

## CONNECTED TRANSACTIONS

### CONNECTED TRANSACTIONS

Members of our Group have entered into certain transactions with parties who are connected persons of our Company and the transactions will continue after the Listing, thereby constituting continuing connected transactions of our Company under the Listing Rules. A summary of these continuing connected transactions is set out below:

Type of transaction	Parties	Term	Applicable Listing Rule	Waiver
1. Purchase agreement (the “ <b>Haoweijia Purchase Agreement</b> ”) . . . . .	Yashili (Shanghai) as purchaser; Haoweijia Food as supplier	From Listing Date to 31 December 2012	Rule 14A.34(1)	Announcement requirement
2. Sales agreement (the “ <b>Haoweijia Sales Agreement</b> ”) . . . . .	Bisheng as supplier; Haoweijia Food as purchaser	From Listing Date to 31 December 2012	Rule 14A.34(1)	Announcement requirement
3. Lease agreement (the “ <b>Chaoan Lease</b> ”) . . . . .	Bisheng as lessee; Zhang’s Investment (Shantou) as lessor	From Listing Date to 31 December 2012	Rule 14A.34(1)	Announcement requirement
4. Lease agreement (the “ <b>Shanghai Lease</b> ”) . . . . .	Yashili (Shanghai) as lessee; Zhang’s Investment (Shantou) as lessor	From Listing Date to 31 December 2012	Rule 14A.34(1)	Announcement requirement
5. Purchase agreement (the “ <b>Yingjia Purchase Agreement</b> ”) . . . . .	Yashili (Guangdong) as purchaser; and Yingjia (as defined below) as supplier	From Listing Date to 31 December 2012	Rule 14A.34(1)	Announcement requirement

### CONNECTED PERSONS

The relevant connected persons, with whom certain members of our Group have entered into continuing connected transactions, are as follows:

#### **Zhang’s Investment (Shantou)**

The entire equity interest in Zhang’s Investment (Shantou) is held in equal shares by 11 individuals, six of whom are members of the Controlling Shareholders. Among these members of the Controlling Shareholders, Zhang Likun, Zhang Liming, Zhang Lidian and Zhang Libo are Directors and therefore will become connected persons of our Company upon the Listing under Rule 14A.11(1) of the Listing Rules. In addition, Zhang Lihui is a brother and She Lifang is a sister-in-law of the said members of the Controlling Shareholders. Given the close relationships among Zhang Likun, Zhang Liming, Zhang Lidian, Zhang Libo, Zhang Lihui and She Lifang, the Directors consider it appropriate to aggregate their interests in Zhang’s Investment (Shantou) in determining whether they together have a majority control over Zhang’s Investment (Shantou). Since Zhang Likun, Zhang Liming, Zhang Lidian, Zhang Libo, Zhang Lihui and She Lifang together can exercise more than 50% of the voting power at general meetings of Zhang’s Investment (Shantou), the Directors therefore consider it appropriate to treat Zhang’s Investment (Shantou) as a connected person of our Company upon the Listing under Rules 14A.11(4)(b)(ii) and 14A.11(4)(c)(ii) of the Listing Rules.

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### **Haoweijia Food**

Haoweijia Food is a wholly-owned subsidiary of Zhang's Investment (Shantou). Since Zhang's Investment (Shantou) will become a connected person of our Company upon the Listing as detailed above, the Directors consider it appropriate to treat Haoweijia Food as a connected person of our Company upon the Listing under Rules 14A.11(4)(b)(ii) and 14A.11(4)(c)(ii) of the Listing Rules.

### **Yingjia**

The entire equity interest in 潮安縣庵埠營佳紙塑製品廠 (Chaoan County Anbu Yingjia Paper and Plastic Products Factory\*) (“Yingjia”) is wholly-owned by Zhang Yuanlong. Zhang Yuanlong is a brother-in-law of Zhang Likun. Zhang Likun, being a Director, will become a connected person of our Company upon the Listing under Rule 14A.11(1) of the Listing Rules. Since Zhang Yuanlong, being a brother-in-law of Zhang Likun, can exercise more than 50% of the voting power at general meetings of Yingjia, the Directors consider it appropriate to treat Yingjia as a connected person of our Company upon the Listing under Rule 14A.11(4)(c)(ii) of the Listing Rules.

## **NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS**

Set out below are the terms of the continuing connected transactions which are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules (the “Non-exempted Continuing Connected Transactions”).

### **1. The Haoweijia Purchase Agreement**

Haoweijia Food is a manufacturer of preserved fruit products in China. On 8 October 2010, Yashili (Shanghai) entered into the Haoweijia Purchase Agreement with Haoweijia Food, pursuant to which Yashili (Shanghai) will purchase preserved fruit products from Haoweijia Food from Listing Date to 31 December 2012. As one of the distributors of Haoweijia Food, Yashili (Shanghai) generates revenue by purchasing such preserved fruit products from Haoweijia and reselling them to third-party customers.

Pursuant to the Haoweijia Purchase Agreement, the prices at which Yashili (Shanghai) purchases preserved fruit products from Haoweijia Food will be the same as such prices at which Haoweijia Food sells its preserved fruit products to Independent Third Parties.

#### *Historical Transaction Amounts*

During the Track Record Period, both of our subsidiaries, Yashili (Guangdong) and Yashili (Shanghai), had purchase preserved fruit products from Haoweijia Food. We did not purchase any preserved fruit products from Haoweijia Food for the year ended 31 December 2007. For the year ended 31 December 2008, Yashili (Guangdong) purchased preserved fruit products from Haoweijia Food totaled RMB5,619,000 and for the year ended 31 December 2009, and since Yashili (Shanghai) was acquired by our Group in August 2009, Yashili (Shanghai) purchased preserved fruit products from Haoweijia Food totaled RMB1,829,000. For the six months ended 30 June 2010, the purchase of preserved fruit products from Haoweijia Food by Yashili (Shanghai) and Yashili (Guangdong) were RMB2,634,000 and nil, respectively.

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### *Maximum Annual Transaction Amounts*

Our Directors estimate that the purchases from Haoweijia Food for each of the years ending 31 December 2010, 2011 and 2012 under the Haoweijia Purchase Agreement will not exceed RMB6,500,000. The annual cap for the year ending 31 December 2010 is based on the relevant purchases from January to August 2010 of approximately RMB3.64 million and the historical transaction amounts from September to December of 2009 of approximately RMB2.45 million, based on the unaudited management accounts of our Company. In addition, the annual cap for 2010 also takes into account that the up-coming Lunar New Year, a high season for the preserved fruit products offered by Haoweijia Food based on our experience, will arrive earlier in 2011 than in 2010. Therefore we expect to purchase a greater amount of preserved food products from Haoweijia Food for the four months ending 31 December 2010 than in the corresponding period in 2009 and accordingly the amount of purchases under the Haoweijia Purchase Agreement is expected to not exceed RMB6,500,000 for the year ending 31 December 2010. The annual caps for the years ending 31 December 2011 and 2012 are expected to remain unchanged from that of 2010.

### **2. The Haoweijia Sales Agreement**

On 8 October 2010, Bisheng entered into the Haoweijia Sales Agreement with Haoweijia Food, pursuant to which Bisheng will sell packaging materials to Haoweijia Food from Listing Date to 31 December 2012, renewable at the option of Bisheng for a term of three years and subject to compliance with all applicable requirements under the Listing Rules.

Pursuant to the Haoweijia Sales Agreement, Bisheng will sell packaging materials to Haoweijia Food at prices that would not be lower than the prices of such packaging materials Bisheng sells to Independent Third Parties.

### *Historical Transaction Amounts*

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the sales from Bisheng to Haoweijia Food were nil, RMB4,047,000, RMB2,418,000 and RMB1,075,000, respectively.

### *Maximum Annual Transaction Amounts*

Our Directors estimate that the sales of packaging materials from Bisheng to Haoweijia Food for each of the years ending 31 December 2010, 2011 and 2012 under the Haoweijia Sales Agreement will not exceed RMB3,000,000. The annual cap for the year ending 31 December 2010 is based on the relevant sales from January to August 2010 of approximately RMB1.58 million and the historical transaction amounts from September to December of 2009 of approximately RMB1.27 million, based on the unaudited management accounts of our Company. The annual caps for the years ending 31 December 2011 and 2012 are expected to remain unchanged from that of 2010.

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### 3. The Chaoan Lease

On 8 October 2010, Bisheng entered into the Chaoan Lease with Zhang's Investment (Shantou), pursuant to which Bisheng leased an industrial complex in Chaoan County with a gross floor area of approximately 18,613 square meters (the "Chaoan Premise"), which Bisheng utilizes for production, storage and ancillary purposes, from Listing Date to 31 December 2012, renewable at the option of Bisheng for a term of three years and subject to compliance with all applicable requirements under the Listing Rules.

The rent payable by Bisheng to Zhang's Investment (Shantou) under the Chaoan Lease is RMB223,356 per month, or RMB2,680,272 per annum which is based on a rental rate of RMB12 per square meter. Our property valuer, Vigers Appraisal and Consulting Ltd., advises that the rental rate under the Chaoan Lease is at prevailing market rate.

#### *Historical Transaction Amounts*

We started to rent the Chaoan Premise since 1 April 2008. For the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, we paid RMB2,010,000, RMB2,680,000 and RMB1,340,000, respectively, as rental to Zhang's Investment (Shantou) for the Chaoan Premise.

#### *Maximum Annual Transaction Amounts*

Our Directors estimate that the proposed rental for the years ending 31 December 2010, 2011 and 2012 under the Chaoan Lease will not exceed RMB2,680,272, RMB2,680,272 and RMB2,680,272 respectively, representing the annual rental payable under the Chaoan Lease during the relevant period.

### 4. The Shanghai Lease

On 8 October 2010, Yashili (Shanghai) entered into the Shanghai Lease with Zhang's Investment (Shantou), pursuant to which Yashili (Shanghai) leased an office in Shanghai of approximately 400 square meters (the "Shanghai Premise"), which Yashili (Shanghai) utilizes as its office in Shanghai, from Listing Date to 31 December 2012, renewable at the option of Yashili (Shanghai) for a term of three years and subject to compliance with all applicable requirements under the Listing Rules.

The rent payable by Yashili (Shanghai) to Zhang's Investment (Shantou) under the Shanghai Lease is RMB29,200 per month, or RMB350,400 per annum. Our property valuer, Vigers Appraisal and Consulting Ltd., advises that the rental rate under the Shanghai Lease is at prevailing market rate.

#### *Historical Transaction Amounts*

Yashili (Shanghai) started to rent the Shanghai Premise since 1 January 2009. For the year ended 31 December 2009, since Yashili (Shanghai) was acquired by our Group in August 2009, Yashili (Shanghai) paid RMB25,000 in aggregate, or RMB5,000 per month, as rental to Zhang's Investment (Shantou) for the Shanghai Premise. For the six months ended 30 June 2010, Yashili (Shanghai) paid RMB30,000 in aggregate as rental to Zhang's Investment (Shantou) for the Shanghai Premise.

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### *Maximum Annual Transaction Amounts*

Our Directors estimate that the proposed rental for each of the years ending 31 December 2010, 2011 and 2012 under the Shanghai Lease will not exceed RMB350,400 representing the annual rental payable under the Shanghai Lease during the relevant period.

Our Directors, including the independent non-executive Directors, consider the Shanghai Lease was entered into on normal commercial terms that are fair and reasonable and in the interests of our shareholders as a whole.

### **5. The Yingjia Purchase Agreement**

Yingjia is engaged in the manufacture of plastic products in China. On 8 October 2010, Yashili (Guangdong) entered into the Yingjia Purchase Agreement with Yingjia, pursuant to which Yashili (Guangdong) will purchase plastic spoons and plastic covers from Yingjia from Listing Date to 31 December 2012, renewable for a term of three years and subject to compliance with all applicable requirements under the Listing Rules. We utilize the plastic spoons and plastic covers we purchase from Yingjia as packaging materials for our milk powder products.

Pursuant to the Yingjia Purchase Agreement, the prices at which Yashili (Guangdong) purchases plastic spoons and plastic covers from Yingjia will be the same as such prices at which Yingjia sells such products to Independent Third Parties.

### *Historical Transaction Amounts*

We began to engage Yingjia as a supplier of plastic spoons and plastic covers in May 2008. For the year ended 31 December 2008, our purchases from Yingjia amounted to RMB7,692,000. Due to an excess inventory of plastic spoons and plastic covers as a result of our product recalls in late 2008, for the year ended 31 December 2009, our purchase of such packaging materials decreased to RMB4,801,000. For the six months ended 30 June 2010, our purchase of plastic spoons and plastic covers from Yingjia amounted to RMB3,323,000. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our purchases from Yingjia represent nil, 50.87%, 68.71% and 73.56%, respectively, of our total purchases of plastic spoons and covers.

### *Maximum Annual Transaction Amounts*

Our Directors estimate that the proposed purchases from Yingjia for the years ending 31 December 2010, 2011 and 2012 under the Yingjia Purchase Agreement will not exceed RMB8,000,000, RMB12,000,000 and RMB15,000,000, respectively. The annual cap for the year ending 31 December 2010 is based on the relevant purchase amount for January to August 2010 of approximately RMB4.31 million based on the latest unaudited management accounts of the Company and the projected amount of purchases for the balance of 2010 of approximately RMB3.5 million. The annual caps for the years ending 31 December 2011 and 2012 are based on the estimated growth in our sales in 2011 and 2012 with reference to the historical annual amount of our purchase from Yingjia as a percentage of our annual total sales. It is also expected that the increase in purchase will be in line with our expected increase in utilization of our existing production capacity and further expansion in our production capacity.

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### APPLICATION FOR WAIVER FOR NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Our Directors (including the independent non-executive Directors) consider that the transactions under each of the Non-exempt Continuing Connected Transactions have been entered into in the ordinary course of business of our Group and on normal commercial terms that are fair and reasonable so far as the Shareholders of our Company are concerned and are in the interests of our Company and our Shareholders as a whole. Our Directors also confirm that each of the proposed annual caps set out herein are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

Each of the applicable percentage ratios of the Non-exempt Continuing Connected Transactions is, on an annual basis, expected to be less than 5% under Rule 14A.34 of the Listing Rules, taking into account the aggregation of the Chaoan Lease and the Shanghai Lease. As such, such transactions are exempt from the independent shareholders' approval requirements but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules, the annual review requirements set out in Rules 14A.37 to 14A.40 of the Listing Rules and the requirements set out in Rules 14A.35(1) and 14A.35(2) of the Listing Rules.

As the Non-exempt Continuing Connected Transactions will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be unduly burdensome and impractical.

Accordingly, we have applied for, and have received from, the Stock Exchange a waiver from strict compliance with the announcement requirement set out in Chapter 14A.47 of the Listing Rule for the Non-Exempt Continuing Connected Transactions.

In respect of Rules 14A.35(2), the maximum aggregate annual cap for each of the Non-exempt Continuing Connected Transactions shall not exceed the applicable limit set out below:

<u>Non-exempt Continuing Connected Transactions</u>	<b>Maximum Annual Transaction Amounts (the "annual caps") for the year ending 31 December</b>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(RMB)	(RMB)	(RMB)
Haowejia Purchase Agreement . . . . .	6,500,000	6,500,000	6,500,000
Haowejia Sales Agreement . . . . .	3,000,000	3,000,000	3,000,000
Chaoan Lease . . . . .	2,680,272	2,680,272	2,680,272
Shanghai Lease . . . . .	350,400	350,400	350,400
Yingjia Purchase Agreement . . . . .	8,000,000	12,000,000	15,000,000

Our Company confirms that our Company will comply with the requirements set out in Chapter 14A of the Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45 of the Listing Rules in relation to the Non-exempt Continuing Connected Transactions and that the maximum aggregate annual values of the Non-exempt Continuing Connected Transactions are not expected to exceed the annual caps, and will re-comply with Rules 14A.35(3) and (4) of the Listing Rules, as applicable, if any of the respective annual caps set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

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### CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant information and documentation provided by our Company relating to the Non-exempt Continuing Connected Transactions and have conducted due diligence by discussing with us and our advisors and have also considered the necessary representations and confirmation from us and our Directors to satisfy themselves of the reliability of the information provided in relation to the Non-exempt Continuing Connected Transactions. On this basis, the Joint Sponsors are of the view that: (i) the Non-exempt Continuing Connected Transactions for which waivers are sought have been entered into in the ordinary and usual course of business of our Company on normal commercial terms and are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the proposed annual caps for the Non-exempt Continuing Connected Transactions are fair and reasonable and are in the interest of our Company and our Shareholders as a whole.