
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Upon completion of the Global Offering, Sino Century will hold approximately 38.25% of our Company's share capital (assuming the Over-allotment Option is not exercised). Sino Century is our Controlling Shareholder. The Taiwanese Shareholders, who are the ultimate beneficial owners of all the shares in Sino Century, shall be regarded as a group of Controlling Shareholders of our Company. Each of our Controlling Shareholders and each of our Directors has confirmed to the Group that it is not currently engaged in any business which is in competition or potentially in competition, either directly or indirectly, with the business of the Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having considered the following factors, we are satisfied that we can carry on our business independently of Sino Century, our Controlling Shareholder, its registered shareholders and the Taiwanese Shareholders, our group of Controlling Shareholders, and their associates, after completion of the Global Offering. Save as otherwise disclosed in this prospectus, Sino Century, our Controlling Shareholder, and its registered shareholders do not have any business operations other than investment holding and do not hold any interest in any company other than our Company and Sino Century, respectively.

Financial Independence

The Group is financially independent from our Controlling Shareholders and their associates. None of the members of our Group has obtained any loans from any of our Controlling Shareholders or their associates. In addition, our Controlling Shareholders or their associates have not provided guarantees for loans to our Group. In respect of its bank loans, our Group has adequate internal resources to repay these loans and a strong credit profile to enable it to borrow from independent third parties, if necessary, to replace these loans.

Independence of production/operation capabilities

Following our Reorganization, we assumed the entire business of producing and selling bakery products, such as bread and cakes, previously operated by companies controlled by our Controlling Shareholders and their associates. None of our Controlling Shareholders and their associates operate any business which competes, directly or indirectly, with our Group's business. Upon the completion of the Global Offering, our Controlling Shareholders will not engage in any competing business and non-competition undertakings have been given by them as detailed in "Relationship with Our Controlling Shareholders – Non-competition undertaking" in this prospectus.

Save as otherwise disclosed in this prospectus, our Group does not rely on any of the Controlling Shareholders or their associate companies for the operation of our business and the production of bakery products. Our Group has its own production facilities. Our central bakery premises are either leased from independent third parties or our wholly-owned subsidiaries, and our Group owns all of our production equipments, which were procured from independent third party suppliers.

Independence of access to customers

As our Group is engaged in the business of producing and selling bakery products to members of the public, our Group has independent access to customers.

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Independence of sources of raw materials for production

Among the Taiwanese Shareholders, Ming-Chu Lee, Dun-Ching Hung, and Chi-Ming Chou, hold controlling interests in companies that supply our Group with raw materials, including ingredients, complementary products and packaging materials, for production of bakery products.

Ingredients

Our Group procures certain ingredients used in the production of our bakery products from various connected parties, including Tongcan Trade Limited Company, Shanghai Guangcan Foodstuff Co., Ltd. and Shanghai Meixin Trade Co., Ltd. and Marubeni Shanghai Co., Ltd. Our Group also sources coffee products from Aroma, which is also a connected party. Details of the connected transactions between these connected parties and our Group, including the transaction amounts may be found in the section headed “Connected Transactions” in this prospectus.

Packaging materials

Since 2010, Wujiang Shangpu Packing Products Co., Ltd. (“Wujiang Shangpu”) which is beneficially owned by associates of Mr. Chi-Ming Chou, as to approximately 31.36%, has supplied paper packaging materials to our Group. For the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, our purchases from Wujiang Shangpu amounted to nil, nil, RMB10.0 million and RMB13.6 million, constituting 0.0%, 0.0%, 1.6% and 2.9% of our Group’s total cost of sales, respectively. Please see the section headed “Connected Transactions – Continuing Connected Transactions Exempt from Independent Shareholders’ Approval Requirements – Connected Transaction with Wujiang Shangpu Packing Products Co., Ltd.” in this prospectus for details of our historical and projected trend of purchases, and other details relating to our transactions with Wujiang Shangpu.

Reliance on our Group by the associated companies

Pursuant to on-going communications with our associate companies, our Group understands that none of the associate companies’ business was solely reliant on their transactions with our Group. See the respective description of each of the Group’s Continuing Connected Transactions under the section headed “Connected Transactions” in this prospectus for details.

Our Directors confirm that the raw materials, packaging materials and other products supplied to the Group by the said associate companies are supplied by reference to the prevailing market rates or at rates similar to those offered by independent third party suppliers, and are readily available from independent third party suppliers at comparable prices. Accordingly, our Directors are of the view that our Group will be able to obtain sources of raw materials, packaging materials and other products independently of our Controlling Shareholders and their associates if they were to source them from independent party suppliers.

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Independent management

Our Board of Directors comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Lo is our Chairman and an executive Director, and Mr. Dun-Ching Hung and Mr. Chi-Ming Chou are our other executive Directors. Mr. Yoshiaki Mizumoto is our non-executive Director. Mr. Nianlin Zhu, Mr. Weide Luo and Ms. Wanwen Su are our independent non-executive Directors.

The table below sets out the positions held by our Directors in the Controlling Shareholders' associate companies:

Director of the Company	Position held in Controlling Shareholders' associate companies
Dun-Ching Hung	Director of Shanghai Meixin Trade Co., Ltd. Director and Legal Representative of Shanghai Guangcan Foodstuff Co., Ltd. Director of Tongcan Trade Limited Company

There are teams of senior management within the Controlling Shareholders' associate companies that are responsible for the daily management of these companies. Mr. Lo and Mr. Hung will spend a substantial majority of their time and attention on the management of our Company. Further, none of our senior management, being our full-time employees, have senior executive positions in the daily management and operation of any of the companies comprising the Controlling Shareholders' associate companies and all major management decisions of our Company will be made by our Board as a whole, including our independent non-executive Directors, and not at the sole discretion of the executive Directors. Our daily operations will be managed by our senior management team, all the members of which are independent from those of the Controlling Shareholders' associate companies. Therefore, notwithstanding the fact that Mr. Hung will hold dual positions in our Company and in the Controlling Shareholders' associate companies, our Directors are of the view that we will be able to operate independently of our Controlling Shareholders' associate companies.

The decision-making mechanism of our Board set out in our Articles of Association also includes provisions to avoid conflicts of interest by providing, among other things, that (i) each Director will be entitled to one vote at our meeting of our Board and decisions of our Board shall be passed by majority vote, and (ii) in the event of a conflict of interest, the relevant Director(s) shall abstain from voting. As such, if a conflict of interest situation arises in respect of any Director, he will be required to abstain from voting and hence will be unable to participate in the decision making of our Board on matters in which he may be interested. Further, following the Listing, our Directors will be required to comply with provisions under the Listing Rules and certain matters, such as connected transactions, are required to be reviewed by our independent non-executive Directors. Our Directors are of the view that the proportion of independent non-executive Directors comprising our Board should enhance our overall corporate governance standards. Based on the above, our Directors are satisfied that our Directors as a whole, together with our management team, are able to manage our Company independently.

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Non-competition undertaking

Our Controlling Shareholders (the “Covenantors”) have entered into a deed of non-competition undertakings (the “Non-competition Deed”) with our Company dated February 1, 2012 in our favor, pursuant to which each of the Covenantors has undertaken to us that, during the Non-Compete Period (as defined below):

- (a) the Covenantors or their connected persons will not, whether as a principal or agent and whether undertaken directly or indirectly (including through any associate, subsidiary, partnership, joint venture or other contractual arrangement of his) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in any business of producing and selling bakery products as described in this prospectus, including but not limited to the production and sale of bread, cakes, pastries and biscuits, whether or not in the format of a retail outlet (the “Restricted Business”), in the PRC; and
- (b) where the opportunity to carry on, engage, invest, participate or otherwise be interested in any Restricted Business is offered or made available to any of the Covenantors or its connected persons, the Covenantor shall or shall procure that its connected person inform the Company of such opportunity immediately, and the Covenantor shall use its best efforts to assist any member of the Group in obtaining such business opportunity on terms no less favorable to the Covenantor or its connected persons, or on terms acceptable to the relevant member of the Group.

Furthermore, pursuant to the Non-competition Deed, the independent non-executive Directors will, during the Non-Compete Period, review on an annual basis the compliance by the Covenantors with the Non-competition Deed. The results of such reviews will be disclosed in our annual reports or by way of announcement to the public.

The Covenantors have undertaken to provide the independent non-executive Directors with all information necessary for conducting their annual reviews and enforcing of the Non-competition Deed. In addition, the Covenantors have undertaken to make an annual declaration in our annual reports on their compliance with the Non-competition Deed.

Notwithstanding the foregoing, each of the Covenantors may:

- (a) carry on, engage in, invest in, participate in or otherwise be interested in any Restricted Business where the opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business has first been offered or made available to our Company and, after review and approval by our board of independent non-executive Directors as required under the relevant laws and regulations, our Company has declined such opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business, provided that the principal terms by which any Covenantor (or his or its relevant associate(s)) subsequently engages in, invests in, participates in or otherwise is interested in such Restricted Business are not more favorable in any material respect than those disclosed to the Company; and/or

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- (b) have interests in shares or other securities of a company listed on any stock exchange and conducting any Restricted Business, provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10.0% of that company's consolidated sales or consolidated assets, as shown in that company's latest audited accounts; and
 - (ii) the Covenantors taken together are not so interested as to be able to exercise or control the exercise of 5.0% or more of the voting power at general meetings of such company or control the composition of a majority of the board of directors of such company; and/or
- (c) have any interest in shares and/or other securities of any member of the Group; and/or
- (d) engage in and/or discharge any duty, service or act for the benefit of any member of the Group (as may be determined in the absolute discretion of the board of independent non-executive directors).

In the event of any disagreement between the parties as to whether or not any activity or proposed activity of any of the Covenantors constitutes a Restricted Business, the matter shall be determined by the board of independent non-executive Directors whose decision shall be final and binding. In determining whether any activity or proposed activity of any of the Covenantors constitutes a Restricted Business, the board of independent non-executive Directors shall call for and review all relevant information, attend all meetings of the board of independent non-executive Directors relating to the said issue, shall have the power to appoint an independent financial advisor to assist in its determination, and shall disclose their views on an annual basis in the annual report of our Company.

The "Non-Compete Period" stated in the Non-competition Deed refers to the period commencing on the Listing Date and ending on the earlier of:

- (a) the date on which Sino Century ceases to be a Controlling Shareholder of the Company within the meaning of the Listing Rules; and
- (b) the date on which the Shares cease to be listed on the Stock Exchange.