

CONTINUING CONNECTED TRANSACTIONS

OVERVIEW

During the Track Record Period, we entered into certain transactions with connected persons of the Company. We also sell raw milk to Feihe Dairy Group (being deemed by the Stock Exchange as a connected person pursuant to Rule 14A.06 of the Listing Rules) which we agree to undertake to comply with Chapter 14A of the Listing Rules' requirements. These transactions will continue after the Listing Date, thereby constituting continuing connected transactions of the Company under the Listing Rules. Brief details of these continuing connected transactions are set out below:

Name of connected person	Relationship with the Company	Nature of transaction	Term	Applicable Listing Rules	Waiver sought
1(a) Dinghe Modern	A company whose 66.7% equity interest is owned by Mr. HL Zhao (a Controlling Shareholder and a Director), hence his associate	Supply of feeds to our Group for our dairy cows	26 months from 1 November 2013 to 31 December 2015	Rule 14A.47 to 14A.54	Applied for and granted under Rule 14A.42
1(b) Dinghe Feeds	A company whose 90% equity interest is owned by Dinghe Modern				
1(c) Dinghe Qinggang	A company wholly owned by Dinghe Modern				
2 Feihe Dairy HLJ	One of our customers and an Independent Third Party	Purchase of raw milk from our Group	26 months from 1 November 2013 to 31 December 2015	Rule 14A.47 to 14A.54	Applied for and granted under Rule 14A.42

These connected transactions will continue after the Listing.

Connected Persons

1. Dinghe Group

Mr. HL Zhao is one of our Controlling Shareholders and an executive Director. He owns 66.7% equity interest in Dinghe Modern which in turn owns 90% and 100% equity interest in Dinghe Feeds and Dinghe Qinggang, respectively. Being an associate of Mr. HL Zhao, each of Dinghe Modern, Dinghe Feeds and Dinghe Qinggang will be a connected person of the Company under Rule 14A.11(4) of the Listing Rules following the Listing.

CONTINUING CONNECTED TRANSACTIONS

The respective date of establishment and principal businesses of Dinghe Modern, Dinghe Feeds and Dinghe Qinggang are as follows:

<u>Name of connected person</u>	<u>Date of establishment</u>	<u>Principal business</u>
Dinghe Modern	16 March 2011	Supply of corn, wet corn, flaked corn and alfalfa
Dinghe Feeds	25 July 2011	Supply of flaked corn, corn starch, alfalfa and oats
Dinghe Qinggang	13 April 2011	Supply of alfalfa, oaten hay and oat; plantation and harvest of alfalfa and oats

2. Feihe Dairy Group

Feihe Dairy Group (comprising Feihe Dairy HLJ and its subsidiaries) is not a connected person of the Company for the purpose of Rule 14A.11 of the Listing Rules. However, due to our past relationship and transactions with Feihe Dairy Group as disclosed in “History, Development and Reorganization — Our Relationship with Feihe Dairy Group,” it is deemed by the Stock Exchange as our connected person after Listing pursuant to Rule 14A.06 of the Listing Rules. As such, the Company agrees to undertake to comply with Chapter 14A of the Listing Rules’ requirements in respect of the transactions with Feihe Dairy Group from the Listing Date.

Transaction Amounts during the Track Record Period

1. Dinghe Group

During the Track Record Period, we sourced feeds from the Dinghe Group and sold raw milk to Feihe Dairy Group. The respective transaction amounts between our Group and our connected persons are summarized below:

<u>Relevant connected transactions</u>	<u>Aggregate purchase amounts (RMB million)</u>			
	<u>for the year ended 31 December</u>			<u>for the six months ended 30 June</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Supply of feeds by the Dinghe Group to our Group for our dairy cows	0	3.71	22.09	12.29

2. Feihe Dairy Group

<u>Relevant connected transactions</u>	<u>Aggregate sales amounts (RMB million)</u>			
	<u>for the year ended 31 December</u>			<u>for the six months ended 30 June</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Purchase of raw milk by Feihe Dairy Group from our Group	0.37	52.85	91.67	94.81

CONTINUING CONNECTED TRANSACTIONS

Master Agreements

1. Dinghe Master Agreement

For purpose of complying with Rule 14A.35 of the Listing Rules, on 1 November 2013, (a) Ruixinda and Ruixincheng on the one part and (b) Dinghe Modern, Dinghe Feeds and Dinghe Qinggang (for themselves and on behalf of their subsidiaries from time to time) on the other part entered into a master agreement (the “Dinghe Master Agreement”) for the supply of various feeds (including corn silage, alfalfa, corn starch, wet corn, flaked corn, oaten hay and oat), respectively. The principal terms of the Dinghe Master Agreement are summarized below:

<i>Contract period:</i>	26 months from 1 November 2013 to 31 December 2015
<i>Determination of purchase price and other terms:</i>	For each order to be placed under the Dinghe Master Agreement, the purchase price or consideration, the quantity and specifications of feeds concerned, the time and place of delivery of the feeds concerned and other relevant matters will be negotiated by the parties (on arm’s length basis and in good faith) with reference to the then prevailing market prices of the raw materials and accessories required for the supplying of the products concerned, as well as (where applicable) prevailing market prices of similar products which may be sourced from other Independent Third Parties.
<i>Payment term:</i>	Generally, to be settled on accrual basis, with a credit term of no more than one month, during which no interest will accrue.
<i>Early termination:</i>	Our Group (but not Dinghe Group) may, at any time during the contract term, give the other not less than three months’ prior written notice to terminate the agreement.

2. Feihe Master Agreement

As mentioned above, Feihe Dairy Group is deemed by the Stock Exchange as a connected person of the Company pursuant to Rule 14A.06 of the Listing Rules and as such the Company agrees to undertake to comply with Chapter 14A of the Listing Rules’ requirements in respect of the transactions with Feihe Dairy Group from the Listing Date. For the purpose of complying with Rule 14A.35 of the Listing Rules, on 1 November 2013, (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) entered into a master agreement (the “Feihe Master Agreement”) for the purchase of raw milk. The principal terms of the Feihe Master Agreement are summarized below:

<i>Contract period:</i>	26 months from 1 November 2013 to 31 December 2015
-------------------------	----------------------------------------------------

CONTINUING CONNECTED TRANSACTIONS

Determination of purchase price and other terms: For each order to be placed under the Feihe Master Agreement, the purchase price or consideration, the quantity and quality of milk concerned, the time and place of delivery of the milk concerned and other relevant matters will be negotiated by the parties (on arm's length basis and in good faith) with reference to the then prevailing market prices of the raw milk, as well as (where applicable) prevailing market prices of similar products which may be sourced from other Independent Third Parties.

Payment term: Generally, to be settled on accrual basis, with a credit term of no more than one month, during which no interest will accrue. (Note)

Early termination: Both parties may, at any time during the contract term, give the other not less than three months' prior written notice to terminate the agreement.

Note: Payment will be made by Feihe Dairy HLJ through a set-off arrangement pursuant to the Supplemental Milk Supply Agreement. For further details, please refer to "History, Development and Reorganization — Our Relationship with Feihe Dairy Group."

Expected Annual Caps

Our Directors estimate that the annual transaction amount for the (i) purchases of relevant feeds under the Dinghe Master Agreement and (ii) sales of raw milk for the three years ending 31 December 2015 will not exceed the following annual caps set forth in the table below:

Relevant connected transactions	Expected annual caps (RMB million) for the year ending 31 December (the "Annual Caps")		
	2013	2014	2015
Supply of feeds by Dinghe Group to our Group.	30	39	50.7
Purchase of raw milk by Feihe Dairy Group from our Group.	320	520	660

In determining the above Annual Caps, our Directors have considered generally:

- (a) the historical transaction amounts as set forth in "— Transaction Amounts during the Track Record Period;"
- (b) the target growth in demand of our Group for the products under the Dinghe Master Agreement and the target sales of our Group under the Feihe Master Agreement for the three years ending 31 December 2015, having taken into account our expansion plan;
- (c) the inflation rate of the PRC during the Track Record Period;
- (d) the anticipated market prices of the relevant feeds and raw milk under the Dinghe Master Agreement and Feihe Master Agreement, respectively;

CONTINUING CONNECTED TRANSACTIONS

and specifically for transactions between our Group and Dinghe Group:

- (e-1) the production capacity of each of Dinghe Modern, Dinghe Feeds and Dinghe Qinggang;
- (e-2) location factors, time and cost of delivering the purchases and distance of the existing suppliers from our existing farms and also our farms under planned construction;

and specifically for transactions between our Group and Feihe Dairy Group:

- (f-1) the anticipated substantial increase in the production capacity of our Group in 2014, which is expected to be mainly due to (i) that there will be positive impact on the average milk yield in the next two years with a larger proportion of our cows reaching their third and fourth lactation cycles; and (ii) the increase in number of our milkable cows as a result of our organic growth of herd size. Apart from the above reasons, the production capacity of our Group is anticipated to be further increased with the commencement of operation of our four new farms in 2015;
- (f-2) the anticipated supply dynamics of raw milk in China, the further elimination of individual and small scale dairy farms in China and the percentage of our estimated total sales volume to Feihe Dairy Group, as the raw milk sales from our Group to Feihe Dairy Group during the three months ended 30 September 2013 amounted to 110.1% of our raw milk sales to Feihe Dairy Group of RMB94.8 million during the six months ended 30 June 2013;
- (f-3) the volume of milk supply to Feihe Dairy Group taking into account the raw milk priority supply term in the supplemental agreement we entered into with Feihe Dairy HLJ in April 2013, pursuant to which Feihe Dairy HLJ has priority to purchase our raw milk under the same conditions as those governing our contracts with other dairy products manufacturers (please refer to “Business — Sales and Marketing — Contract Terms” in this Prospectus);
- (f-4) the anticipated demand dynamics of raw milk in China, the anticipated increased demand for high-end dairy products and high quality raw milk; and the anticipated demand from Feihe Dairy Group for its high-end dairy products production; and
- (f-5) the anticipated average selling prices of raw milk under the Feihe Master Agreement to be sold to Feihe Dairy Group, based on the increase in average selling price of our raw milk per kilogram of about 6.25% during the period from May 2013 to October 2013.

CONTINUING CONNECTED TRANSACTIONS

The following table sets out the historical results of our Group's purchases of feeds from Dinghe Group:

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Total feeds purchases from our connected persons (RMB'000)	—	3,710	22,090	3,055
Total herd size of our Group's farms	7,893	32,219	37,000	38,788
Percentage of total feeds purchased from Dinghe Group account for our total feeds purchases	0%	1%	4.1%	1.3%

From 2011 to 2012, our Group recorded about 15% to 20% annual growth rate in the total herd size of our farms and the growth rate is expected to be similar in the two years after Listing. As of 31 December 2012, our Group's four operating farms had a total spare capacity of 14,000 dairy cows. We will construct five additional new farms with an additional capacity of 57,450 dairy cows in the next three years. Upon completion of the farms under construction, we expect our farms to have a total capacity of more than 90,000. On such basis, it is expected such growth rate and demand for feeds will remain steady after Listing. Having regard to the market price increase and inflation rate, the feeds price increase is expected to be approximately 5% per year. In addition, the Company may seek more domestic supply of feeds to reduce the amounts imported from other countries, as long as the feeds produced locally are of the same quality as imported ones. Such strategy may lead to 5% further increase in feeds purchased from Dinghe Group. As such, an annual increase of approximately 30% would be applied towards our Group's expected annual caps for purchases under the Master Agreement for each of the years ending 31 December 2013, 2014 and 2015. Based on the historical figures of our total feeds purchased from our connected persons shown in the table above and also the production capacity of the Dinghe Group, it is expected that about 6% of our total feeds would be purchased from our connected persons after Listing.

CONTINUING CONNECTED TRANSACTIONS

The following table sets out the historical results of our Group's sales of raw milk to Feihe Dairy Group:

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Percentage of our Group's total sales amount which Feihe Dairy Group accounted for.	100%	35%	13%	25%
Total amount of sales of raw milk to Feihe Dairy Group (RMB million)	0.37	52.85	91.67	94.81

We expect that our business scale and sales volume will further increase for the next three years due to organic growth of our herd and expansion plan to build new farms. In the first half of 2013, the sales to Feihe Dairy Group accounted for 25% of our total sales. Considering the increased demand for quality raw milk and decreased supply of raw milk as a result of culling of cows in China by individuals and small-scale farms due to low cost effectiveness, which already happened in the first half of 2013, the percentage of sales to Feihe Dairy Group of our Group may further increase. As such, we apply Annual Caps of RMB320 million, RMB520 million and RMB660 million for sales to Feihe Dairy Group in the three years ending 31 December 2015 under the Feihe Master Agreement.

Listing Rules Implications

In respect of the purchases of feeds by our Group under the Dinghe Master Agreement, the Annual Caps for each of the three years ending 31 December 2015 would not exceed RMB30 million, RMB39 million and RMB50.7 million, respectively. For each of the three years ending 31 December 2015, given that the highest applicable percentage ratio of the transactions contemplated under the Master Agreement is expected to be more than 5% but less than 25% and the annual consideration is not less than HK\$10 million, such transactions are subject to the reporting, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Feihe Dairy Group is deemed by the Stock Exchange as a connected person of the Company after Listing pursuant to Rule 14A.06 of the Listing Rules and as such the Company agrees to undertake to comply with Chapter 14A of the Listing Rules' requirements for the transactions with Feihe Dairy Group. In respect of the sales of raw milk by our Group under the Feihe Master Agreement, the Annual Caps for each of the three years ending 31 December 2015 would not exceed RMB320 million, RMB520 million and RMB660 million, respectively. For each of the three years ending 31 December 2015, given that the highest applicable percentage ratio of the transactions contemplated under the Feihe Master Agreement is expected to be more than 25% and the annual consideration is not less than HK\$10 million, such transactions are subject to the reporting, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

CONFIRMATIONS

Directors' Confirmation

Our Directors (including our INEDs) confirm that the non-exempt continuing connected transactions described above have been entered into in the ordinary and usual course of our Group's business, on normal commercial terms or on terms no less favorable to the Company than those available from Independent Third Parties, and are fair and reasonable and in the best interests of the Company and our Shareholders as a whole. In addition, our Directors (including our INEDs) further confirm that the proposed Annual Caps in respect of the above continuing connected transactions are fair and reasonable and in the interests of the Company and our Shareholders as a whole.

Joint Sponsors' Confirmation

The Joint Sponsors are of the view that (i) the non-exempt continuing connected transactions described above have been entered into in the ordinary and usual course of business of the Company and on normal commercial terms or on terms no less favorable to the Company than those available from Independent Third Parties; and (ii) such transactions and the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

WAIVER FROM THE STOCK EXCHANGE

On the above basis, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to the Company under Rule 14A.42(3) of the Listing Rules from compliance with the requirements under Rule 14A.47 to 14A.54 of the Listing Rules in respect of the above continuing connected transactions. We will, after Listing, comply with the relevant requirements under Chapter 14A of the Listing Rules, including but not limited to Rule 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

Directors' Confirmation

The Directors, including the INEDs, confirm that the continuing connected transaction described above was entered into in the ordinary and usual course of business of the Company, on normal commercial terms and are fair and reasonable to the Company on the basis that the terms thereof are no less favorable to the Company than terms offered by Independent Third Parties, and therefore are in the interests of our Shareholders and the Company as a whole.