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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in YuanShengTai Dairy Farm Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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### YuanShengTai Dairy Farm Limited

原生态牧業有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1431)**

## CONTINUING CONNECTED TRANSACTIONS RENEWAL OF EXISTING FEIHE MASTER AGREEMENT AND NOTICE OF SGM

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from Quam Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 26 of this circular.

A notice convening the SGM of YuanShengTai Dairy Farm Limited to be held at Conference Room 2, 3rd Floor, EAST, Beijing, No. 22 Jiuxianqiao Road, Chaoyang District, Beijing, the PRC on Thursday, 21 January 2016 at 10 a.m. is set out on pages 30 to 31 of this circular. Whether or not you are able to attend and vote at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy as instructed will not preclude you from subsequently attending and voting at the meeting or any adjourned meeting if you so wish.

31 December 2015

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*This circular is prepared in both English and Chinese. In the event of inconsistency, the English text of this circular will prevail.*

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2014 Announcement”	announcement of the Company dated 31 October 2014 in relation to, among others, the revision of the annual caps for continuing connected transactions contemplated under the Existing Feihe Master Agreement
“2015 Announcement”	announcement of the Company dated 14 December 2015 in relation to, among others, the New Feihe Master Agreement, the transactions contemplated thereunder and the relevant proposed annual caps
“associates”	has the same meaning as defined under the Listing Rules
“Board”	the board of Directors of the Company
“2014 Circular”	circular of the Company dated 21 November 2014
“Company”	YuanShengTai Dairy Farm Limited 原生態牧業有限公司, a company incorporated under the laws of Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholders”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Existing Feihe Master Agreement”	a master agreement dated 1 November 2013 entered into between (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk and for the purpose of complying with Chapter 14A of the Listing Rules
“Feihe Dairy Group”	the group of companies comprising Feihe Dairy International and Feihe Dairy HLJ and its subsidiaries, being one of our customers, and an Independent Third Party (but deemed by the Stock Exchange to be our connected person after Listing for the purpose of the Listing Rules)
“Feihe Dairy HLJ”	Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司), a company incorporated in the PRC, which is one of our customers, an Independent Third Party and also a former owner of YST Heping and Ruixinda Gannan, whose ultimate beneficial owner is Feihe Dairy International

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## DEFINITIONS

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“Feihe Dairy International”	Feihe International, Inc., an Independent Third Party and a company incorporated in the United States, whose securities were previously listed on the New York Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company formed to consider the transactions contemplated under the New Feihe Master Agreement and the proposed annual caps
“Independent Financial Adviser” or “Quam Capital”	Quam Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Third Parties”	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any Directors, chief executive or substantial Shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associate(s)
“Independent Shareholders”	shareholders who are not required to abstain from voting at the SGM to approve the continuing connected transactions
“INED(s)”	the independent non-executive Director(s)
“Listing Date”	26 November 2013, being the date where dealings in the Shares first commence on the Main Board of the Stock Exchange
“Latest Practicable Date”	29 December 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Feihe Master Agreement”	a master agreement dated 14 December 2015 entered into between (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk and for the purpose of complying with Chapter 14A of the Listing Rules

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## DEFINITIONS

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“PRC”	the People’s Republic of China, which for the purposes of this circular only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“Prospectus”	prospectus of the Company dated 14 November 2013
“RMB”	Renminbi, the lawful currency of the PRC
“Ruixincheng”	Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司), a wholly foreign owned enterprise incorporated in the PRC on 3 May 2013 and an indirect wholly owned subsidiary of the Company
“Ruixinda”	Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司), a wholly foreign owned enterprise incorporated in the PRC on 9 December 2010 and an indirect wholly owned subsidiary of the Company
“Ruixinda Gannan”	Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), a company incorporated in the PRC on 9 July 2007 and (since September 2011) an indirect wholly owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	a special general meeting of the Company to be held at Conference Room 2, 3rd Floor, EAST, Beijing, No. 22 Jiuxianqiao Road, Chaoyang District, Beijing, the PRC, or any adjournment thereof, the notice of which is set out on pages 30 to 31 of this circular
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“%”	per cent.

\* For identification purposes only

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**LETTER FROM THE BOARD**

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**YuanShengTai Dairy Farm Limited**

**原生態牧業有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1431)**

*Executive Directors:*

Mr. Zhao Hongliang (趙洪亮)

Mr. Wang Shaogang (王紹崗)

Mr. Fu Wenguo (付文國)

Mr. Chen Xiangqing (陳祥慶)

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Non-executive Directors:*

Mr. Sun Wei (孫瑋)

Mr. Lau Ho Fung (劉浩峰)

*Head office and Principal Place  
of Business in the PRC:*

Qingxiang Street

Kedong, Qiqihar

Heilongjiang Province

PRC

*Independent non-executive Directors:*

Mr. Wu Chi Keung (胡志強)

Mr. Zhang Yuezhou (張月周)

Mr. Zhu Zhanbo (朱戰波)

*Principal place of business  
in Hong Kong:*

31/F, 148 Electric Road

North Point

Hong Kong

31 December 2015

*To the Shareholders*

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS  
RENEWAL OF EXISTING FEIHE MASTER AGREEMENT AND  
RENEWAL OF ANNUAL CAPS**

**INTRODUCTION**

Reference is made to the Prospectus, the 2014 Announcement, the 2014 Circular and the 2015 Announcement in relation to, among other matters, the continuing connected transactions under the Existing Feihe Master Agreement.

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## LETTER FROM THE BOARD

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The Group has, since 1 November 2013, been selling raw milk to Feihe Dairy Group pursuant to the Existing Feihe Master Agreement. Given that the Existing Feihe Master Agreement will expire on 31 December 2015, the Group entered into the New Feihe Master Agreement on 14 December 2015 with Feihe Dairy Group, to continue the Group's supply of raw milk to Feihe Dairy Group for the three years ending 31 December 2018 subject to the terms and conditions contained therein.

The transactions contemplated under the New Feihe Master Agreement constitute continuing connected transactions of the Company, and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with (i) further information on the details of the New Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto); (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) the notice of the SGM; and (v) other information as required under the Listing Rules.

### **CONTINUING CONNECTED TRANSACTIONS UNDER THE NEW FEIHE MASTER AGREEMENT**

The Group has, since 1 November 2013, been selling raw milk to Feihe Dairy Group pursuant to the Existing Feihe Master Agreement. Given that the Existing Feihe Master Agreement will expire on 31 December 2015, the Group entered into the New Feihe Master Agreement on 14 December 2015 with Feihe Dairy Group, to continue the Group's supply of raw milk to Feihe Dairy Group for the three years ending 31 December 2018.

#### **Principal terms of the New Feihe Master Agreement**

The principal terms of the New Feihe Master Agreement is summarised as follows:

Date:	14 December 2015
Parties:	(a) Ruixinda and Ruixincheng (for themselves and on behalf of other members of the Group) (as vendor);  (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) (as purchaser)
Contract period:	Three years from 1 January 2016 to 31 December 2018
Condition:	The New Feihe Master Agreement (including the proposed annual caps for the transactions contemplated thereunder) is conditional upon obtaining the approval from the Independent Shareholders in accordance with the provisions of the Listing Rules.

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## LETTER FROM THE BOARD

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- Subject matter: Supply of raw milk by the Group to Feihe Dairy Group
- Pricing term: For each order to be placed under the New 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 Indicative Price (as defined below) and certain adjustment factors stated under the section headed "Continuing connected transactions under the New Feihe Master Agreement — Pricing mechanism" of this letter.
- Payment term: The payment terms for the transactions contemplated under the New Feihe Master Agreement will be stipulated in the relevant individual orders agreed between the parties. The transactions contemplated under the New Feihe Master Agreement will generally 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:* This payment term is generally consistent with the credit policy adopted by the Group for its Independent Third Party customers. Feihe Dairy Group would therefore be required to make payment, based on the actual purchase quantity and price as stated in each order, to the Group for the Group's supply of raw milk. So far as the Directors are aware, this payment term is in line with the market practice among the raw milk providers in the PRC.

### **Pricing mechanism**

Under the New Feihe Master Agreement, the Group will enter into a specific sales contract with the Feihe Dairy Group before the end of each year to agree on, among others, the pricing mechanism regarding the sales of raw milk for the subsequent year.

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## LETTER FROM THE BOARD

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The Group generally negotiates the actual selling pricing for the raw milk with its customers (including both Feihe Dairy Group and its Independent Third Party customers) based on the latest indicative milk price (“**Indicative Price**”) published quarterly by the Heilongjiang Animal Husbandry & Veterinary Bureau (黑龍江省牧獸醫局) (“**Bureau**”) and taking into account certain adjustment factors. In particular, the price of the raw milk sold by the Group (relating to the sales to take place in 2016) is determined by the formula below:

$$\begin{array}{rcccl} \text{Selling price of} & & \text{Base price of raw milk} & & \text{Adjustments taking into} \\ \text{raw milk} & = & \text{(Note 1)} & + & \text{account certain safety and} \\ & & & & \text{quality standards (Note 2)} \end{array}$$

*Notes:*

1. In determining the base price of raw milk, the parties to the sales contract take into account the Indicative Price published by the Bureau at its website (<http://www.hljxm.gov.cn>; direct link to the Bureau’s webpage which Indicative Price is published: <http://www.hljxm.gov.cn/middle!list.action?channelid=333&siteid=1>). According to the information on such website, the Indicative Price is determined through cost accounting and consultation with dairy farms and dairy products processing enterprises in the PRC. The published reference price range for the fourth quarter of 2015 ranged from RMB2.94 per kilogramme to RMB4.80 per kilogramme. The Indicative Price and such reference price range are generally lower than the Group’s raw milk selling price of the same period. Due to the super premium quality of the Group’s raw milk, and the resulting demand from the Group’s customers for the production of their high-end dairy products, the Group is able to charge raw milk prices that are higher than the Indicative Price and such reference price range published.
2. The adjustment factors included, among others, the microbe count, the level of protein content and fat content and the freezing point of raw milk.

The Group’s pricing mechanism with its customers (including Feihe Dairy Group and other Independent Third Party customers of the Group) are generally the same, and therefore the selling price of the raw milk contemplated under the New Feihe Master Agreement would be comparable to that of the other Independent Third Party customers of the Group.

In practice, similar to other customers of the Group, Feihe Dairy Group may, from time to time after noting any change in the Indicative Price, issue a price adjustment notice (containing an updated basis of raw milk pricing) to the sales department of the Group. Upon receiving such notice, the sales department of the Group shall seek approval from both of the vice president in charge and the general manager of the Group for the relevant price adjustment. For the purpose of determining whether the price adjustment request is justifiable, the vice president in charge and the general manager of the Group, who are experienced in the dairy farming industry, will, among others, (i) take into account the correlation between and trends of the historical and latest Indicative Prices and selling prices of raw milk to the Feihe Dairy Group; and (ii) check with laboratories of the Group to ascertain the consistency of the actual quality of the raw milk of the Group in order to comply with the safety and quality standards as set out in the respective sales contracts. Subject to obtaining of such approval, the price of the raw milk sold by the Group to Feihe Dairy Group may be adjusted.

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## LETTER FROM THE BOARD

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Apart from the price adjustment controls as stated above, designated members of the Group's senior management will from time to time review the raw milk price agreed between the Group and Feihe Dairy Group, and compare it with the raw milk prices (of similar quality and during the same period of time) being agreed between the Group and other Independent Third Party customers, to ensure that the prices of raw milk for all of the Group's customers remain comparable, and the contemplated transactions between the Feihe Dairy Group and our Group are conducted on normal commercial terms.

Taking into account that (i) the Group's pricing mechanism with its customers (including Feihe Dairy Group and other Independent Third Party customers of the Group) are generally the same, and that the selling price of the raw milk contemplated under the New Feihe Master Agreement would be comparable to that of the other Independent Third Party customers of the Group; and (ii) the Group's policy on review of raw milk prices agreed between the Group and its customers (including Feihe Dairy Group) as mentioned above, the Directors consider such pricing mechanism will be able to ensure the transactions contemplated under the New Feihe Master Agreement be conducted on normal commercial terms or on terms no less favourable to the Company than terms available to Independent Third Parties.

### **Historical annual caps and transaction amounts for continuing connected transactions between the Group and Feihe Dairy Group**

The initial annual caps in respect of the transactions contemplated under the Existing Feihe Master Agreement for each of the three years ending 31 December 2015 was, as disclosed in the Prospectus, RMB320 million, RMB520 million and RMB660 million, respectively. On 8 December 2014, the revision of the annual caps for each of the two years ending 31 December 2015 was approved by the then Independent Shareholders at the Company's special general meeting to RMB660 million and RMB838 million, respectively.

The historical transaction amount in respect of the transactions contemplated under the Existing Feihe Master Arrangement for each of the two years ended 31 December 2014 and nine months ended 30 September 2015 was approximately RMB319 million, RMB606 million and RMB346 million, respectively. The transaction amount of raw milk supplied by the Group to Feihe Dairy Group under the Existing Feihe Master Agreement dropped during the nine months ended 30 September 2015 ("**Current Period**") as compared to the corresponding period in 2014 ("**Corresponding Period**"). It is believed that the recent drop in the Current Period as compared to the Corresponding Period was primarily attributable to the combined effect of (i) the drop in price of domestic raw milk, which in turn contributes to the decrease in average selling prices of the Group's super premium quality raw milk; and (ii) the general reduction in procurement by Feihe Dairy Group as a result of the change in market sentiment. Nevertheless, having considered the factors for determining the proposed annual caps for the transactions contemplated under the New Feihe Master Agreement as disclosed under the section headed "Continuing connected transactions under the New Feihe Master Agreement — Renewal of annual caps" in this letter, including the promulgation of policies by the PRC government in 2015 favourable the Group, it is believed that the above reasons contributed to the recent drop in raw milk transaction amount in 2015 will not

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## LETTER FROM THE BOARD

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have a material effect on the Group's formulation of the proposed annual caps for the transactions contemplated under the New Feihe Master Agreement for the three years ending 31 December 2018.

As far as the Directors are aware, the annual cap in respect of the transactions contemplated under the Existing Feihe Master Agreement for the year ending 31 December 2015 has not been exceeded as at the date of this circular.

### Renewal of annual caps

The following table sets out the proposed annual caps in respect of the transactions contemplated under the New Feihe Master Agreement for each of the three years ending 31 December 2018:

	<b>Year ending 31 December 2016 RMB (million)</b>	<b>Year ending 31 December 2017 RMB (million)</b>	<b>Year ending 31 December 2018 RMB (million)</b>
Purchase of raw milk by Feihe Dairy Group from our Group pursuant to the New Feihe Master Agreement	766	881	970

The proposed new annual caps in respect of the transactions contemplated under the New Feihe Master Agreement have been determined with reference to:

- (a) the historical transaction amount in respect of the sales of raw milk contemplated under the Existing Feihe Master Agreement for the two years ended 31 December 2014 and nine months ended 30 September 2015;
- (b) the projected quantities of sales of raw milk by the Group to the Feihe Dairy Group for the three years ending 31 December 2018 (taking into account the Group's expansion plan for raw milk production);
- (c) the prospect of the PRC dairy industry following the introduction of the two-child policy by the PRC Government; and
- (d) the prevailing market price of raw milk.

### REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

Feihe Dairy Group is one of the Group's top five customers as at the Latest Practicable Date, therefore, the Board believes the sales of raw milk to Feihe Dairy Group is particularly important to the business of the Group. It is expected that the continuing supply of raw milk products to the Feihe Dairy Group will further enhance the stability of the Group's customer base and ensure future demand for the Group's raw milk product.

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## LETTER FROM THE BOARD

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As disclosed in the Prospectus, when the Group was in its initial stage of commercial production in 2010, Feihe Dairy Group accounted for all of the Group's revenue. Throughout years of the Group's development, while Feihe Dairy Group remained as one of the top five customers of the Group, the Company has managed to diversify its customers to a number of other dairy products manufacturers. The Directors wishes to emphasise that most of the Group's customers are leading dairy products manufacturers in the PRC. Maintaining solid and stable business relationships with these top dairy brands, including Feihe Dairy Group, is in line with the Company's strategy and dedication to the production of super premium raw milk. However, it has also been the Group's intention to broaden its customer base and gain market recognition in the dairy products industry. In such connection, the Company engaged in new business relationships with two dairy brands in late 2015. The Company will continue to explore opportunities to cooperate with other dairy product manufacturers in the future.

As at the Latest Practicable Date, none of the Directors have a material interest in the transactions contemplated under the New Feihe Master Agreement and hence no Directors have abstained from voting on the board resolution approving the New Feihe Master Agreement and the transaction contemplated thereunder.

To the extent that the Company is aware having made all reasonable enquiries, as at the Latest Practicable Date, none of the Shareholders have a material interest in the New Feihe Master Agreement and are required to and will abstain from voting on the resolution to be proposed at the SGM to approve the proposed annual caps.

It is the Board's view that since (i) Mr. Zhao Hongliang does not have any material interest in the New Feihe Master Agreement (save in his capacity as a Shareholder, which is same as that shared by all Shareholders); and (ii) neither Mr. Zhao Hongliang (an executive Director, the chairman of the Group and one of the controlling shareholders of the Company) nor his associates (as defined in the Listing Rules) have any equity interest in Feihe Dairy Group, thus, Mr. Zhao Hongliang needs not be abstained from voting in the relevant resolutions set out in the notice of the SGM.

The Directors (including the independent non-executive Directors) consider that the continuing connected transactions contemplated under the New Feihe Master Agreement have been conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps for the continuing connected transactions contemplated under the New Feihe Master Agreement are fair and reasonable.

### IMPLICATIONS OF THE LISTING RULES

Feihe Dairy Group (comprising Feihe Dairy HLJ and its subsidiaries) is not a connected person of the Company for the purpose of Rule 14A.06(7) of the Listing Rules. However, due to our past relationship and transactions with Feihe Dairy Group as disclosed in the section headed "History, Development and Reorganization — Our Relationship with Feihe Dairy Group" in the Prospectus, Feihe Dairy Group is deemed by the Stock Exchange as a connected person pursuant to

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## LETTER FROM THE BOARD

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Rule 14A.19 (or the then Rule 14A.06) of the Listing Rules. As such, the Company has agreed 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.

In respect of the sales of raw milk by the Group under the New Feihe Master Agreement, the proposed annual caps for each of the three years ending 31 December 2018 would not exceed RMB766 million, RMB881 million and RMB970 million, respectively. For each of the three years ending 31 December 2018, given that the highest applicable percentage ratio of the transactions contemplated under the New 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.

### GENERAL INFORMATION

The Company is a dairy farming company in China dedicated to the production of super premium raw milk.

Feihe Dairy Group is based in Heilongjiang and is principally engaged in the production and distribution of milk powders and other dairy products in China.

### SGM

A resolution approving the transactions contemplated under the New Feihe Master Agreement and the proposed annual caps relating thereto shall be proposed at the SGM.

A notice convening the SGM to be held at Conference Room 2, 3rd Floor, EAST, Beijing, No. 22 Jiuxianqiao Road, Chaoyang District, Beijing, the PRC on Thursday, 21 January 2016 at 10 a.m. is set out on pages 30 to 31 of this circular.

In accordance with the Listing Rules, any connected person or Shareholder and its associates with a material interest in the New Feihe Master Agreement and the continuing connected transactions contemplated thereunder must abstain from voting on the resolution to approve the proposed annual caps for the three years ending 31 December 2018 for continuing connected transactions contemplated under the New Feihe Master Agreement at the SGM. To the extent that the Company is aware having made all reasonable enquiries, as at the Latest Practicable Date, none of the Shareholders have a material interest in the New Feihe Master Agreement and are required to abstain from voting on the resolution to be proposed at the SGM to approve the proposed annual caps.

The voting of the SGM will be taken by poll.

A form of proxy for the SGM is enclosed herewith. Whether or not Shareholders are able to attend and vote at the SGM, they are requested to complete the enclosed form of proxy and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's

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## LETTER FROM THE BOARD

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Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy as instructed will not prevent Shareholders from subsequently attending and voting at the SGM or any adjourned meeting if they so wish.

### RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the continuing connected transactions contemplated under the New Feihe Master Framework Agreement have been conducted by the Company in its ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps for the continuing connected transactions contemplated under the New Feihe Master Agreement are fair and reasonable. The Directors therefore recommend the Independent Shareholders to vote in favour of the relevant resolution set out in the notice of the SGM.

### FURTHER INFORMATION

The Independent Board Committee comprising all three independent non-executive Directors has been appointed to recommend the Independent Shareholders in respect of the transactions contemplated under the New Feihe Master Agreement (including the proposed annual caps relating thereto). Quam Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regard.

Accordingly, your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 13 to 14 of this circular, which contains its recommendation to the Independent Shareholders; (ii) the letter from the Independent Financial Adviser set out on pages 15 to 26 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders; and (iii) the general information set out in the Appendix to this circular.

Yours faithfully  
For and on behalf of the Board of  
**YuanShengTai Dairy Farm Limited**  
**Zhao Hongliang**  
*Executive Director and Chairman*



**YuanShengTai Dairy Farm Limited**

**原生态牧业有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1431)**

31 December 2015

*To the Independent Shareholders*

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS  
RENEWAL OF NEW FEIHE MASTER AGREEMENT AND  
RENEWAL OF ANNUAL CAPS**

We refer to the circular of the Company dated 31 December 2015 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed to advise the Independent Shareholders as to whether, in our opinion, the transactions contemplated under the New Feihe Master Agreement (including the proposed annual caps relating thereto) are conducted by the Company in its ordinary and usual course of business, are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. In this connection, Quam Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the New Feihe Master Agreement (including the proposed annual caps relating thereto).

We wish to draw your attention to the letter from the Board set out on pages 4 to 12 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 15 to 26 of the Circular which contains its opinion in respect of transactions contemplated under the New Feihe Master Agreement (including the proposed annual caps relating thereto).

Having taken into account the advice of the Independent Financial Adviser and its recommendation in relation thereto, we consider that the transactions contemplated under the New Feihe Master Agreement (including the proposed annual caps relating thereto) are conducted by the Company in its ordinary and usual course of business, are in the interests of the Company and the

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that you vote in favour of the relevant resolution set out in the notice of the SGM.

Yours faithfully,  
Independent Board Committee of  
**YuanShengTai Sheng Limited**  
**Wu Chi Keung**  
**Zhang Yuezhou**  
**Zhu Zhanbo**

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## LETTER FROM QUAM CAPITAL

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*The following is the full text of a letter of advice from Quam Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the New Feihe Master Agreement.*



**Quam Capital Limited**

A Member of The Quam Group

31 December 2015

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS RENEWAL OF EXISTING FEIHE MASTER AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions under the New Feihe Master Agreement, details of which are set out in the “Letter from the Board” (the “**Letter**”) contained in the circular dated 31 December 2015 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Group has been selling raw milk to Feihe Dairy Group during the period from 1 November 2013 to 31 December 2015 pursuant to the Existing Feihe Master Agreement. Given that the Existing Feihe Master Agreement will expire on 31 December 2015, the Group entered into the New Feihe Master Agreement on 14 December 2015 with Feihe Dairy Group to continue the Group’s supply of raw milk to Feihe Dairy Group for the three years ending 31 December 2018.

Feihe Dairy Group is deemed by the Stock Exchange as a connected person of the Company pursuant to Rule 14A.19 (or the then Rule 14.06) of the Listing Rules and the Company has agreed 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. Hence, the transactions contemplated under the New Feihe Master Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Given that the highest applicable percentage ratio of the transactions contemplated under the New Feihe Master Agreement is expected to be more than 25% and the annual consideration is not less than HK\$10 million, the transactions contemplated under the New Feihe Master Agreement are subject to the reporting, announcement and the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

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## LETTER FROM QUAM CAPITAL

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The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo, has been established to advise the Independent Shareholders as to whether the terms of the New Feihe Master Agreement are fair and reasonable so far as the Company and Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the resolution to be proposed at the SGM to approve the New Feihe Master Agreement and the transactions contemplated thereunder. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Quam Capital did not have any relationships or interests with the Group or Feihe Dairy Group that could reasonably be regarded as relevant to the independence of Quam Capital. In the last two years, Quam Capital has acted as the independent financial adviser to the then independent board committee and independent shareholders of the Company for the revision of annual caps under the Existing Feihe Master Agreement for the two years ending 31 December 2014 and 31 December 2015 (details of which were set out in the 2014 Circular). Apart from normal professional fees being paid or payable to us in connection with such appointment as the independent financial adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group or Feihe Dairy Group, therefore we consider such relationship would not affect our independence to give independent advice in respect of the New Feihe Master Agreement and the transactions contemplated thereunder.

### **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM.

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## LETTER FROM QUAM CAPITAL

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We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group or Feihe Dairy Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group or Feihe Dairy Group or any of their respective subsidiaries or associates.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have considered the following principal factors and reasons:

#### **1. Background of the New Feihe Master Agreement and reasons and benefits for the continuing connected transactions**

The Company is a dairy farming company in the PRC dedicated to the production of super premium raw milk. According to the annual report of the Company for the year ended 31 December 2014, all revenue of the Group was derived from the sale of raw milk.

Feihe Dairy Group is based in Heilongjiang Province, the PRC, and is principally engaged in the production and distribution of milk powders and other dairy products in the PRC. Feihe Dairy Group is not a connected person of the Company for the purpose of Rule 14A.06(7) of the Listing Rules. However, due to the Group's past relationship and transactions with Feihe Dairy Group as disclosed in the section headed "History, Development and Reorganization — Our Relationship with Feihe Dairy Group" in the Prospectus, it is deemed by the Stock Exchange as the Company's connected person pursuant to Rule 14A.19 of the Listing Rules.

According to the Prospectus, the annual reports of the Group for the years ended 31 December 2013 and 2014 and the interim report for the six months ended 30 June 2015 ("**2015 Interim Report**"), Feihe Dairy Group has been one of the top five customers of the Group for the five years ended 31 December 2014 and the six months ended 30 June 2015. As disclosed in the Prospectus, when the Group was in its initial stage of commercial production in 2010, Feihe Dairy Group accounted for all of the Group's revenue. Throughout years of the Group's development, while Feihe Dairy Group remained as one of the top five customers of the Group, the Company has managed to diversify its customers to a number of other dairy products manufacturers. The Directors emphasise that most of the Group's customers are leading dairy products manufacturers in the PRC. Maintaining solid and stable business relationships with these top dairy brands, including Feihe Dairy Group, is in line with the Company's strategy and dedication to the production of super premium raw milk. However, it has also been the Group's intention to broaden its customer base and gain market recognition

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## LETTER FROM QUAM CAPITAL

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in the dairy products industry. In such connection, the Company engaged in new business relationships with two dairy brands in late 2015. The Company will continue to explore opportunities to cooperate with other dairy product manufacturers in the future.

As stated in the Letter, the Board believes the sales of raw milk to Feihe Dairy Group is important to the business of the Group. It is expected that the continuing supply of raw milk products to Feihe Dairy Group will further enhance the stability of the Group's customer base and ensure future demand for the Group's raw milk product. In light of the principal activities of the Group, we consider that the entering into of the New Feihe Master Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group.

According to the 2015 Interim Report, the price of domestic raw milk in the PRC continued to decrease primarily due to the shift in raw milk procurement demand to overseas dairy market. In this regard, despite the sales volume of the Group's raw milk increased by approximately 11.6% as compared to the corresponding period in 2014, the revenue of the Group decreased by approximately 2.6% as offset by the decrease in domestic raw milk price. In view of the decrease in demand for domestic raw milk and to stabilise the market, the Ministry of Agriculture of the PRC promulgated "An Urgent Circular on Coordinating and Handling Difficulty in Selling Milk to Stabilize the Production of Dairy Industry" (《關於協調處理賣奶難穩定奶業生產的緊急通知》) in January 2015, indicating the PRC government's awareness in the matter. In addition, the PRC government announced on The Communiqué of the Fifth Plenum of the 18th Central Committee (中國共產黨第十八屆中央委員會第五次全體會議公報) in October 2015 the initiation of the full implementation of the two-child policy that allows married couples to have two children in response to the aging population and to balance population growth. In view of the above, the Director considered that the demand for raw milk in the dairy industry will be boosted by the rise in birth rate in the PRC and the price of the domestic raw milk will be stabilised.

In light of (i) the significant revenue contribution from Feihe Dairy Group, being one of the top five customers of the Group since 2009, to the Group; and (ii) the expected increase in demand for raw milk as driven by the favourable policies, we consider that the entering into the New Feihe Master Agreement (including the proposed annual caps relating thereto) is in the interests of the Group and the Shareholders as a whole.

### **2. Principal terms of the New Feihe Master Agreement**

The principal terms of the New Feihe Master Agreement is summarised as follows:

Date: 14 December 2015

Parties: (a) Ruixinda and Ruixincheng (for themselves and on behalf of other members of the Group) (as vendor); and

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## LETTER FROM QUAM CAPITAL

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(b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) (a purchaser).

- Contract period: Three years from 1 January 2016 to 31 December 2018.
- Subject matter: Supply of raw milk by the Group to Feihe Dairy Group.
- Pricing term: For each order to be placed under the New 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 Indicative Price (as defined below) and certain adjustment factors stated under the paragraph headed "Purchase Price" below.
- Payment term: The payment terms for the transactions contemplated under the New Feihe Master Agreement will be stipulated in the relevant individual orders agreed between the parties. The transactions contemplated under the New Feihe Master Agreement will be settled on accrual basis, with a credit term of no more than one month, during which no interest will accrue <sup>(Note)</sup>.
- 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.
- Condition: The New Feihe Master Agreement (including the proposed annual caps for the transactions contemplated thereunder) is conditional upon obtaining the approval from the Independent Shareholders in accordance with the provisions of the Listing Rules.

*Note:* This payment term is generally consistent with the credit policy adopted by the Group for its Independent Third Party customers. Feihe Dairy Group would therefore be required to make payment, based on the actual purchase quantity and price as stated in each order, to the Group for the Group's supply of raw milk. So far as the Directors are aware, this payment term is in line with the market practice among the raw milk providers in the PRC.

### *Purchase price*

Under the New Feihe Master Agreement, the Group will enter into a specific sales contract with the Feihe Dairy Group before the end of each year to agree on, among others, the pricing mechanism regarding the sales of raw milk for the subsequent year.

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## LETTER FROM QUAM CAPITAL

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We were advised by the Company that the Group generally negotiates the actual selling pricing for the raw milk with its customers (including both Feihe Dairy Group and its Independent Third Party customers) based on the latest indicative milk price (“**Indicative Price**”) published quarterly by the Heilongjiang Animal Husbandry & Veterinary Bureau (黑龍江省牧獸醫局) (“**Bureau**”), adjusted by factors in relation to certain safety and quality standards, among others, the microbe count, the level of protein content and fat content and the freezing point of raw milk. The published reference price range for the fourth quarter of 2015 ranged from RMB2.94 per kilogramme to RMB4.80 per kilogramme. The Indicative Price and such reference price range are generally lower than the Group’s raw milk selling price of the same period. Due to the super premium quality of the Group’s raw milk, and the resulting demand from the Group’s customers for the production of their high-end dairy products, the Group is able to charge raw milk prices that are higher than the Indicative Price and such reference price range published.

The Group’s pricing mechanism with its customers (including Feihe Dairy Group and other Independent Third Party customers of the Group) are generally the same, and therefore the selling price of the raw milk contemplated under the New Feihe Master Agreement would be comparable to that of the Independent Third Party customers of the Group. In addition, designated members of the Group’s senior management will from time to time review the raw milk price agreed between the Group and Feihe Dairy Group, and compare it with such (of similar quality and during the same period of time) being agreed between the Group and Independent Third Party customers, to ensure that the price of raw milk for all of the Group’s customers remain comparable, and the contemplated transactions between the Feihe Dairy Group and the Group are conducted on normal commercial terms.

In order to assess the fairness and reasonableness of the prices of the raw milk products supplied by Ruixinda and Ruixincheng to Feihe Dairy Group under the New Feihe Master Agreement, we have obtained and reviewed sample copies of sales agreements entered into between the Group and Independent Third Parties, and the invoices issued by Ruixinda and Ruixincheng to the Independent Third Parties. Based on our review of the sample sales agreements and invoices, we noted that the prices of the raw milk supplied by Ruixinda and Ruixincheng to Feihe Dairy Group under the Feihe Master Agreement are no less favorable than those supplied to the Independent Third Parties.

Given that (i) the Group’s pricing mechanism with its customers (including Feihe Dairy Group and Independent Third Party customers of the Group) are generally the same, and that the selling price of the raw milk contemplated under the New Feihe Master Agreement would be comparable to that of the Independent Third Party customers of the Group; and (ii) the Group’s policy on review of raw milk prices agreed between the Group and its customers (including Feihe Dairy Group) as mentioned above, we concur with the Directors that the pricing mechanism will be able to ensure the

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## LETTER FROM QUAM CAPITAL

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transactions contemplated under the New Feihe Master Agreement be conducted on normal commercial terms or on terms no less favourable to the Company than terms available to Independent Third Parties.

### *Payment term*

As disclosed in the 2015 Interim Report and as confirmed by the management of the Group, trading terms with customers of the Group are mainly on credit with credit terms of generally one month. We have also reviewed sample copies of sales agreements entered into between the Group and the Independent Third Parties and we found that the credit terms under the New Feihe Master Agreement are no less favourable than those offered to the Independent Third Parties.

### *Other major terms*

We have also reviewed other major terms of the New Feihe Master Agreement and the sales agreements entered into between the Group and the Independent Third Parties, and we are not aware of any terms which are exceptional.

Based on the above, we are of the opinion that the terms of the New Feihe Master Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **3. The proposed new annual caps**

Set out below are the historical transaction amounts under the Existing Feihe Master Agreement for each of the two years ended 31 December 2014 and the nine months period ended 30 September 2015:

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2014</b>	<b>For the nine months ended 30 September 2015</b>
	<i>(Approximate RMB million)</i>	<i>(Approximate RMB million)</i>	<i>(Approximate RMB million)</i>
Purchase of raw milk by Feihe Dairy Group from the Group pursuant to the Existing Feihe Master Agreement	319	606	346

As illustrated in the table above, the transaction amount under the Existing Feihe Master Agreement increased by approximately 90.0% from approximately RMB319 million for the year ended 31 December 2013 to approximately RMB606 million for the year ended 31

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## LETTER FROM QUAM CAPITAL

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December 2014. As advised by the management of the Group, such increase was mainly attributable to the higher average selling price per ton of raw milk and Feihe Dairy Group's greater demand for the Group's high-quality raw milk in order to produce Feihe Dairy Group's high-end dairy products. For the nine months ended 30 September 2015, the transaction amount under the Existing Feihe Master Agreement was approximately RMB346 million, which was comparatively lower than the same period in the prior year of approximately RMB463 million. As discussed with the management of the Group, such decrease was mainly due to the combined effect of (i) the drop in price of domestic raw milk, which in turn contributed to the decrease in average selling prices of the Group's super premium quality raw milk; and (ii) the general reduction in procurement by Feihe Dairy Group as a result of the change in market sentiment.

### *Assessment of the proposed new annual caps*

Set out below are the proposed new annual caps for each of the three years ending 31 December 2018:

	<b>For the year ending 31 December 2016 (RMB million)</b>	<b>For the year ending 31 December 2017 (RMB million)</b>	<b>For the year ending 31 December 2018 (RMB million)</b>
Proposed annual caps under the New Feihe Master Agreement	766	881	970

As set out in the Letter, the proposed new annual caps are determined with reference to: (i) the historical transaction amount in respect of the sales of raw milk contemplated under the Existing Feihe Master Agreement for the two years ended 31 December 2014 and the nine months ended 30 September 2015; (ii) the projected quantities of sales of raw milk by the Group to Feihe Dairy Group for the three years ending 31 December 2018 (taking into account the Group's expansion plan for raw milk production); (iii) the prospect of the PRC dairy industry following the introduction of the two-child policy by the PRC government; and (iv) the prevailing market price of raw milk. In assessing the reasonableness of the proposed new annual caps, we have discussed with the management of the Group on the bases and assumptions in arriving at the proposed new annual caps.

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## LETTER FROM QUAM CAPITAL

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(i) *Historical sales of raw milk to Feihe Dairy Group*

The transaction amount under the Existing Feihe Master Agreement for the year ended 31 December 2014 amounted to approximately RMB606 million, and the then annual cap was utilised as to approximately 91.8%. For the nine months period ended 30 September 2015, the transaction amount was approximately RMB346 million. As advised by the Company and as mentioned in the paragraph headed “Background of the New Feihe Master Agreement and reasons and benefits for the continuing connected transactions” above, such decrease was mainly due to the combined effect of (i) the drop in price of domestic raw milk, which in turn contributed to the decrease in average selling prices of the Group’s super premium quality raw milk; and (ii) the general reduction in procurement by Feihe Dairy Group as a result of the change in market sentiment. Nonetheless, as discussed in the paragraph headed “Background of the New Feihe Master Agreement and reasons and benefits for the continuing connected transactions” above, following the promulgation of the favourable policies by the PRC government in 2015, the management of the Group believe that the recent drop in raw milk transaction amount in 2015 will not have a material effect on the Group’s formulation of the proposed annual caps for the transactions contemplated under the New Feihe Master Agreement for the three years ending 31 December 2018.

(ii) *Projected sales of raw milk by the Group to Feihe Dairy Group*

We have also sought and reviewed the purchasing order from Feihe Dairy Group to the Group for the expected procurement volume of 160,000 tonnes of raw milk for the year ending 31 December 2016. Based on the average selling price of approximately RMB4,500 per tonne of raw milk sold by the Group to Feihe Dairy Group during the ten months ended 31 October 2015, the transaction amount will be amounted to approximately RMB720 million, representing 94.0% of the proposed annual cap for the year ending 31 December 2016. Feihe Dairy Group, being one of the top five customers of the Group, is one of the approved children milk powder producers in China. In light of the favorable government policies and the introduction of the two-child policy, it is expected that the procurement amount from Feihe Dairy Group will increase accordingly.

As stated in 2015 Interim Report, the Group will expand its business scale by constructing two new farms in the PRC, which will increase the production capacity of the Group by 22,000 heads of cow. In addition, the Group aims to attain a total herd size of 100,000 in 2017, which is more than double of the total herd size of 48,970 as at 30 June 2015. In view of the expansion in the Group’s farm, the Directors expected that the total raw milk production capacity will increase accordingly and reach approximately 310,000 tonnes in 2017.

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## LETTER FROM QUAM CAPITAL

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(iii) *The prospect of the PRC dairy industry*

The PRC government announced on The Communiqué of the Fifth Plenum of the 18th Central Committee (中國共產黨第十八屆中央委員會第五次全體會議公報) in October 2015 the initiation of the full implementation of the two-child policy that allows married couples to have two children in respond to the aging population and to balance population growth. Having awarded 2015年度全國食品安全管理創新二十佳案例 (The Twenty Best Cases of National Food Safety Management Innovation in 2015) on The 13th China Food Safety Annual Conference (第十三屆中國食品安全年會) in November 2015 and having a market share of approximately 7.5% in the PRC infant formula milk market, Feihe Dairy Group is considered to be one of the leading infant formula milk powder producers in the PRC. Hence, the Directors expect that the milk powder sale of Feihe Dairy Group will benefit from the implementation of the two-child policy and accordingly increase the procurement of raw milk from the Group.

(iv) *The expected improvement in market price of raw milk*

As discussed in the paragraph headed “Background of the New Feihe Master Agreement and reasons and benefits for the continuing connected transactions” above, in view of the decrease in demand for domestic raw milk and to stabilise the market, the Ministry of Agriculture of the PRC promulgated “An Urgent Circular on Coordinating and Handling Difficulty in Selling Milk to Stabilize the Production of Dairy Industry” (《關於協調處理賣奶難穩定奶業生產的緊急通知》) in January 2015, indicating the PRC government’s awareness in the matter. Thereafter, the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) announced in April 2015 the Revision of the Food Safety Law of the PRC (《中華人民共和國食品安全法》修訂) which tightened the regulations on the production of infant formula milk powder with effect from October 2015. In view of the above, the Directors expect the domestic raw milk price will be stabilised.

Having considered that (i) the historical sales of raw milk to Feihe Dairy Group; (ii) the projected sales of raw milk by the Group to Feihe Dairy Group (taking into account the Group’s expansion plan for raw milk production); (iii) the prospect of the PRC dairy industry following the introduction of the two-child policy by the PRC government; and (iv) the prevailing market price of raw milk, we consider that the proposed annual caps under the New Feihe Master Agreement are reasonable.

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## LETTER FROM QUAM CAPITAL

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### 4. Annual review of the continuing connected transactions

Pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, the transactions contemplated under the New Feihe Master Agreement are subject to the following requirements:

- (i) the independent non-executive Directors must review the continuing connected transactions every year and confirm in the annual reports that the continuing connected transactions have been entered into:
  - in the ordinary and usual course of business of the Group;
  - on normal commercial terms or better; and
  - according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the continuing connected transactions for each financial year of the Company and that the Company's auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:
  - have not been approved by the Board;
  - were not, in all material respects, in accordance with the pricing policy of the Group if the transactions involve the provision of goods or services by the Group;
  - were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
  - have exceeded the annual caps.

In view of the transactions contemplated under the New Feihe Master Agreement will be subject to annual review of the independent non-executive Directors and the auditors of the Company, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the New Feihe Master Agreement and safeguard the interests of the Independent Shareholders.

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## LETTER FROM QUAM CAPITAL

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### RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the opinion that the terms of the New Feihe Master Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and the entering into of the New Feihe Master Agreement is conducted in the ordinary and usual course of business of the Group, and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the New Feihe Master Agreement and the transactions contemplated (including the proposed annual caps relating thereto) thereunder at the SGM.

Yours faithfully,  
For and on behalf of  
**Quam Capital Limited**  
**Noelle Hung**  
*Managing Director*  
*Head of Advisory*

*Ms. Noelle Hung is a licensed person and a responsible officer of Quam Capital registered with the Securities and Futures Commission of Hong Kong to carry out type 6 (advising on corporate finance) regulated activities under the SFO since 2007 and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular 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 herein or this circular misleading.

## 2. INTEREST IN SECURITIES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interest or short position in the Shares, underlying Shares and debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) nor had any interest in the right to subscribe for Shares in the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, Directors who had long position in the Shares are as follows:

Name of Director	Capacity	Number of Shares held (Note 1)	Percentage of the issued share capital of the Company
Zhao Hongliang	Beneficial owner	1,354,000,000 (L) (Note 2)	34.64%
Fu Wenguo	Beneficial owner	15,000,000 (L)	0.38%
Wang Shaogang	Beneficial owner	9,500,000 (L)	0.24%
Chen Xiangqing	Beneficial owner	5,500,000 (L)	0.14%
Wu Chi Keung	Beneficial owner	500,000 (L)	0.01%

*Notes:*

- The letter “L” denotes the person’s long position (as defined under Part XV of the SFO) in the Shares.
- ZHL Asia Limited is a controlling Shareholder and is solely owned by Zhao Hongliang (“**Mr. HL Zhao**”), whereas ZHY Asia Limited, being a controlling Shareholder, is solely owned by Zhao Hongyu (“**Mr. HY Zhao**”) who is the brother of Mr. HL Zhao. As at the Latest Practicable Date, 1,173,400,000 Shares is owned by ZHL Asia Limited and 170,200,000 Shares is owned by ZHY Asia Limited.

ZHL Asia Limited, ZHY Asia Limited, Mr. HL Zhao and Mr. HY Zhao are parties acting in concert and on 29 October 2013 they entered into a deed of acting in concert to, among others, confirm their acting-in-concert agreement. As such, as at the Latest Practicable Date, Mr. HL Zhao, Mr. HY Zhao, ZHL Asia Limited and ZHY Asia Limited will together control approximately 34.64% interest in the issued share capital in the Company.

Mr. HL Zhao is deemed or taken to be interested in all the shares which are beneficially owned by ZHL Asia Limited and Mr. HY Zhao is deemed or taken to be interested in all the shares which are beneficially owned by ZHY Asia Limited.

### 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has or is proposed to have a service contract with the Company 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).

### 4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### 5. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (b) none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to any member of the Group.

### 6. MATERIAL ADVERSE CHANGES

Reference is made to the profit warning announcements of the Company dated 16 June 2015 and 11 August 2015 (collectively "**Profit Warning Announcements**"). As disclosed in the Profit Warning Announcements, owing to the continuing drop in price of domestic raw milk in the PRC and the lower average selling price of the Group's high quality raw milk, the Company expected to record a significant decrease in its profit attributable to the owners of the Company for the six months ended 30 June 2015. As disclosed in the interim result announcement of the Company dated 21 August 2015, the unaudited consolidated net profit of the Group for the six months ended 30 June 2015 declined by 95.6% as compared to the first half of 2014.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other factor which may lead to any material adverse change in the financial position or trading position of the Group since 31 December 2014, being the date to which the latest published audited financial statements of the Group was made up.

## 7. EXPERTS

The following is the qualification of the expert who has given its opinions or advice, which are contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Quam Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Quam Capital:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears;
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had been since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

## 8. GENERAL

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the New Feihe Master Agreement is available for inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the principal place of business of the Company at 31/F, 148 Electric Road, North Point, Hong Kong up to and including the date of the SGM.

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## NOTICE OF THE SPECIAL GENERAL MEETING

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### **YuanShengTai Dairy Farm Limited**

**原生态牧业有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1431)**

**NOTICE IS HEREBY GIVEN** that the special general meeting of YuanShengTai Dairy Farm Limited (“**Company**”) will be held at Conference Room 2, 3rd Floor, EAST, Beijing, No. 22 Jiuxianqiao Road, Chaoyang District, Beijing, the PRC on Thursday, 21 January 2016 at 10 a.m. to consider and, if thought fit, pass, with or without modifications, the following resolution as ordinary resolution of the Company:

#### **ORDINARY RESOLUTION**

1. **“THAT:**

- (a) the New Feihe Master Agreement and the transactions contemplated under the New Feihe Master Agreement (as defined and described in the circular to the shareholders of the Company dated 31 December 2015, a copy of which has been produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification) and the proposed annual caps for the years ending 31 December 2016, 31 December 2017 and 31 December 2018 relating thereto be and are hereby approved, ratified and confirmed; and
- (b) the directors of the Company or any other person authorised by the directors of the Company be and are hereby authorised to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the New Feihe Master Agreement and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the New Feihe Master Agreement which in their opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.”

For and on behalf of the Board of  
**YuanShengTai Dairy Farm Limited**  
**Zhao Hongliang**  
*Executive Director and Chairman*

Hong Kong, 31 December 2015

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## NOTICE OF THE SPECIAL GENERAL MEETING

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<i>Registered office:</i>	<i>Head office and Principal Place</i>	<i>Principal place of business</i>
Clarendon House	<i>of Business in the PRC:</i>	<i>in Hong Kong:</i>
2 Church Street	Qingxiang Street	31/F, 148 Electric Road
Hamilton HM 11	Kedong, Qiqihar	North Point
Bermuda	Heilongjiang Province	Hong Kong
	PRC	

*Notes:*

- 1 The register of members of the Company will be closed from 18 January 2016 to 21 January 2016, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for voting at the special general meeting of the Company, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by not later than 4:30 p.m. on 15 January 2016.
- 2 Any member of the Company (the "**Member**") entitled to attend and vote at the SGM convened by the Notice or its adjourned meeting (as the case may be) is entitled to appoint one (or, if he/she/it holds two or more shares in the Company, more than one) proxy to attend and, on a poll, vote on his/her/its behalf subject to the provisions of the Bye-laws of the Company. A proxy need not be a Member but must be present in person at the SGM to represent the Member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which such proxy is so appointed.
- 3 In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the SGM or adjourned meeting. Completion and return of a form of proxy will not preclude a Member from attending in person and voting at the SGM or any adjournment thereof should he/she so wish.
- 4 Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- 5 Voting of the ordinary resolution set out in this notice will be by way of poll.

*As at the date of this notice, the Board comprises four executive Directors, namely Mr. Zhao Hongliang, Mr. Wang Shaogang, Mr. Fu Wenguo and Mr. Chen Xiangqing; two non-executive Directors, namely Mr. Sun Wei and Mr. Lau Ho Fung; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.*