³⁾	23.8
8	Dongying Aoya Modern Dairy Farm Co., Ltd. ⁽³⁾	20.5
9	Nanjing Dairy (Group) Co., Ltd. ⁽²⁾	17.4
10	Shanghai Bright Holstein Dairy Farm Co., Ltd. ⁽²⁾	15.5

Notes:

- (1) Ranking is based on number of cows in dairy farms that the relevant company operates directly. Cows in dairy farms that are not directly operated by such company or that are simply managed by such company are not included in the ranking data.
- (2) Dairy farms directly operated by the relevant company in 2012 included both self-owned and non self-owned dairy farms.
- (3) All dairy farms directly operated by the relevant company in 2012 were self-owned dairy farms. Self-owned dairy farms refer to dairy farms that are wholly or partially owned by the relevant company. In the case of partially self-owned dairy farms, the relevant company usually owns the majority shares of such dairy farms or has decision-making influences on them.

Source: Euromonitor International

The large-scale dairy farming industry has a relatively high entry barrier, requiring substantial capital investments, management’s experience and government support. Because dairy farms seeking to produce raw milk that meets high safety and quality standards must adhere to strict requirements and procedures at each stage of the raw milk production process and select dairy cows with specific genetic

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requirements, small dairy farms find it difficult and costly to produce premium raw milk. Large-scale farms need to employ modern technologies and advanced farming methods in order to operate at significantly higher efficiency and productivity levels, achieve higher milk quality and yields, and further grow their market share through further expansion. Consequently, only a limited number of dairy farms in China are able to produce premium raw milk and, as such, the market in which they operate is not regarded as highly competitive. Furthermore, mega-scale dairy farms, which grew from three in 2008 to 16 in 2012, have even higher requirements on the land size and capital investments than the large-scale dairy farms with fewer than 10,000 dairy cows. As a result, the market in which the mega-scale dairy farms operate does not face much competition.

REPORTS COMMISSIONED FROM EUROMONITOR INTERNATIONAL

Euromonitor International, an independent market research and consulting company, was commissioned by the Company to conduct an analysis of, and to report on, dairy farming, raw milk and dairy products industries in China, from 2008 to 2012. The report commissioned has been prepared by *Euromonitor International* independent of our influence and was published in May 2013. We paid Euromonitor International fees of RMB678,760, which we consider reflects market rates.

Euromonitor International’s independent research was undertaken through both primary and secondary research obtained from various sources within China. Primary research involved interviews with leading industry participants from the raw milk and dairy products industries, manufacturers, distributors, retailers, national or regional industry trade associations, government, semi-official and other segment observers. Secondary research involved gathering and reviewing company reports, independent research reports and data based on Euromonitor International’s own research database. No data modeling has been performed in this research, therefore no parameters were applied. On the other hand, historical data that Euromonitor International gathered and obtained were based on its consecutive tracking in the relevant industries in China during the historical period, therefore no assumptions have been set. In ensuring forecast accuracy, Euromonitor International adopted its standard practice of both quantitative as well as qualitative forecast in terms of factors including market size and growth trends, on the basis of a comprehensive and in-depth review of historical market development, and a cross check with established government or industry figures, and interviews conducted with industry participants and experts.

All primary and secondary research sources are first standardized, checked and validated to ensure that Euromonitor International has a robust research feed to the analysis. A critical analysis of all sources and insights is conducted whereby data, insights and hypotheses are compared to arrive at a set of data and conclusions. Through the above measures and procedures, all reasonable efforts have been taken to ensure the credibility and accuracy of the relevant statistics.