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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 registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Ausnutria Dairy Corporation Ltd**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**AUSNUTRIA DAIRY CORPORATION LTD****澳優乳業股份有限公司***(Incorporated in the Cayman Islands with limited liability)***(Stock code: 1717)****DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
THE REMAINING 15% EQUITY INTEREST IN THE HNC GROUP  
INVOLVING ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE  
AND  
NOTICE OF EGM****Financial Adviser to the Company****Independent Financial Adviser to the Company****東方融資(香港)有限公司  
ORIENT CAPITAL (HONG KONG) LIMITED**

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The notice convening the EGM of the Company to be held on Friday, 11 May 2018 at 10:30 a.m. or immediately after conclusion of the Company's annual general meeting to be held on the same day, whichever is later, at Bowen Room, 7th Floor, Conrad Hong Kong Hotel, Pacific Place, 88 Queensway, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the proxy form and return the same to 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 in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) if you so wish.

12 April 2018

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## DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Shares by the Purchaser from the Vendors pursuant to the terms and conditions of the Sale and Purchase Agreement
“Average Growth Rate”	the average growth rates in the audited consolidated net profit after taxation of the HNC Group for the years ending 31 December 2018, 2019 and 2020 respectively
“Beneficial Owners”	the 28 beneficial owners of the Transfer Shares, among which two are connected persons of the Company and beneficially own 53,100 ordinary shares and 40,000 ordinary shares in HNHK respectively, while the Remaining Beneficial Owners beneficially own 56,900 ordinary shares in HNHK
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“Company”	Ausnutria Dairy Corporation Ltd, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1717)
“Completion”	the completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement
“Completion Date”	the third (3rd) Business Day after the last outstanding condition (other than the conditions which can only be fulfilled upon Completion) have been fulfilled or waived (or such other date agreed by the Purchaser and the Vendors in writing)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration Shares”	the Upfront Consideration Shares and the Subsequent Consideration Shares, which shall not exceed 80,174,000 Shares in aggregate
“Consideration Share Price”	HK\$5.00 per Consideration Share

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## DEFINITIONS

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“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting to be convened by the Company for the purpose of considering and, if thought fit, approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue and allotment of Consideration Shares under the Specific Mandate
“Encumber”	to create or grant any Encumbrance
“Encumbrance”	any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), option, restriction, hypothecation, assignment, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance, priority or security interest of any kind, or any other type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect, and any agreement or obligation to create or grant any of the aforesaid
“Group”	the Company and its subsidiaries
“HNC”	Hyproca Nutrition Co. Ltd.* (海普諾凱營養品有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of HNHK
“HNC Group”	HNHK and HNC
“HNHK”	Hyproca Nutrition (Hongkong) Company Limited, a company incorporated in Hong Kong with limited liability, which is owned as to 85% and 15% by the Purchaser and the Beneficial Owners as at the Latest Practicable Date
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of, among other things, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder

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## DEFINITIONS

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“Independent Financial Adviser” or “Orient Capital”	Orient Capital (Hong Kong) Limited, a licensed corporation to carry out Type 6 (Advising on Corporate Finance) regulated activities under the SFO
“Independent Shareholders”	Shareholders who are not interested or involved in the Sale and Purchase Agreement and the transactions contemplated thereunder
“Last Trading Day”	14 February 2018, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement
“Latest Practicable Date”	6 April 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2018, or such other date as may be agreed by the Purchaser and the Vendors in writing
“PRC”	the People’s Republic of China and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchaser”	Hyproca Nutrition B.V., a private company with limited liability incorporated in the Netherlands, an indirect wholly-owned subsidiary of the Company, and holding 85% of all the issued shares of HNHK as at the Latest Practicable Date
“Remaining Beneficial Owners”	the 26 individuals (other than the two Beneficial Owners who are connected persons of the Company) who are employees of HNC and beneficially own 56,900 ordinary shares in HNHK in aggregate
“Reorganisation”	such arrangement and restructuring to be taken such that the investment vehicle structures are set up and the transfer of the Transfer Shares to the Target Company take effect as set out in the group chart under the paragraph headed “The Sale and Purchase Agreement – Reorganisation” in this circular
“RMB”	Renminbi, the lawful currency of the PRC

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## DEFINITIONS

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“Sale and Purchase Agreement”	the sale and purchase agreement dated 14 February 2018 entered into between the Purchaser, the Vendors and the Company in respect of the Acquisition
“Sale Shares”	the 1,500 ordinary shares in the Target Company owned by the Vendors, representing the entire issued share capital of the Target Company as at the Latest Practicable Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Specific Mandate”	the specific mandate for the issue and allotment of the Consideration Shares, which is subject to the approval by the Independent Shareholders at the EGM
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subsequent Consideration”	the consideration payable by the Purchaser to the Vendors to adjust the Total Consideration for the Acquisition based on the Average Growth Rate
“Subsequent Consideration Shares”	the new Shares to be issued by the Company to the Vendors for the settlement of Subsequent Consideration (if any) pursuant to the Sale and Purchase Agreement
“Target Company”	Multi Brilliant Enterprises Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, which is owned by Vendor A as to 531 shares, representing 35.40%, Vendor B as to 569 shares, representing approximately 37.93% and Vendor C as to 400 shares, representing approximately 26.67% as at the Latest Practicable Date and immediately after the Reorganisation
“Target Group”	the Target Company and its subsidiaries, namely HNHK and HNC, upon completion of the Reorganisation
“Total Consideration”	collectively, the Upfront Consideration and the Subsequent Consideration (if any), which in aggregate shall not exceed HK\$400,870,000

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## DEFINITIONS

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“Transfer Shares”	the 150,000 ordinary shares in HNHK beneficially owned by the Beneficial Owners and legally held by Ms. Li Yimin (being the nominee of the Beneficial Owners) representing 15% of the entire issued share capital of HNHK as at the Latest Practicable Date and subject to the Reorganisation
“Upfront Consideration”	the initial consideration payable by the Purchaser to the Vendors for the Acquisition
“Upfront Consideration Shares”	the new Shares to be issued by the Company to the Vendors for the settlement of the Upfront Consideration pursuant to the Sale and Purchase Agreement
“Vendor A”	Perfect Victory Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, wholly-owned by Ms. Li Yimin, being a director and general manager of HNC
“Vendor B”	Dynamic Winners Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, wholly-owned by the Remaining Beneficial Owners
“Vendor C”	Reliable Global Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, wholly-owned by Mr. Wong Wei Hua Derek, being the company secretary of the Company and the sole director of HNHK
“Vendors”	collectively, Vendor A, Vendor B and Vendor C
“%”	per cent

*For the purpose of this circular, unless otherwise stated, the exchange rate of RMB1 = HK\$1.2477, has been used for currency conversion. This is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$, RMB have been, could have been or may be converted at such rate or any other exchange rate.*

\* For identification purpose only

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LETTER FROM THE BOARD

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**AUSNUTRIA DAIRY CORPORATION LTD**

**澳優乳業股份有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1717)**

**Directors**

*Executive Directors:*

Mr. Yan Weibin (*Chairman*)  
Mr. Bartle van der Meer (*Chief Executive Officer*)  
Ms. Ng Siu Hung

*Non-executive Directors:*

Mr. Tsai Chang-Hai  
Mr. Zeng Xiaojun

*Independent non-executive Directors:*

Ms. Ho Mei-Yueh  
Mr. Jason Wan  
Mr. Lau Chun Fai Douglas

*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

*Principal place of business  
in Hong Kong:*

Unit 16, 36/F  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Sheung Wan  
Hong Kong

12 April 2018

*To the Shareholders:*

Dear Sirs or Madams,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
THE REMAINING 15% EQUITY INTEREST IN THE HNC GROUP  
INVOLVING ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE**

**INTRODUCTION**

Reference is made to the Company's announcements dated 14 February 2018 in relation to, among others, the Sale and Purchase Agreement and the transactions contemplated thereunder.



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## LETTER FROM THE BOARD

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On 14 February 2018, the Purchaser, a wholly-owned subsidiary of the Company, the Vendors and the Company entered into the Sale and Purchase Agreement in relation to the Acquisition, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, representing all the issued shares of the Target Company, at the Total Consideration (which shall not exceed HK\$400,870,000). The Total Consideration will be settled by the issue and allotment of the Consideration Shares (which shall not exceed 80,174,000 Shares in aggregate).

Upon Completion, HNHK, HNC (both being the Company's indirect non-wholly-owned subsidiaries as at the Latest Practicable date) and the Target Company will become indirect wholly-owned subsidiaries of the Company.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) the recommendation of the Independent Board Committee in relation to the Acquisition; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) other information as required under the Listing Rules; and (v) the notice of the EGM.

### SALE AND PURCHASE AGREEMENT

Principal terms of the Sale and Purchase Agreement are set out below.

- Date : 14 February 2018
- Parties : (i) Hyproca Nutrition B.V., being the Purchaser;
- (ii) Perfect Victory Holdings Limited, being Vendor A;
- (iii) Dynamic Winners Group Limited, being Vendor B;
- (iv) Reliable Global Holdings Limited, being Vendor C; and
- (v) the Company

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than the sole owners of Vendor A and Vendor C (whose connectedness has been included in the sub-section headed "Letter from the Board – Implications under Listing Rules" in this circular), Vendor B and its ultimate beneficial owners, being the Remaining Beneficial Owners, are parties independent of the Company and its connected persons.

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## LETTER FROM THE BOARD

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### **Subject matter**

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares at the Total Consideration. The Sale Shares represent all the issued shares of the Target Company.

Upon completion of the Reorganisation (details of which are set out under the paragraph headed “The Sale and Purchase Agreement – Reorganisation” below), the Target Company will hold 15% equity interest in HNHK, an indirect non-wholly-owned subsidiary of the Company.

### **Consideration**

Pursuant to the Sale and Purchase Agreement, the Total Consideration payable by the Purchaser to the Vendors for the Acquisition comprises the Upfront Consideration and the Subsequent Consideration (if any), with a maximum cap of HK\$400,870,000.

#### ***Upfront Consideration***

The Upfront Consideration shall be calculated as 15% of 8.5 times of the audited consolidated net profit after taxation of the HNC Group for the year ended 31 December 2017.

Based on the audited consolidated financial statements for the year ended 31 December 2017, the net profit after taxation of the HNC Group is approximately HK\$197.2 million. The Upfront Consideration and the Upfront Consideration Shares are approximately HK\$251.5 million and 50,294,123 Shares, respectively.

Upon Completion, the Upfront Consideration will be fully settled by the issue and allotment of the Upfront Consideration Shares at the Consideration Share Price by the Company to the Vendors in proportion to their respective equity interest in the Target Company (i.e. 17,804,120 Shares, 19,078,237 Shares and 13,411,766 Shares to Vendor A, Vendor B and Vendor C, respectively).

#### ***Subsequent Consideration***

Pursuant to the Sale and Purchase Agreement, the Subsequent Consideration is determined based on the Average Growth Rate. The Average Growth Rate shall be calculated in accordance with the following formula:

$$\text{Average Growth Rate} = \{[(B - A) \div A] + [(C - B) \div B] + [(D - C) \div C]\} \times 100\% \div 3$$

The Subsequent Consideration shall in turn be determined as follows:

- (i) If the Average Growth Rate is 20% or less, the Subsequent Consideration shall equal to zero.

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## LETTER FROM THE BOARD

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- (ii) In the event that the Average Growth Rate is less than 25% but more than 20%, the Subsequent Consideration shall be determined in accordance with the following formula:

$$\text{Subsequent Consideration} = (2.5 \times X + 2 \times Y + 1.5 \times Z) \times 15\%$$

- (iii) In the event that the Average Growth Rate is 25% or above, the Subsequent Consideration shall be calculated in accordance with the following formula:

$$\text{Subsequent Consideration} = (5 \times X + 4 \times Y + 3 \times Z) \times 15\%$$

Where (for all the calculation formulae above),

A = the audited consolidated net profit after taxation of the HNC Group for the year ended 31 December 2017;

B = the audited consolidated net profit after taxation of the HNC Group for the year ending 31 December 2018;

C = the audited consolidated net profit after taxation of the HNC Group for the year ending 31 December 2019;

D = the audited consolidated net profit after taxation of the HNC Group for the year ending 31 December 2020;

X = (B – A) or zero, whichever is higher;

Y = (C – B) or zero, whichever is higher; and

Z = (D – C) or zero, whichever is higher.

The Subsequent Consideration (if any) will be settled by the issue and allotment of the Subsequent Consideration Shares at the Consideration Share Price by the Company to the Vendors in proportion to their respective equity interest in the Target Company. The Subsequent Consideration shall be payable to the Vendors no later than the twentieth (20th) Business Day immediately after the date of announcement of the Company's annual results for the year ending 31 December 2020.

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## LETTER FROM THE BOARD

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The maximum cap of the Total Consideration was determined after arm's length negotiations between the Purchaser and the Vendors with reference to among others, (i) the historical financial performance of the HNC Group; and (ii) the business development and prospects of the HNC Group, details of which have been disclosed under the sub-section headed "Letter from the Board – Reasons for and benefits of the Acquisition". The Directors (including the independent non-executive Directors, whose view has been included in the section headed "Letter from the Independent Board Committee" in this circular) consider that the Total Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

### **Consideration Shares**

#### ***Number of Shares***

As at the Latest Practicable Date, the Company has 1,256,061,530 Shares in issue. The maximum number of 80,174,000 Consideration Shares represents:

- (i) approximately 6.38% of the total number of issued Shares of the Company as at the Latest Practicable Date; and
- (ii) approximately 6.00% of the total number of issued Shares of the Company as enlarged by the issue and allotment of the Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the Latest Practicable Date and the issue and allotment of the Consideration Shares).

For the purpose of calculating the number of the Consideration Shares to be issued and allotted to each of the Vendors, such number shall be rounded down to the nearest whole number of the Consideration Shares. As such, the maximum numbers of Consideration Shares to be issued to Vendor A, Vendor B and Vendor C are 28,381,596 Shares, 30,412,670 Shares and 21,379,733 Shares, respectively.

#### ***Share price***

The Consideration Share Price of HK\$5.00 per Consideration Share represents:

- (i) a premium of approximately 3.31% to the closing price of HK\$4.84 per Share as quoted on the Stock Exchange on 14 February 2018, being the Last Trading Day;
- (ii) a premium of approximately 3.52% to the average closing price of approximately HK\$4.83 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 1.83% to the average closing price of approximately HK\$4.91 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

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## LETTER FROM THE BOARD

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- (iv) a discount of approximately 24.70% to the closing price of HK\$6.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Share Price was determined after arm's length negotiations between the Purchaser and the Vendors with reference to the current market price of the Share. The Directors (including the independent non-executive Directors, whose view has been included in the section headed "Letter from the Independent Board Committee" in this circular) consider that the Consideration Share Price is fair and reasonable and on normal commercial terms.

### **Lock-up undertakings**

Pursuant to the Sale and Purchase Agreement, each of the Vendors undertakes to the Purchaser that it will not:

- (i) in respect of one-thirds of the Upfront Consideration Shares, for a period of 12 months from the issue and allotment of the Upfront Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such Consideration Shares;
- (ii) in respect of another one-thirds of the Upfront Consideration Shares, for a period of 24 months from the issue and allotment of the Upfront Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such Consideration Shares;
- (iii) in respect of the remaining one-thirds of the Upfront Consideration Shares, for a period of 36 months from the issue and allotment of the Upfront Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such Consideration Shares; and
- (iv) in respect of the Subsequent Consideration Shares, for a period of 12 months from the issue and allotment of the Subsequent Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such Consideration Shares,

unless prior written consent has been obtained from the Purchaser.

### **Reorganisation**

The Reorganisation is made at the decision of the Beneficial Owners to (i) cease the nominee arrangement that the legal titles and beneficial ownerships in the Transfer Shares could be reconciled; and (ii) rationalise the relevant transaction costs that would otherwise be incurred, while neither the Company nor the Purchaser is involved in and a party to the Reorganisation.

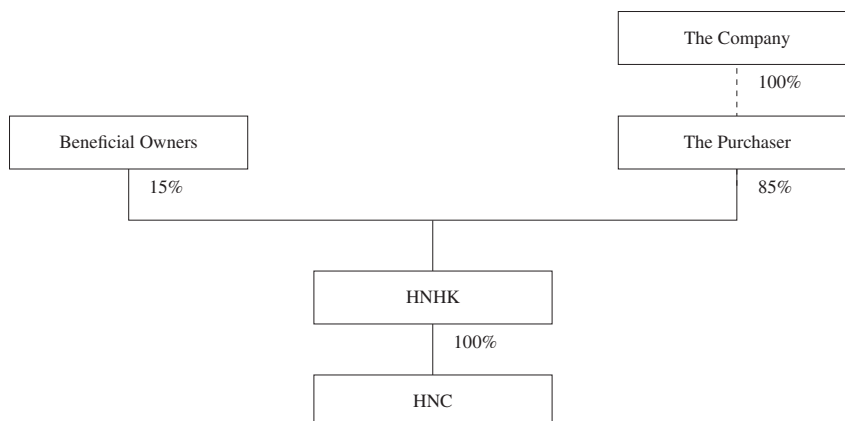
As at the Latest Practicable Date, the Transfer Shares, representing 15% of all shares issued by HNHK, are beneficially owned by the Beneficial Owners and are legally held by Ms. Li Yimin, being the nominee of the Beneficial Owners.

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## LETTER FROM THE BOARD

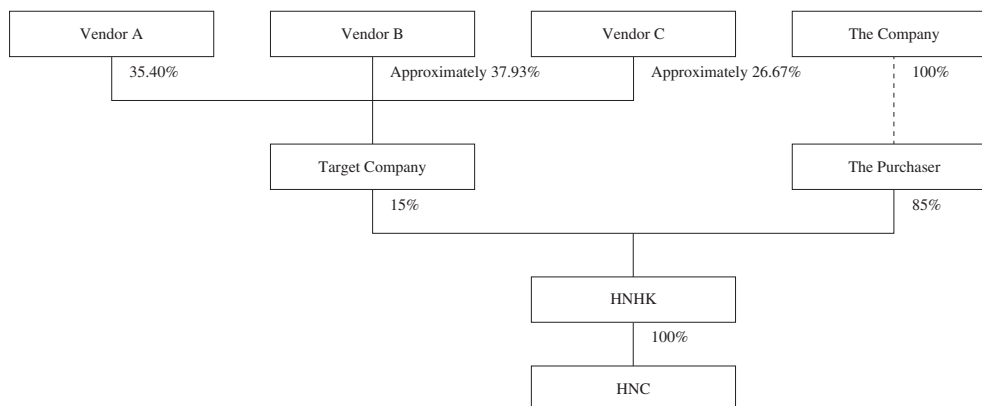
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Set out below is the group chart of the HNC Group before the Reorganisation:



Upon completion of the Reorganisation, Ms. Li Yimin will cease to be the nominee of the Beneficial Owners, and the Transfer Shares will be transferred to the Target Company free from Encumbrances and together with all rights now or hereafter attaching or accruing thereto. The Vendors undertake to discharge and/or procure the Target Company to discharge all the outstanding liabilities and obligations of the Target Company upon completion of the Reorganisation and immediately before the Completion.

Set out below is the group chart of the Target Group upon completion of the Reorganisation:



As at the Latest Practicable Date, the Reorganisation is still in progress, and is expected to be completed on or before the date of the EGM.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, there will be no change in the ultimate beneficial ownership in the Transfer Shares (i.e. the 15% equity interest in HNHK) throughout the Reorganisation and the Reorganisation has no financial and operational implications to the HNC Group.

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## LETTER FROM THE BOARD

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### Conditions Precedent

Completion of the Acquisition shall be conditional upon the fulfilment of the following conditions:

- (i) the Reorganisation having been duly completed and the Target Company having been duly registered as the holder of the Transfer Shares;
- (ii) the representations, warranties and undertakings given by each of the Vendors as set out in the Sale and Purchase Agreement remaining true, accurate and not misleading throughout the period from the date of the Sale and Purchase Agreement to the Completion Date;
- (iii) the Independent Shareholders passing at the EGM resolutions approving the entering into, execution, delivery and performance of the Sale and Purchase Agreement and the transactions contemplated thereunder, including without limitation the purchase of the Sale Shares and the issue and allotment of the Consideration Shares to the Vendors, and giving any other approvals or notifications as may be required under the Listing Rules and other applicable laws;
- (iv) all necessary consents from any relevant governmental or regulatory authorities or other relevant third parties in connection with the Sale and Purchase Agreement and the transactions contemplated hereunder required to be obtained on the part of the Purchaser or the Company having been obtained; and
- (v) the Company having obtained an approval from the Stock Exchange for the listing of and permission to deal in the Consideration Shares and such listing and permission not being subsequently revoked prior to the issue and allotment of the Consideration Shares.

Conditions precedent (ii) as set out above may be waived in writing by the Purchaser at its sole and absolute discretion. If any of the conditions precedent set out above are not fulfilled or waived at or before 5:00 p.m. (Hong Kong time) on the Long Stop Date, the Sale and Purchase Agreement shall lapse and be of no further effect (except the confidentiality obligations and certain clauses as specified therein), and no party to the Sale and Purchase Agreement shall have liability and obligation to the other party, save in respect of any antecedent breaches of the Sale and Purchase Agreement.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

### Completion

Upon Completion, the Target Company will be 100% owned by the Purchaser and become an indirect wholly-owned subsidiary of the Company. As such, HNHK and HNC will be 100% owned by the Purchaser and become indirect wholly-owned subsidiaries of the Company. Their financial results, assets and liabilities will continue to be consolidated into the consolidated financial statements of the Company.

Unless the sale of all of the Sale Shares is completed simultaneously, neither any Vendor nor the Purchaser shall be obliged to complete the sale/purchase of any of the Sale Shares.

## LETTER FROM THE BOARD

### EFFECT ON THE SHAREHOLDING STRUCTURE

For illustrative purpose only, the following table sets out the effect of the issue of the Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date and the number of Upfront Consideration Shares, and assuming (i) the Completion having taken place; and (ii) the maximum number of Consideration Shares having been issued and allotted, without taking into account any other new Shares, if any, after the Latest Practicable Date and prior to the Completion.

	As at the Latest Practicable Date		Immediately upon the issue and allotment of the Upfront Consideration Shares		Immediately upon the issue and allotment of the maximum number of Consideration Shares (i.e. both the Upfront Consideration Shares and the Subsequent Consideration Shares)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Vendor A and its associate <sup>(Note 1)</sup>	250,000	0.02	18,054,120	1.38	28,631,596 <sup>(Note 10)</sup>	2.14
Vendor B and its associates <sup>(Note 2)</sup>	–	–	19,078,237	1.46	30,412,670 <sup>(Note 10)</sup>	2.28
Vendor C and its associate <sup>(Note 3)</sup>	330,000	0.03	13,741,766	1.05	21,709,733 <sup>(Note 10)</sup>	1.62
Center Laboratories, Inc. (“Center Lab”) <sup>(Note 4)</sup>	505,931,772	40.28	505,931,772	38.73	505,931,772	37.86
Mr. Bartle van der Meer <sup>(Notes 5 and 6)</sup>	162,605,230	12.95	162,605,230	12.45	162,605,230	12.17
Mr. Yan Weibin <sup>(Notes 7 and 8)</sup>	106,939,085	8.51	106,939,085	8.19	106,939,085	8.00
Public Shareholders	480,005,443	38.21	480,005,443	36.74	480,005,443	35.92
	<u>1,256,061,530</u>	<u>100.00</u>	<u>1,306,355,653</u>	<u>100.00</u>	<u>1,336,235,529</u>	<u>100.00</u>

*Notes:*

- Ms. Li Yimin, being a director and general manager of HNC, is the sole beneficial owner of Vendor A and hence the associate of Vendor A.
- The Remaining Beneficial Owners, being the employees of HNC, are the beneficial owners of Vendor B and hence the associates of Vendor B.
- Mr. Wong Wei Hua Derek, being the company secretary of the Company, is the sole beneficial owner of Vendor C and hence the associate of Vendor C.
- As at the Latest Practicable Date, Center Lab beneficially owns 361,738,129 Shares. Both BioEngine Capital Inc. and BioEngine Technology Development Inc., which hold 123,355,375 Shares and 20,838,268 Shares respectively, are non-wholly-owned subsidiaries of Center Lab. Accordingly, Center Lab is deemed to be interested in a total of 505,931,772 Shares.



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## LETTER FROM THE BOARD

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5. The amount represents the number of Shares Mr. Bartle van der Meer is deemed to be interested in under the SFO as at the Latest Practicable Date, and comprises (i) 400,000 Shares he beneficially owns; and (ii) 162,205,230 Shares held by Dutch Dairy Investments HK Limited, a corporation which he indirectly controls. Apart from these, Mr. Bartle van der Meer also holds share options granted by the Company on 21 January 2016 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enables him to subscribe for 800,000 Shares.
6. Dutch Dairy Investments HK Limited, which holds 162,205,230 Shares, is wholly-owned by Dutch Dairy Investments B.V.. Dutch Dairy Investments B.V. is owned as to 50.00% by Fan Deming B.V., which is in turn wholly-owned by Mr. Bartle van der Meer.
7. The amount represents the number of Shares Mr. Yan Weibin is deemed to be interested in under the SFO as at the Latest Practicable Date, and comprises (i) 400,000 Shares he beneficially owns; and (ii) 106,539,085 Shares held by Ausnutria Holding Co. Ltd., a corporation which is wholly-owned by him. Apart from these, Mr. Yan Weibin also holds share options granted by the Company on 21 January 2016 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enables him to subscribe for 800,000 Shares.
8. Ms. Chen Miaoyuan is the spouse of Mr. Yan Weibin and is therefore deemed to be interested in all the Shares in which Mr. Yan Weibin is deemed to be interested.
9. The percentages of the Shares are rounded to the nearest two decimal places, and the total number of the percentages may not add up to 100% due to rounding.
10. Due to the round-down treatment as detailed in the paragraph headed “Sale and Purchase Agreement – Consideration Shares”, the sum of the maximum Consideration Shares having been issued to each of the Vendors as illustrated in the above table is less than 80,174,000 Shares.

### INFORMATION OF THE GROUP, THE PURCHASER AND THE VENDORS

#### The Group

The Company acts as an investment holding company of the Group. The Group is principally engaged in (i) the dairy industry with activities ranging from research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC and other overseas countries; and (ii) research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC, Australia and New Zealand.

#### The Purchaser

Hyproca Nutrition B.V. is a private company with limited liability incorporated in the Netherlands and an indirect wholly-owned subsidiary of the Company and is principally engaged in marketing and distribution of goat milk nutrition products. As at the Latest Practicable Date, the Purchaser owns 85% of all the issued shares of HNHK.

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## LETTER FROM THE BOARD

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### **The Vendors**

Perfect Victory Holdings Limited, being Vendor A, is a company incorporated under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. Vendor A is beneficially owned by one of the Beneficial Owners who owned HNHK as to 5.31% as at the Latest Practicable Date. Upon completion of the Reorganisation, Vendor A will own 35.40% of the equity interest of the Target Company, which in turn owns 15% equity interests of HNHK.

Dynamic Winners Group Limited, being Vendor B, is a company incorporated under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. Vendor B is beneficially owned by the Remaining Beneficial Owners who own 5.69% equity interest in HNHK in aggregate as at the Latest Practicable Date. Upon completion of the Reorganisation, Vendor B will own approximately 37.93 % of the equity interest of the Target Company, which in turn owns 15% equity interests of HNHK.

Reliable Global Holdings Limited, being Vendor C, is a company incorporated under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. Vendor C is beneficially owned by one of the Beneficial Owners who owned HNHK as to 4.00% as at the Latest Practicable Date. Upon completion of the Reorganisation, Vendor C will own approximately 26.67% of the equity interest of the Target Company, which in turn owns 15% equity interests of HNHK.

### **INFORMATION OF THE TARGET COMPANY**

The Target Company is a company set up by the Vendors and incorporated under the laws of the British Virgin Islands with limited liability on 2 January 2018 and is principally engaged in investment holding. As at the Latest Practicable Date and upon completion of the Reorganisation, the Target Company is and will continue to be owned as to 35.40%, approximately 37.93% and approximately 26.67% by Vendor A, Vendor B and Vendor C, respectively.

Upon completion of Reorganisation, HNHK will be owned as to 85% and 15% by the Purchaser and the Target Company, respectively. HNHK and HNC are principally engaged in marketing and distribution of goat milk nutrition products in Hong Kong and the PRC, respectively.

The total investment of the HNC Group was contributed by the Purchaser and the Beneficial Owners on a proportional basis (i.e. RMB8.50 million and RMB1.5 million respectively).

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## LETTER FROM THE BOARD

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### Financial information of the HNC Group

No statutory audited financial statements have been prepared by the Target Company as it has not involved in any significant business transactions since its date of incorporation.

Set out below is the summary of the key financial information of the HNC Group, being the assets to be acquired, based on the audited consolidated financial statements of the HNC Group for the three years ended 31 December 2017:

	Year ended 31 December 2015 <i>RMB million</i> (audited)	Year ended 31 December 2016 <i>RMB million</i> (audited)	Year ended 31 December 2017 <i>RMB million</i> (audited)
Revenue	461.04	664.96	1,078.17
Net profit before taxation	94.10	143.06	217.28
Net profit after taxation	67.69	103.99	158.08
			<b>As at 31 December 2017 <i>RMB million</i> (audited)</b>
Net assets			334.93

### REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the dairy business, in particular on the manufacture and distribution of infant formula, where it has established a strong foundation over the years.

Both HNHK and HNC were established in 2011 to be a marketing and sales platform for nutrition products, in particular the goat milk infant formula under the brand name *Kabrita*, in consumer packs to Hong Kong and the PRC. The financial results of the HNC Group have been consolidated into the consolidated financial statements of the Company since the year ended 31 December 2011. Since then, the HNC Group has provided the Group with continuous positive contribution.

With the increasing recognition of the good quality of goat milk infant formula, the *Kabrita* series products have progressed significantly, and become a major momentum for the Group's business growth. Furthermore, the market share of *Kabrita* has been ranked as the number one imported goat milk infant formula in the PRC for four consecutive years since 2014. The management of the Company is of the view that *Kabrita* will continue to grow steadily and positively contribute to the Group.

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## LETTER FROM THE BOARD

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The Acquisition will (i) enable the Group to further enhance its operating results and fully benefit from 100% of the cash flow streams and profit of the HNC Group; (ii) enable the Group to further increase its stake in the HNC Group, the operations of which the Group is familiar with through its existing 85% equity interest in HNHK; and (iii) facilitate better implementation of the operating philosophies and strategies of the Company into the HNC Group, create better synergy with the Group as a whole, and hence improve the operational efficiency.

In view of the long term strategic plan of the Group to become one of the major global players in the nutrition sector, particularly on infant formula products, the Company continues to streamline its business structure and strategies, increase its effort on the building of the global supply chain on goat milk infant formula and establish the overseas nutritional business. The Acquisition is in line with the development of the Group to continue to develop its goat milk infant formula products sector, which is expected to give a positive impact to the operations, financial results and profitability to the Group.

Settlement by way of issue and allotment of the Consideration Shares to the Vendors, whose ultimate beneficial owners are a director and general manager of HNC or employees of the HNC Group or a chief executive of the Company, reflects the confidence and commitment of the Vendors towards the long-term and sustainable development of the Group. The lock-up undertakings in connection with the Consideration Shares (details are set out under the section headed “Sale and Purchase Agreement – Lock-up undertakings” in this circular) provided by the Vendors also provides incentives to the ultimate beneficial owners, who are employees of the Group, and will allow the Group to retain and motivate experienced talents for the continual operation and development of the Target Group, together with the Group.

Meanwhile, the settlement by way of issuing Consideration Shares will not generate cash outflow and will not incur additional finance costs if the Company were to finance the Acquisition by borrowing. The Board considers the issue of new Consideration Shares is more cost-effective without imposing additional pressure on the Group’s cash flow position.

Having considered the above reasons, the Directors (including the independent non-executive Directors, whose view has been included in the section headed “Letter from the Independent Board Committee” in this circular) consider that the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Shareholders as a whole.

### **MANDATE TO ISSUE THE CONSIDERATION SHARES AND APPLICATION FOR LISTING**

The Consideration Shares will be issued and allotted pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

The Consideration Shares, when issued, allotted and fully paid, will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of issue and allotment of the Consideration Shares save as regards any right to (i) dividend which may be declared or paid by the Company; or (ii) any other form of shareholder’s rights or benefits against the Company, in either case by reference to a record date which is prior to the date of issue and allotment.

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## LETTER FROM THE BOARD

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Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

### IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 13.36(1) of the Listing Rules, the Consideration Shares will be issued under the Specific Mandate subject to the approval by the Independent Shareholders.

As at the Latest Practicable Date, one of the Beneficial Owners (being the sole owner of Vendor A) is a director of HNC and one of the Beneficial Owners (being the sole owner of Vendor C) is the company secretary of the Company, who is considered to be a Company's chief executive by the Company, and the sole director of HNHK. As such, both of the aforementioned Beneficial Owners are connected persons of the Company by virtue of Rule 14A.07(1) of the Listing Rules. Accordingly, the entry into of the Sale and Purchase Agreement and the transactions contemplated thereunder also constitute connected transactions for the Company under the Listing Rules and are also subject to the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The two Beneficial Owners mentioned above, who are the sole owners of Vendor A and Vendor C respectively, are interested in the Acquisition and hold 580,000 Shares in aggregate as at the Latest Practicable Date (representing approximately 0.05% of the total issued share capital of the Company) and shall abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no Director or other Shareholder has any material interest in the Acquisition and is required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

### EGM

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve, among other things, (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the granting of the Specific Mandate to issue and allot the Consideration Shares by way of a poll.

The notice convening the EGM of the Company to be held on Friday, 11 May 2018 at 10:30 a.m. or immediately after conclusion of the Company's annual general meeting to be held on the same day, whichever is later, at Bowen Room, 7th Floor, Conrad Hong Kong Hotel, Pacific Place, 88 Queensway, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular.

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## LETTER FROM THE BOARD

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A form of proxy for use by the Independent Shareholders at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to read the notice of EGM and complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to 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, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meetings should you so wish.

### RECOMMENDATION

The Directors (including the independent non-executive Directors, whose view has been included in the section headed "Letter from the Independent Board Committee" in this circular) consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

### ADDITIONAL INFORMATION

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. Orient Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in this regard.

Accordingly, your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 21 to 22 of this circular, which contains its recommendation to the Independent Shareholders; (ii) the letter from the Independent Financial Adviser set out on pages 23 to 50 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholder; and (iii) the general information set out in the Appendix to this circular.

**Completion of the Acquisition is conditional upon the fulfilment of the conditions set out under the paragraph headed "Conditions precedent" in this circular, which may or may not be fulfilled. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares and other securities of the Company.**

By Order of the Board  
**Ausnutria Dairy Corporation Ltd**  
**Yan Weibin**  
*Chairman*



**AUSNUTRIA DAIRY CORPORATION LTD**

**澳優乳業股份有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1717)**

12 April 2018

*To the Independent Shareholders:*

Dear Sirs or Madams,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
THE REMAINING 15% EQUITY INTEREST IN THE HNC GROUP  
INVOLVING ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE**

We refer to the circular dated 12 April 2018 (the “**Circular**”) issued by the Company of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular have the same meanings herein.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on the fairness and the reasonableness of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. Orient Capital has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to (i) the letter from the Board set out on pages 6 to 20 of the Circular; (ii) the letter from the Independent Financial Adviser as set out on pages 23 to 50 of the Circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder as well as the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation; and (iii) the additional information as set out in the Appendix to the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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After taking account of the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with its views and consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the Acquisition and the issue of Consideration Shares under the Specific Mandate are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate at the EGM.

Yours faithfully

For and on behalf of the

**Independent Board Committee**

**Ms. Ho Mei-Yueh**

**Mr. Jason Wan**

**Mr. Lau Chun Fai Douglas**

*Independent non-executive Directors*



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## LETTER FROM ORIENT CAPITAL

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*The following is the full text of the letter of advice from Orient Capital to the Independent Board Committee and the Independent Shareholders in respect of the connected transaction in relation to the Acquisition for the purpose of incorporation in this circular.*

**東方融資(香港)有限公司**  
**ORIENT CAPITAL (HONG KONG) LIMITED**

28/F-29/F, 100 QRC  
100 Queen's Road Central  
Hong Kong

12 April 2018

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
THE REMAINING 15% EQUITY INTEREST IN THE HNC GROUP  
INVOLVING ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition, details of which are contained in the letter from the board (the “**Letter from the Board**”) of the circular dated 12 April 2018 (the “**Circular**”) issued by the Company, of which this letter forms part. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Circular.

According to the Letter from the Board, on 14 February 2018, the Purchaser, a wholly-owned subsidiary of the Company, the Vendors and the Company entered into the Sale and Purchase Agreement in relation to the Acquisition, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, representing all the issued shares of the Target Company, at the Total Consideration (which shall not exceed HK\$400,870,000). The Total Consideration will be settled by the issuance and allotment of the Consideration Shares (which shall not exceed 80,174,000 Shares in aggregate). Upon Completion, HNHK, HNC (both being the Company’s indirect non-wholly-owned subsidiaries) and the Target Company will become indirect wholly-owned subsidiaries of the Company.

Moreover, as stated in the Letter from the Board, as at the Latest Practicable Date, one of the Beneficial Owners (being the sole owner of Vendor A) is a director of HNC and one of the Beneficial Owners (being the sole owner of Vendor C) is the Company secretary of the Company, who is considered to be Company’s chief executive by the Company, and the sole director of HNHK. As such, both of the aforementioned Beneficial Owners are connected persons of the Company by virtue of Rule 14A.07(1) of the Listing Rules. Accordingly, the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issuance and allotment of Consideration Shares under the Specific Mandate constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM ORIENT CAPITAL

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As at the Latest Practicable Date, the two Beneficial Owners mentioned above, who are the sole owners of Vendor A and Vendor C respectively, are interested in the Acquisition and hold 580,000 Shares in aggregate as at the Latest Practicable Date (representing approximately 0.05% of the total issued share capital of the Company) and shall abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM. Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no Director or other Shareholder has any material interest in the Acquisition and is required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

We have been appointed as the independent financial adviser to advise the Independent Board Committee, which comprises all the independent non-executive Directors, namely Ms. Ho Mei-Yueh, Mr. Jason Wan and Mr. Lau Chun Fai Douglas, and the Independent Shareholders in respect of the Acquisition, and to make recommendations as to, among others, whether (i) the terms of the Sale and Purchase Agreement are on normal commercial terms, and fair and reasonable as far as the Independent Shareholders are concerned, and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole and as to voting in respect of the relevant resolutions at the EGM.

Orient Capital is a licensed corporation to carry out Type 6 regulated activities (advising on corporate finance) under the SFO. Orient Capital and its affiliates, whose ordinary business involves the trading of, dealing in and the holding of securities, may be involved in the trading of, dealing in, and the holding of the securities of the Group for client accounts.

During the past two years, there was no other engagement between the Group and Orient Capital. Accordingly, we do not consider the existing engagements give rise to any conflict for Orient Capital acting as the independent financial adviser in relation to the Acquisition. As at the Latest Practicable Date, we were independent from and not connected with the Group under Rule 13.84 of the Listing Rules, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

### **BASIS OF OUR ADVICE**

In formulating our opinion and recommendation, we have reviewed, among other things, the announcement of the Company dated 14 February 2018 (the "**Announcement**"), the Circular (including the Letter from the Board), the Sale and Purchase Agreement, the annual results announcement of the Company dated 27 March 2018 (the "**2017 Annual Result Announcement**"), the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**") and the interim report of the Company for the six months ended 30 June 2017 (the "**2017 Interim Report**"). We have also reviewed the trading performance of the Shares on the Stock Exchange.

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## LETTER FROM ORIENT CAPITAL

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In formulating our recommendation, we have relied on the information, opinions and facts supplied and representations made to us by the Company, which has assumed full responsibility for the accuracy of the information contained in the Circular and that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate up to the date of the EGM. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business, affairs or future prospects of the Group (including HNHK and HNC). Our advice was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms of the Acquisition.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

The principal factors and reasons we have taken into account in assessing the terms of the Sales and Purchase Agreement in giving our recommendation to the Independent Board Committee and the Independent Shareholders are set out below:

#### **1. Background and financial information of the Group**

The principal business activity of the Company is investment holding. The Group is principally engaged in (i) the dairy industry with activities ranging from research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands and other overseas countries; and (ii) research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC, Australia and New Zealand.

In recent years, the Company has continued to streamline its business structure and strategies, increasing its effort on the building of the global supply chain on infant formula and establish its overseas nutritional business to cater for the industry change and accommodate the long-term vision of the Group. The above steps have contributed promising results in terms of operation performance, product diversification as well as strengthened the business chain of the Group. In addition, the Group has achieved satisfactory results in developing its market network and enhancing consumer services in recent years.

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## LETTER FROM ORIENT CAPITAL

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The Group sells its products under its own brands, including the A-choice Series, Allnutria Series (including Allnutria Organic Series), the Puredo Series and the Hyproca 1897 Series for cow milk infant formula, and the Kabrita Series for goat milk-based infant formula. Except for Kabrita which is distributed globally, most of the own brand cow milk infant formulas (which are all produced overseas) are principally designated for consumers located in the PRC. In addition, the Group also sells its products under contract manufacturing and private label arrangements for its worldwide customers. In 2016, the Group acquired 75.0% effective interest in Nutrition Care (a professional high-end nutritional product brand with production facilities located in Australia). This acquisition kicked off the co-operation between the Company and Nutrition Care to expand in the rapidly growing international nutritional product market.

The following table summarizes the audited consolidated statements of profit or loss and other comprehensive income of the Group for the three years ended 31 December 2015, 2016 and 2017 (“FY2015”, “FY2016” and “FY2017”, respectively) as extracted from the 2017 Annual Result Announcement and the 2016 Annual Report:

	FY2017 (audited) <i>RMB'M</i>	FY2016 (audited) <i>RMB'M</i>	FY2015 (audited) <i>RMB'M</i>
<b>Revenue</b>	<b>3,926.5</b>	<b>2,740.3</b>	<b>2,103.5</b>
– Own-branded cow milk infant formula	1,582.8	1,018.9	665.9
– Own-branded goat milk infant formula	1,279.8	798.90	539.9
– Private labels	422.0	472.1	274.6
– Nutrition products	75.3	12.3	–
– Others (incl. milk power, butter and OEM etc)	566.6	438.1	623.1
<b>Gross Profit</b>	<b>1,690.2</b>	<b>1,124.9</b>	<b>590.0</b>
<b>Profit before tax</b>	<b>438.5</b>	<b>297.8</b>	<b>3.8</b>
<b>Profit for the year</b>	<b>334.8</b>	<b>233.9</b>	<b>3.1</b>
– Profit attributable to owners of the parent	308.1	212.7	50.6
– Profit attributable to non-controlling interests	26.7	21.2	(47.5)

*Sources: the 2017 Annual Result Announcement and the 2016 Annual Report*

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## LETTER FROM ORIENT CAPITAL

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The Group's revenue from own-branded cow milk infant formula increased by 53.01% from RMB665.9 million in FY2015 to RMB1,108.9 million in FY2016, which accounted for approximately 37.18% of the Group's total revenue in FY2016. For FY2017, revenue from own-branded cow milk infant formula increased by 55.30% to RMB1,582.8 million as compared to FY2016, which accounted for approximately 40.31% of the Group's total revenue in FY2017. Such increase was mainly attributable to, among other things, (i) the continuous increase in demand for infant formula in the PRC; (ii) the increasing recognition of the high quality standards of infant formula manufactured by the Group; (iii) the clear brand positioning and the adjusted business strategies implemented by the Group; and (iv) the high industry entry barrier as a result of the raising industry regulatory standards implemented by the PRC government.

The Group's revenue from own-branded goat milk infant formula increased by 47.97% from RMB539.9 million in FY2015 to RMB798.9 million in FY2016, which accounted for approximately 29.15% of the Group's total revenue in FY2016. For FY2017, revenue from own-branded goat milk infant formula increased by 60.20% to RMB1,279.8 million as compared to FY2016, which accounted for approximately 32.59% of the Group's total revenue in FY2017. Such increase was mainly attributable to, among other things, (i) the effective marketing strategy launched by the Group; (ii) the unique formula; and (iii) the unique position and business model of the Ausnutria Hyproca Group (the upstream supply chain of the Group) which facilitates the development and manufacture of Kabrita.

The Group's revenue from private labels increased by 71.92% from RMB274.6 million in FY2015 to RMB472.1 million in FY2016, which accounted for approximately 17.23% of the Group's total revenue in FY2016. As disclosed in the 2016 Annual Report, the growth was mainly due to the Group having allocated more of its production capacity in FY2016 to serve private label customers after the completion of the Group's facilities upgrading plans in Netherlands in 2015. For FY2017, revenue from private labels decreased by 10.60% to RMB422.0 million from RMB472.1 million in FY2016. Such decrease was mainly due to a higher proportion of the Group's production capacities allocated to serve the Group's own-branded infant formula business during the year, which recorded an increase in sales by 57.50% during FY2017.

The Group commenced its manufacturing and distribution of nutrition products through the acquisition of the nutrition business in Australia. The acquisition was completed in October 2016 and has derived revenue of RMB11.0 million in FY2016. Since the acquisition, the Group has been active in streamlining the operations of the Nutrition Business and identifying the key and potential products to be introduced into and launched in overseas markets, particularly the PRC. The Group has also launched a number of nutrition products including Gut Relief in late 2016, which has a beneficial effect on the gastrointestinal tract, and Soforla in late 2017, a supplement that resolves lactose intolerance in infants. Due to the increasing market demand for the Group's nutrition products, the nutrition business segment has contributed revenue of RMB75.3 million in FY2017.

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## LETTER FROM ORIENT CAPITAL

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The gross profit of the Group amounted to approximately RMB590.0 million in FY2015, which increased to approximately RMB1,124.9 million in FY2016. The gross profit margin of the Group increased from approximately 28.05% in FY2015 to 41.05% in FY2016. As disclosed in the 2016 Annual Report, the increase in gross profit margin in FY2016 was mainly driven by the proportionate increase in the sales of the higher profit margin own-branded business as compared with the other business sectors. Overall contribution to revenue by own-branded business increased from 57.32% in FY 2015 to 66.34% in FY2016.

The Group's gross profit amounted to approximately RMB1,690.2 million, representing an increase of 50.3%, when compared with FY2016. The gross profit margin of the Group increased from approximately 41.05% in FY2016 to 43.05% in FY2017. The increase in the gross profit margin of the Group was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded business as compared with the other business sectors. Overall contribution to revenue by the own-branded business increased from 66.3% in FY2016 to 72.90% in FY2017.

The Group's profit attributable to owners of the parent amounted to approximately RMB50.6 million in FY2015, which increased significantly to approximately RMB212.70 million in FY2016. The significant increase in net profit in FY2016 was mainly driven by the increase in revenue of own-branded cow and goat milk-based infant formula as a result of the clear brand positioning and the adjusted business strategy and the increasing market demands for the products of the Group.

For FY2017, the Group's profit attributable to owners of the parent for FY2017 amounted to RMB308.1 million, representing an increase of 44.85% when compared with FY2016. As disclosed in the 2017 Annual Result Announcement, the improvement in the Group's financial performance was resulted from the continuous growth in the sales of own-branded cow and goat milk infant formula which was driven by the clear brand positioning, the effective business strategy implemented by the Group as well as the increasing market demands for the products of the Group.

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## LETTER FROM ORIENT CAPITAL

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The following table summarizes the audited consolidated statements of financial position of the Group as at 31 December 2015, 2016 and 2017 as extracted from the 2017 Annual Result Announcement and the 2016 Annual Report:

	<b>FY2017</b> (audited) <i>RMB'M</i>	<b>FY2016</b> (audited) <i>RMB'M</i>	<b>FY2015</b> (audited) <i>RMB'M</i>
Non-current assets	2,402.0	1,386.6	837.1
Current assets	<u>3,219.1</u>	<u>2,537.0</u>	<u>2,193.4</u>
<b>Total Assets</b>	<b><u>5,621.1</u></b>	<b><u>3,923.6</u></b>	<b><u>3,030.5</u></b>
Non-current liabilities	910.9	505.4	228.7
Current liabilities	<u>2,763.2</u>	<u>1,828.6</u>	<u>1,474.3</u>
<b>Total Liabilities</b>	<b><u>3,674.1</u></b>	<b><u>2,334.0</u></b>	<b><u>1,703.0</u></b>
Equity attributable to owners of the Company	1,740.5	1,468.0	1,312.6
Non-controlling interests	<u>206.5</u>	<u>121.6</u>	<u>14.9</u>
<b>Total Equity</b>	<b><u>1,947.0</u></b>	<b><u>1,589.6</u></b>	<b><u>1,327.5</u></b>

*Sources: the 2017 Annual Result Announcement and the 2016 Annual Report*

As at 31 December 2017, total assets amounted to approximately RMB5,621.1 million and total liabilities amounted to approximately RMB3,674.1 million. Total assets and liabilities went up by approximately 43.26% and 57.42% respectively as compared with those as at 31 December 2016. According to the 2017 Annual Result Announcement, the increase in total assets of the Group was mainly due to (i) the purchase of the entire equity interest in ADP Holdings (Australia) Pty Ltd by the Group on 22 May 2017 and the purchase of the 60% equity interest in Youluck International Inc by the Group on 23 March 2017 and 28 April 2017 respectively, which resulted in an increase in property, plant and equipment, goodwill and other intangible assets of RMB56.4 million, RMB14.9 million and RMB153.4 million, respectively; (ii) the increase in construction in progress as a result of the investments in the Ausnutria Heerenveen Hector B.V., Ausnutria Heerenveen Pluto B.V, a new plant in Rolleston, New Zealand and a new infant formula blending and packaging factory on the Changsha Land made during FY2017 of a total of RMB636.0 million; (iii) the increase in inventories of RMB283.1 million as a result of the increase in the scale of operations of the Group; and (iv) the net increase in cash and cash equivalents and pledged deposits of a total of RMB279.5 million derived mainly from cash generated from operating activities.

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## LETTER FROM ORIENT CAPITAL

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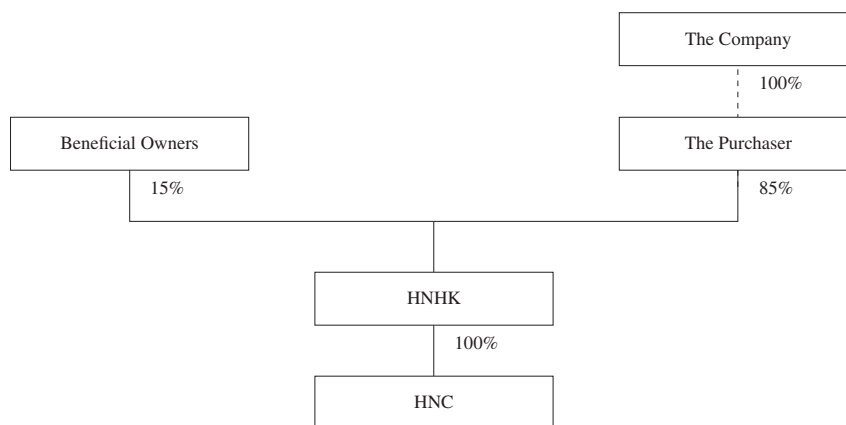
The Group recorded net current assets of approximately RMB455.9 million as at 31 December 2017. The Group's outstanding borrowings increased from RMB1,212.6 million as at 31 December 2016 to approximately RMB1,972.2 million as at 31 December 2017, among which the current portion of outstanding borrowings increased by approximately 52.07% to RMB1,158.0 million over the same period. The increase is attributable to the net drawdown of the additional bank loans and other borrowings of a total balance of RMB999.3 million during FY2017. The current ratio of the Group slightly decreased from approximately 1.39 times as at 31 December 2016 to 1.16 times as at 31 December 2017, mainly due to the increase in current liabilities has outweighed the increase in current assets. As at 31 December 2017, total equity attributable to owners of the Company amounted to approximately RMB1,740.5 million represented approximately RMB1.38 per Share based on 1,256,061,530 Shares in issue as at the Latest Practicable Date.

### 2. Background and financial information of the HNC Group

As at the Latest Practicable Date, the Transfer Shares, representing 15% of all shares issued by HNHK, are beneficially owned by the Beneficial Owners and are legally held by Ms. Li Yimin, being the nominee of the Beneficial Owners.

The Reorganisation is made at the decision of the Beneficial Owners to (i) cease the nominee arrangement that the legal titles and beneficial ownerships in the Transfer Shares could be reconciled and (ii) rationalise the relevant transaction costs that would otherwise be incurred, while neither the Company nor the Purchaser is involved in and a party to the Reorganisation.

Set out below is the group chart of the HNC Group before the Reorganisation:





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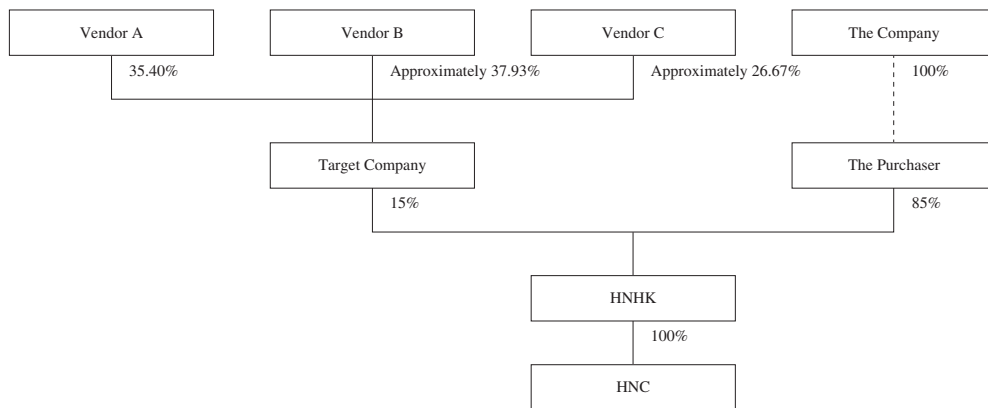
## LETTER FROM ORIENT CAPITAL

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Upon completion of the Reorganisation, Ms. Li Yimin will cease to be the nominee of the Beneficial Owners, and the Transfer Shares will be transferred to the Target Company free from Encumbrances and together with all rights now or hereafter attaching or accruing thereto. The Vendors undertake to discharge and/or procure the Target Company to discharge all the outstanding liabilities and obligations of the Target Company upon completion of the Reorganisation and immediately before the Completion.

The Target Company is a company set up by the Vendors and incorporated under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. Upon completion of the Reorganisation, Vendor A will own 531 shares, representing approximately 35.40%, Vendor B will own 569 shares, representing approximately 37.93% and Vendor C will own 400 shares, representing approximately 26.67% of the equity interest of the Target Company respectively.

Set out below is the group chart of the Target Company upon completion of the Reorganisation:



As at the Latest Practicable Date, the Reorganisation is still in progress, and is expected to be completed on or before the date of the EGM.

Upon completion of the Reorganisation, the Target Company will hold 15% equity interest in HNHK, an indirect non-wholly-owned subsidiary of the Company. HNHK and HNC are principally engaged in marketing and distribution of goat milk-based nutrition products in Hong Kong and the PRC, respectively.

As stated in the Letter from the Board in the Circular, Kabrita was launched by the HNC Group in the PRC since 2011. Through the efforts of the management of HNC and HNHK together with the support of the Group, Kabrita has been ranked as the number one imported goat milk-based infant formula in the PRC for four consecutive years since 2014.

No statutory audited financial statements have been prepared by the Target Company as it has not involved in any significant business transactions since its date of incorporation.

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## LETTER FROM ORIENT CAPITAL

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The following table summarizes the audited consolidated financial statements of the HNC Group, being the assets to be acquired, for FY2015, FY2016 and FY2017:

	<b>FY2017</b> (audited) <i>RMB 'M</i>	<b>FY2016</b> (audited) <i>RMB 'M</i>	<b>FY2015</b> (audited) <i>RMB 'M</i>
Revenue	1,078.2	664.9	461.0
Profit before tax	217.3	143.1	94.1
Profit for the year	158.1	104.0	67.7

The HNC Group's revenue increased by 44.23% from RMB461.0 million in FY2015 to RMB664.9 million in FY2016 and further increased by 62.16% to RMB1,078.2 million in FY2017. As discussed with the management of the Group (the "**Management**"), the substantial growth in revenue was due to the increase in market recognition on the quality of the goat milk products produced by the Group.

Profit of the HNC Group for the year increased by 53.62% from RMB67.7 million in FY2015 to RMB104.0 million in FY2016. It further increased by 52.02% to RMB158.1 million in FY2017. As discussed with the Management, the substantial growth in net profit was in line with the increase in revenue of the HNC Group.

Set out below is the HNC Group's contribution to the Group's revenue and net profit during FY2015, FY2016 and FY2017:

	<b>FY2017</b> (%)	<b>FY2016</b> (%)	<b>FY2015</b> (%)
Percentage of the Group's revenue	27.46	24.26	21.91
Percentage of the Group's net profit	51.31	48.89	133.79 <i>(Note1)</i>

*Note:*

1. For FY2015, due to an inventory write-off of approximately RMB97.8 million, the Group's net profit attributable to owners of the Company was only approximately RMB50.6 million.

As shown above, the HNC Group's business is becoming a strong contributor to the sales and net profit of the Group for the three years ended 31 December 2015, 2016 and 2017. Also as advised by the Management, the HNC Group has been ranked as the number one business unit of the Group's operations in the PRC for the past three years. The Group will continue to increase its support in the HNC Group, and consider the HNC Group as one of the priority business unit of the Group in the future.

As at 31 December 2017, the audited consolidated net assets value of the HNC Group is approximately RMB334.9 million.

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## LETTER FROM ORIENT CAPITAL

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### 3. Reasons for and benefits of the Acquisition

As set out in the Letter from the Board, both HNHK and HNC were established in 2011 and is principally engaged in the marketing and distribution of nutrition products, in particular the goat milk infant formula under the brand name Kabrita, in consumer packs to Hong Kong and the PRC.

With the increasing recognition of the good quality of goat milk infant formula, the Kabrita series products have progressed significantly, becoming a major momentum for the Group's business growth. The market share of Kabrita has been ranked as the number one imported goat milk infant formula in the PRC for four consecutive years since 2014. The Management is of the view that Kabrita will continue to grow steadily and positively contribute to the Group.

The Acquisition will (i) enable the Group to further enhance its operating results and fully benefit from 100% of the cash flow streams and profit of the HNC Group; (ii) enable the Group to further increase its stake in the HNC Group, the operations of which the Group is familiar with through its existing 85.00% equity interest in HNHK; and (iii) facilitate better implementation of the operating philosophies and strategies of the Company into the HNC Group, create better synergy with the Group as a whole, and hence improve the operational efficiency.

In view of the long term strategic plan of the Group to become one of the major global players in the nutrition sector, particularly on infant formula products, the Company continues to streamline its business structure and strategies, increase its effort on the building of the global supply chain on goat milk infant formula and establish the overseas nutritional business. The Acquisition is in line with the development of the Group to continue to develop its goat milk infant formula products sector, which is expected to give a positive impact to the operations, financial results and profitability to the Group.

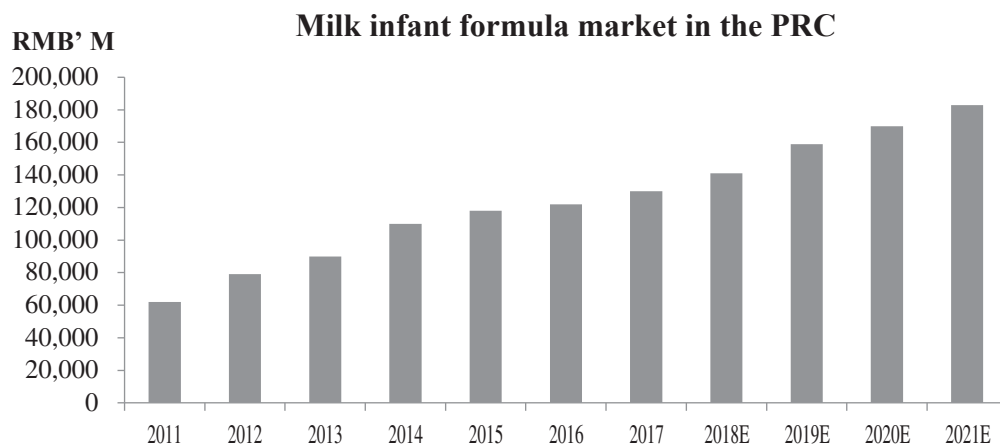
Given the future profitability of the Group will be dependent on, among others, future profitability of the HNC Group, in assessing the fairness and reasonableness of entering into the Acquisition, we have primarily taken into account the outlook of the milk infant formula industry in the PRC. We have conducted research from the public domain on the future prospects of the milk infant formula industry and the goat milk infant formula industry in the PRC respectively.

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## LETTER FROM ORIENT CAPITAL

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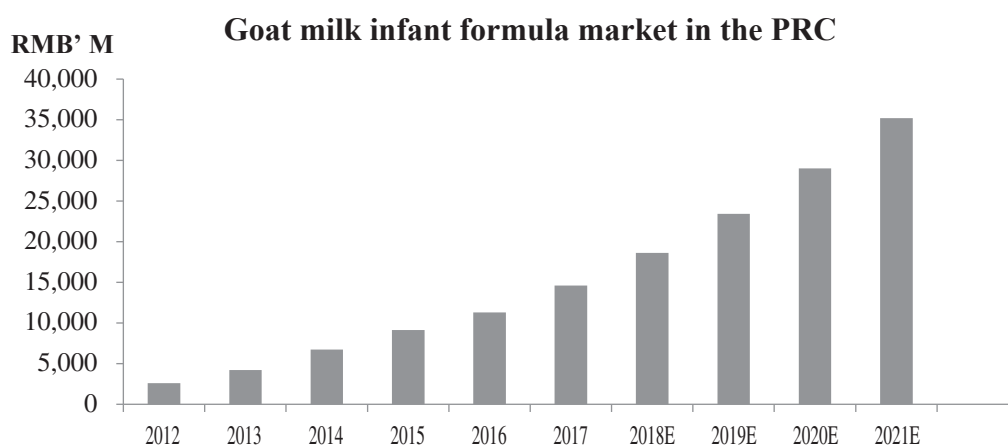
The following chart shows the sales of the milk infant formula industry in the PRC for the year ended 2011-2016 and the forecasted sales of the milk infant formula industry in the PRC for the year ending 2017-2021:



Source: DBS Industry Outlook Dairy (China) Research report issued on 13 June 2017

As shown in the above chart, sales of the milk infant formula industry in the PRC had increased from approximately RMB62.2 billion in 2011 to approximately RMB122.4 billion in 2016, representing a compound annual growth rate (“CAGR”) of approximately 14.50%. Sales of the milk infant formula industry in the PRC are forecast to reach RMB183.5 billion by 2021, from RMB122.4 billion in 2016, implying a CAGR of approximately 8.40%.

The following chart shows the sales of the goat milk infant formula industry in the PRC for the year ended 2012-2016 and the forecasted sales of the goat milk infant formula industry in the PRC for the year ending 2017-2021:



Source: Askci Corporation “2017-2022 China infant milk powder industry research and investment decision report” (中商產業研究院《2017-2022年中國嬰幼兒奶粉行業研究及市場投資決策報告》)

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## LETTER FROM ORIENT CAPITAL

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As shown in the above chart, sales of the goat milk infant formula industry in the PRC had increased from approximately RMB2.6 billion in 2012 to approximately RMB11.3 billion in 2016, representing a CARG of approximately 43.90% over the 4 years period. Sales of the goat milk infant formula industry in the PRC are forecast to reach RMB35.2 billion by 2021, from RMB11.3 billion in 2016, implying a CAGR of approximately 25.50% over the coming 6 years period.

In addition, according to a research report dated 3 August 2016 published by Frost & Sullivan, bulk imported goat milk infant formula accounts for approximately 60.00% of the demand of goat milk infant formula in the PRC. The emerging trend in goat milk infant formula is mainly due to the fact that the nutritional content of goat milk is the closest alternative to human breast milk, enhancing infant digestibility and absorption. Goat milk infant formula is also considered as a high-end product in the PRC and the Company's goat milk infant formula brand, Kabrita is currently the leading goat milk infant formula importer in the PRC, which is reflected by the strong growth in sales of own-branded goat milk infant formula of the Company for the past years as discussed in the section headed "Background and financial information of the Group" above.

Having considered the above, in particular the facts that (i) the increasing contribution of revenue to the Group and the profit making records of the HNC Group in recent years; (ii) the Acquisition would enable the Group to further enhance its operating results and enjoy the entire financial results of the HNC Group; (iii) the Acquisition would improve the operational efficiency of the HNC Group; (iv) the outlook of the goat milk infant formula industry in the PRC being positive; and (v) the Acquisition is in line with the Group's long term strategic plan, we concur with the view of Directors that the entering into of the Acquisition is in the interests of the Company and the Shareholders as a whole.

#### **4. Principal terms of the Sale and Purchase Agreement**

##### **4.1 Parties**

- (1) Hyproca Nutrition B.V., being the Purchaser;
- (2) Perfect Victory Holdings Limited, being Vendor A;
- (3) Dynamic Winners Group Limited, being Vendor B;
- (4) Reliable Global Holdings Limited, being Vendor C; and
- (5) The Company

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## LETTER FROM ORIENT CAPITAL

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### **4.2 Assets to be acquired**

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares at the Total Consideration. The Sale Shares represent all the issued shares of the Target Company.

Upon completion of the Reorganisation, the Target Company will hold 15.00% equity interest in HNHK, an indirect non-wholly-owned subsidiary of the Company.

### **4.3 Total Consideration**

Pursuant to the Sale and Purchase Agreement, the Total Consideration payable by the Purchaser to the Vendors for the Acquisition comprises the Upfront Consideration and the Subsequent Consideration (if any), with a maximum cap of approximately HK\$400,870,000.

#### *Upfront Consideration*

The Upfront Consideration shall be calculated as 15% of 8.5 times of the audited consolidated net profit after taxation of the HNC Group for the year ended 31 December 2017. Based on the audited consolidated financial statements for the year ended 31 December 2017, the net profit after taxation of the HNC Group is approximately HK\$197.2 million. The Upfront Consideration and the Upfront Consideration Shares are approximately HK\$251.5 million and 50,294,123 Shares, respectively.

Upon Completion, the Upfront Consideration will be fully settled by the issuance and allotment of the Upfront Consideration Shares at the Consideration Share Price by the Company to the Vendors in proportion to their respective equity interest in the Target Company (i.e. 17,804,120 Shares, 19,078,237 Shares and 13,411,766 Shares to Vendor A, Vendor B and Vendor C, respectively).

#### *Subsequent Consideration*

Pursuant to the Sale and Purchase Agreement, the Subsequent Consideration is determined based on the Average Growth Rate. The Average Growth Rate shall be calculated in accordance with the following formula:

$$\text{Average Growth Rate} = \{[(B - A) \div A] + [(C - B) \div B] + [(D - C) \div C]\} \times 100\% \div 3$$

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## LETTER FROM ORIENT CAPITAL

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The Subsequent Consideration shall in turn be determined as follows:

- (1) If the Average Growth Rate is 20.00% or less, the Subsequent Consideration shall equal to zero.
- (2) In the event that the Average Growth Rate is less than 25.00% but more than 20.00%, the Subsequent Consideration shall be determined in accordance with the formula below:

$$\text{Subsequent Consideration} = (2.5 \times X + 2 \times Y + 1.5 \times Z) \times 15\%$$

- (3) In the event that the Average Growth Rate is 25.00% or above, the Subsequent Consideration shall be calculated in accordance with the formula below:

$$\text{Subsequent Consideration} = (5 \times X + 4 \times Y + 3 \times Z) \times 15\%$$

Where (for all the calculation formulae above),

- A = the audited consolidated net profit after taxation of the HNC Group for the year ended 31 December 2017;
- B = the audited consolidated net profit after taxation of the HNC Group for the year ending 31 December 2018;
- C = the audited consolidated net profit after taxation of the HNC Group for the year ending 31 December 2019;
- D = the audited consolidated net profit after taxation of the HNC Group for the year ending 31 December 2020;
- X = (B – A) or zero, whichever is higher;
- Y = (C – B) or zero, whichever is higher; and
- Z = (D – C) or zero, whichever is higher.

The Subsequent Consideration (if any) will be settled by issue and allotment of the Subsequent Consideration Shares at the Consideration Share Price by the Company to the Vendors in proportion to their respective equity interest in the Target Company. The Subsequent Consideration Shares shall be payable to the Vendors no later than the twentieth (20th) Business Day immediately after the date of announcement of the Company's annual results for the year ending 31 December 2020.

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## LETTER FROM ORIENT CAPITAL

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The maximum cap Total Consideration was determined after arm's length negotiations between the Purchaser and the Vendors with reference to among others, (i) the historical financial performance of the HNC Group; and (ii) the business development and prospects of the HNC Group, details of which have been disclosed under the section headed "Reasons for and Benefits of the Acquisition" in the Letter from the Board. The Directors (including the independent non-executive Directors, whose view has been included in the section headed "Letter from the Independent Board Committee" in the Circular) consider that the Total Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

#### **4.4 Conditions precedent**

Completion is subject to, among others, the passing by the Independent Shareholders in accordance with the Listing Rules and all applicable laws at the EGM.

Further details of the conditions precedent to Completion are set out the section headed "**Conditions precedent**" in the Letter from the Board in the Circular.

As at the Latest Practicable Date, none of the conditions has been fulfilled.

#### **5. Evaluation of the Total Consideration**

According to the Letter from the Board in the Circular, the maximum cap of the Total Consideration was determined after arm's length negotiations between the Purchaser and the Vendors with reference to among others, (i) historical financial performance of the HNC Group and (ii) the business development and prospects of the HNC Group, details of which have been disclosed under the section headed "Reasons for and Benefits of the Acquisition" in the Letter from the Board.

We have assessed the fairness and reasonableness of the Total Consideration by comparing the price-to-earnings ratio ("**P/E**") and the price-to-sales ratio ("**P/S**"), which are commonly used valuation multiples in assessing a value of a company, implied by the Total Consideration with that of listed companies with similar business scope as the HNC Group.



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## LETTER FROM ORIENT CAPITAL

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In the event that the Average Growth Rate is 20.00% or less, there would be no Subsequent Consideration and the Total Consideration will only consist of the Upfront Consideration of approximately HK\$251.5 million with an implied P/E of the HNC Group of 8.50 times (the “**Upfront Implied P/E**”) and an implied P/S of the HNC Group of 1.25 times (the “**Upfront Implied P/S**”). The Upfront Implied P/E is derived by dividing the Upfront Consideration of approximately HK\$251.5 million for the 15% equity interest in the HNC Group by the net profit of the HNC Group for the year ended 31 December 2017 attributable to the 15% equity interest in the HNC Group of approximately HK\$29.6 million; and the Upfront Implied P/S is derived by dividing the Upfront Consideration of approximately HK\$251.5 million for the 15% equity interest in the HNC Group by the turnover of the HNC Group for the year ended 31 December 2017 attributable to the 15% equity interest in the HNC Group of approximately HK\$201.8 million.

For prudent purposes, we have also assessed the fairness and reasonableness of the maximum Total Consideration of the HNC Group of approximately HK\$400.87 million, which represents an implied P/E of the HNC Group of approximately 13.55 times (the “**Maximum Implied P/E**”) and an implied P/S of the HNC Group of 1.99 (the “**Maximum Implied P/S**”). The Maximum Implied P/E is derived by dividing the maximum Total Consideration of approximately HK\$400.87 million for the 15% equity interest in the HNC Group by the net profit of the HNC Group for the year ended 31 December 2017 attributable to the 15% equity interest in the HNC Group of approximately HK\$29.6 million; and the Maximum Implied P/S is derived by dividing the maximum Total Consideration of approximately HK\$400.87 million for the 15% equity interest in the HNC Group by the turnover of the HNC Group for the year ended 31 December 2017 attributable to the 15% equity interest in the HNC Group of approximately HK\$201.8 million.

In conducting the P/E and P/S analyses, we have identified companies that (i) are listed; (ii) are principally engaged in the production and sales of infant formula and other dairy products with annual revenue from such business segment accounts for more than 50% of the total consolidated annual revenue during their respective corresponding latest financial years; and (iii) has a presence in the PRC market. On a best effort basis, we have identified 5 companies (the “**Comparable Companies**”) as shown in the table below, which to the best of our knowledge represent an exhaustive list, that meet the aforesaid selection criteria. We have also considered a total of 5 other listed companies in which their businesses involve the production and distribution of dairy products in the PRC but they do not fulfill the above selection criteria as their revenue contributed from infant formula segments accounts for less than 50% of their total consolidated annual revenue during their respective corresponding latest financial years. Therefore, we have excluded these companies in our comparable analysis.

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## LETTER FROM ORIENT CAPITAL

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Though the Comparable Companies are not the same in all aspects as the HNC Group, we consider that the analysis on the Comparable Companies can still provide a meaningful reference to the Shareholders given that the Comparable Companies are all involved in the production and sales of infant formula and other dairy products in the PRC and are considered having similar characteristics in terms of industry background and outlook as the HNC Group, and therefore can provide a general overview on their market valuation with respect to their corresponding earnings for comparisons purpose. Therefore, we consider the Comparable Companies are fair and representative samples for assessing the Total Considerations.

Company name	Stock code, Exchange	Market Capitalisation <i>HK\$' M</i> <i>(note 1)</i>	2017			
			Net Profit/ (Net Loss) <i>HK\$' M</i> <i>(note 2)</i>	2017 P/E <i>times</i> <i>(note 3)</i>	2017 turnover <i>HK\$' M</i> <i>(note 4)</i>	2017 P/S <i>times</i> <i>(note 5)</i>
Health And Happiness (H&H) International Holdings Limited	1112, HK	39,690.78	1,158.49	34.26	10,100.56	3.93
Yashili International Holdings Limited (“Yashili”)	1230, HK	8,779.29	(224.35)	N/A	2,813.21	3.12
Beingmate Baby & Child Food Co.,Ltd (貝因美嬰童食品 股份有限公司)	002570, SZ	6,607.11	(1,187.16) <i>(note 5)</i>	N/A	3,302.33 <i>(note 5)</i>	2.00
a2 Milk Company Ltd	ATM, NZ A2M, AUS	56,998.01	548.73	103.87	3,316.50	17.19
Bellamy’s Australia Limited	BAL, AUS	14,049.05	(4.82)	N/A	1,448.41	9.70
			<b>Average</b>	<b>69.07</b>	–	<b>7.19</b>
			<b>Maximum</b>	<b>103.87</b>	–	<b>17.19</b>
			<b>Minimum</b>	<b>34.26</b>	–	<b>2.00</b>
The Company	1717, HK	8,340.25	384.45	21.69	4,899.09	1.70
HNC Group	N/A	2,672.47 <i>(note 6)</i>	197.2	13.55	1,345.23	1.99

*Notes:*

1. The market capitalisation (the “**Market Capitalisation**”) of the Comparable Companies are calculated based on the closing share price and the number of issued shares as at the Latest Practicable Date.

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## LETTER FROM ORIENT CAPITAL

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2. The 2017 net profit/(net loss) (the “**2017 Net Profit/(Net Loss)**”) and 2017 turnover (the “**2017 Turnover**”) are extracted from (i) the respective latest annual result announcements of the Comparable Companies and the Company; and (ii) the latest audited consolidated financial statements of the HNC Group.
3. The 2017 P/E (the “**2017 P/E**”) of the Comparable Companies and the Company are calculated by dividing the Market Capitalisation with the 2017 Net Profit. Some of the 2017 P/E of the relevant Comparable Companies are not available because they recorded a net loss in their respective latest full financial year.
4. The 2017 P/S of the Comparable Companies, the Company and the HNC Group are calculated by dividing the Market Capitalisation with the 2017 Turnover.
5. As at the Latest Practicable Date, Beingmate Baby & Child Food Co., Ltd. has only announced its unaudited preliminary result for 2017 and has reported a turnover of RMB2,646.73 million and a net loss of RMB951.48 million for the year ended 31 December 2017.
6. The theoretical market capitalisation of the HNC Group is calculated by dividing the maximum Total Consideration for the 15% equity interest in the HNC Group of approximately HK\$400.87 million by 15%.
7. For the purpose of this table, the translation of RMB into HK\$ is based on the average exchange rate of RMB1.00 to HK\$1.2477 for the purpose of illustration only.
8. For the purpose of this table, the translation of AUS into HK\$ is based on the average exchange rate of AUD1.00 to HK\$6.03 for the purpose of illustration only.

As shown in the above table, we note that the 2017 P/E of the Comparable Companies ranged from 34.26 to 103.87 times, with an average of 69.07 times. The Upfront Implied P/E of 8.50 times represented by the Upfront Consideration is substantially lower than (i) the Company of approximately 21.69 times; and (ii) the average of the 2017 P/E of the Comparable Companies of approximately 69.07 times, which is considered favorable. In addition, the Maximum Implied P/E of the HNC Group of around 13.55 times represented by the maximum Total Consideration is also lower than (i) the Company of approximately 21.69 times; and (ii) the average of the 2017 P/E of the Comparable Companies of approximately 69.07 times, which is also considered favorable.

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## LETTER FROM ORIENT CAPITAL

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We have also reviewed the P/S of the Comparable Companies and the Company. As shown in the above table, the 2017 P/S of the Comparable Companies ranged from 2.00 to 17.19 times, with an average of 7.19 times. The Upfront Implied P/S of the Upfront Consideration of 1.25 times represented by the Upfront Consideration is lower than the average of the 2017 P/S of the Comparable Companies of approximately 7.19 times, which is considered favorable. In addition, the Maximum Implied P/S of the HNC Group of approximately 1.99 times is also lower than the average of the 2017 P/S of the Comparable Companies of approximately 7.19 times, which is also considered favorable.

Therefore, we consider the Upfront Consideration and the Subsequent Consideration (if any) is favorable and in the interests of the Company and the Independent Shareholders as a whole.

We have also assessed the fairness and reasonableness of the Average Growth Rate as the Subsequent Consideration is mainly based on the average growth rate in the audited consolidated net profit after taxation of the HNC Group for the years ending 31 December 2018, 2019 and 2020. As advised by the Management, the Average Growth Rate was determined with reference to the historical performance of the HNC Group and the business prospects of the HNC Group.

As discussed in the section headed “Reasons for and benefits of the Acquisition”, the CAGR of the sales of the milk infant formula industry for 2016-2021 in the PRC will be approximately 8.40% and the CAGR of the sales of goat milk infant formula industry in the PRC for 2016-2021 in the PRC will be approximately 25.20%.

However, the high growth rates and profit margins shown by the goat milk infant formula industry in the PRC has attracted many strong competitors such as China Feihe Limited (中國飛鶴有限公司) and Beijing Sanyuan Foods Company Limited (北京三元食品股份有限公司) to participate in the goat milk infant formula industry in recent years. For example, in 2016, China Feihe Limited has invested 225.00 million Canadian Dollars to construct a baby formula plant to produce goat milk infant formula for export to the PRC market; in 2017, Beijing Sanyuan Foods Company Limited has also announced they will begin to import goat milk infant formula products from Australia and sold to the PRC market. With the influx of new domestic and import brands, coupled with the existing quality brands in the industry, it is expected there will be furious competition in the goat milk infant formula industry in the coming years.

As the Vendors would only enjoy any Subsequent Consideration when the Average Growth Rate is above 20.00%, which is approximate to the estimated CAGR of the goat milk infant formula industry in the PRC for 2016-2021 and given the foreseeable higher competition in the goat milk infant formula industry in the PRC in the coming years as discussed above, we considered that the Average Growth Rate is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

Having considered the above, we are of the view that the Total Consideration is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

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## LETTER FROM ORIENT CAPITAL

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### **5.1 The Consideration Shares and the Consideration Share Price:**

As at the Latest Practicable Date, the Company has 1,256,061,530 Shares in issue, the maximum number of 80,174,000 Consideration Shares represents:

- (i) approximately 6.38% of the total number of issued Shares of the Company as at the date of the Sale and Purchase Agreement;
- (ii) approximately 6.00% of the total number of issued Shares of the Company as enlarged by the issuance and allotment of the Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the date of the Sale and Purchase Agreement and the issuance and allotment of the Consideration Shares).

For the purpose of calculating the number of the Consideration Shares to be issued and allotted to each of the Vendors, such number shall be rounded down to the nearest whole number of the Consideration Shares. As such, the maximum numbers of Consideration Shares to be issued to Vendor A, Vendor B and Vendor C are 28,381,596 Shares, 30,412,670 Shares and 21,379,733 Shares, respectively.

Pursuant to the Sale and Purchase Agreement, the Vendors undertakes to the Purchaser that they will not, and will procure that their nominee, will not:

- (i) in respect of one-thirds of the Upfront Consideration Shares, for a period of 12 months from the issuance and allotment of the Upfront Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such Consideration Shares;
- (ii) in respect of another one-thirds of the Upfront Consideration Shares, for a period of 24 months from the issuance and allotment of the Upfront Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such Consideration Shares;
- (iii) in respect of the remaining one-thirds of the Upfront Consideration Shares, for a period of 36 months from the issuance and allotment of the Upfront Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such Consideration Shares; and
- (iv) in respect of the Subsequent Consideration Shares, for a period of 12 months from the issuance and allotment of the Subsequent Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such Consideration Shares,

unless prior written consent has been obtained from the Purchaser.

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## LETTER FROM ORIENT CAPITAL

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The Consideration Share Price of HK\$5.00 per Consideration Share represents:

- (i) a premium of approximately 3.31% to the closing price of HK\$4.84 per Share as quoted on the Stock Exchange on 14 February 2018, being the Last Trading Day;
- (ii) a premium of approximately 3.52% to the average closing price of approximately HK\$4.83 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 1.83% to the average closing price of approximately HK\$4.91 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 24.70% to the closing price of HK\$6.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

### ***5.2 Evaluation of the issuance of the Consideration Shares as the settlement method***

As stated in the Letter from the Board, the Upfront Consideration and the Subsequent Consideration will be entirely settled by the issuance of Consideration Shares.

As disclosed in the 2017 Annual Result Announcement, as at 31 December 2017, the Group had (i) cash and cash equivalents of approximately RMB635.7 million; and (ii) pledged deposits of approximately RMB968.7 million respectively. The Group's outstanding borrowings also amounted to approximately RMB1,972.2 million. Due to the payment of the Consideration will not involve any cash outlay of the Group (save for the payment of expenses relating to the Acquisition), this may allow the Company to reserve working capital and will not incur additional finance costs if the Company were to finance the Acquisition by borrowing. The Board considers the issue of new Consideration Shares is more cost-effective without imposing additional pressure on the Group's cash flow position.

Also, as advised by the Management, both the Company and the Vendors are optimistic about the prospects of Kabrita. Whilst the Company intends to further consolidate the business currently conducted by the HNC Group into the Group so as to facilitate the future business expansion, the Vendors also intends to retain their investment in the HNC Group. The issue of the Consideration Shares, was considered the most appropriate way to proceed with the Acquisition such that the Company can achieve its goal to (i) enjoy the entire financial interest of the future growth of the HNC Group; (ii) facilitate the Group's long term strategic planning for the future development of Kabrita; and (iii) to better utilize the Vendors after the issue of the Consideration Shares as their financial interest will then be focused from the HNC Group to the Group, while the Vendors, being a Shareholder immediately upon Completion, can still retain its investment in the HNC Group through its shareholding in the Company. Moreover, we have also noted the Consideration Shares have a lock up period ranging from 12 months to 36 months, which would also help to align the long term interest of the Vendors with the Shareholders of the Company.

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## LETTER FROM ORIENT CAPITAL

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Furthermore, as disclosed in the section headed “Financial effects of the Acquisition”, the Pro-forma EPS would increase from a range of 1.23% to 3.68% upon the issuance of the Consideration Shares, and thus there is no potential dilution impact to the Shareholders from the issuance of the Consideration Shares.

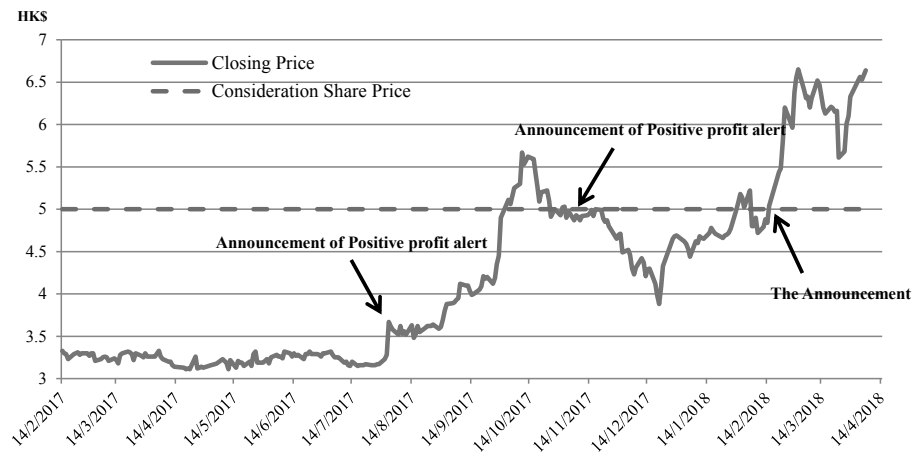
Based on the above, we consider the issuance of Consideration Shares under specific mandate for the Acquisition is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

### 5.3 Evaluation of the Consideration Share Price:

#### *Historical Share price performance*

As disclosed in the Letter from the Board, the Consideration Share Price was determined after arm’s length negotiations between the Purchaser and the Vendors with reference to the current market price of the Share. In order to assess the fairness and reasonableness of the Consideration Share Price, we reviewed the movement in closing prices of the Shares for the period commencing from 14 February 2017 to 14 February 2018, being the 12-month period prior to the Last Trading Day, and up to the Latest Practicable Date (the “**Review Period**”).

The chart below shows the daily closing prices of the Shares during the Review Period and the Consideration Share Price.



Source: Website of the Stock Exchange

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## LETTER FROM ORIENT CAPITAL

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From the chart above, the closing prices of the Shares were ranged from HK\$2.95 to HK\$6.65 per Share during the Review Period, with an average of approximately HK\$4.17 per Share during the Review Period. The Shares were traded in a generally upward trend during the Review Period. We note that on 1 August 2017, the Company announced the Group's profit for the six months ended 30 June 2017 is anticipated to increase by 50.00% to 56.00% compared to the six months ended 30 June 2016, causing the Share price gradually went up and reached its peak of HK\$5.67 on 10 October 2017. On 2 November 2017, the Company further announced that the Group's profit for the nine months ended 30 September 2017 is anticipated to increase by 54.80% to 60.50% compared to the nine months ended 30 September 2016. Since then and up to the Last Trading Day, the Share price closed in the range between HK\$3.88 and HK\$5.00. The Share price closed at HK\$4.84 on the Last Trading Day. Following the publication of the Announcement, the Share price exhibited an upsurge from the lowest of HK\$4.84 to a peak of HK\$6.65, representing an increase of approximately 37.4% over the Review Period. We believe that the recent upswing of the Share price is likely to be attributable to the market reaction to the publication of the announcements in relation to the Acquisition and the subscription of new shares under specific mandate.

The Consideration Share Price of HK\$5.00 per Consideration Share represents a premium of approximately of 3.31% over the closing price of the Share of HK\$4.84 on the Last Trading Day and represents premium of approximately of 19.90% over the average closing price of the Share of approximately HK\$4.17 during the Review Period.

The Consideration Share Price of HK\$5.00 per Consideration Share represents a discount of approximately of 24.70% over the closing price of the Share of HK\$6.64 on the Latest Practicable Date.

The Consideration Share Price of HK\$5.00 per Consideration Share represents a premium of approximately of 190.69% over the net asset value per Share of the Group of HK\$1.72 on the Latest Practicable Date.

Based on the above analyses, we concur with the Board that the Consideration Share Price is on normal commercial terms, and accordingly is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.



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## LETTER FROM ORIENT CAPITAL

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### 6. Effect on the shareholding structure of the Company:

For illustrative purpose only, the following table sets out the effect of the issue of the Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date and the number of Upfront Consideration Shares, and assuming (i) the Completion having taken place; and (ii) the maximum number of Consideration Shares having been issued and allotted, without taking into account any other new Shares, if any, after the Latest Practicable Date and prior to the Completion.

	As at the Latest Practicable Date		Immediately upon the issue and allotment of the Upfront Consideration Shares		Immediately upon the issue and allotment of the maximum number of Consideration Shares (i.e. both the Upfront Consideration Shares and the Subsequent Consideration Shares)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Vendor A and its associate <sup>(Note 1)</sup>	250,000	0.02	18,054,120	1.38	28,631,596 <sup>(Note 10)</sup>	2.14
Vendor B and its associates <sup>(Note 2)</sup>	–	–	19,078,237	1.46	30,412,670 <sup>(Note 10)</sup>	2.28
Vendor C and its associate <sup>(Note 3)</sup>	330,000	0.03	13,741,766	1.05	21,709,733 <sup>(Note 10)</sup>	1.62
Center Laboratories, Inc. (“Center Lab”) <sup>(Note 4)</sup>	505,931,772	40.28	505,931,772	38.73	505,931,772	37.86
Mr. Bartle van der Meer <sup>(Notes 5 and 6)</sup>	162,605,230	12.95	162,605,230	12.45	162,605,230	12.17
Mr. Yan Weibin <sup>(Notes 7 and 8)</sup>	106,939,085	8.51	106,939,085	8.19	106,939,085	8.00
Public Shareholders	480,005,443	38.21	480,005,443	36.74	480,005,443	35.93
	<u>1,256,061,530</u>	<u>100.00</u>	<u>1,306,355,653</u>	<u>100.00</u>	<u>1,336,235,529</u>	<u>100.00</u>

*Notes:*

- Ms. Li Yimin, being a director and general manager of HNC, is the sole beneficial owner of Vendor A and hence the associate of Vendor A.
- The Remaining Beneficial Owners, being the employees of HNC, are the beneficial owners of Vendor B and hence the associates of Vendor B.
- Mr. Wong Wei Hua Derek, being the company secretary of the Company, is the sole beneficial owner of Vendor C and hence the associate of Vendor C.
- As at the Latest Practicable Date, Center Lab beneficially owns 361,738,129 Shares. Both BioEngine Capital Inc. and BioEngine Technology Development Inc., which hold 123,355,375 Shares and 20,838,268 Shares respectively, are non-wholly-owned subsidiaries of Center Lab. Accordingly, Center Lab is deemed to be interested in a total of 505,931,772 Shares.

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## LETTER FROM ORIENT CAPITAL

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5. The amount represents the number of Shares Mr. Bartle van der Meer is deemed to be interested in under the SFO as at the Latest Practicable Date, and comprises (i) 400,000 Shares he beneficially owns; and (ii) 162,205,230 Shares held by Dutch Dairy Investments HK Limited, a corporation which he indirectly controls. Apart from these, Mr. Bartle van der Meer also holds share options granted by the Company on 21 January 2016 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enables him to subscribe for 800,000 Shares.
6. Dutch Dairy Investments HK Limited, which holds 162,205,230 Shares, is wholly-owned by Dutch Dairy Investments B.V. Dutch Dairy Investments B.V. is owned as to 50.00% by Fan Deming B.V., which is in turn wholly-owned by Mr. Bartle van der Meer.
7. The amount represents the number of Shares Mr. Yan Weibin is deemed to be interested in under the SFO as at the Latest Practicable Date, and comprises (i) 400,000 Shares he beneficially owns; and (ii) 106,539,085 Shares held by Ausnutria Holding Co. Ltd., a corporation which is wholly-owned by him. Apart from these, Mr. Yan Weibin also holds share options granted by the Company on 21 January 2016 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enables him to subscribe for 800,000 Shares.
8. Ms. Chen Miaoyuan is the spouse of Mr. Yan Weibin and is therefore deemed to be interested in all the Shares in which Mr. Yan Weibin is deemed to be interested.
9. The percentages of the Shares are rounded to the nearest two decimal places, and the total number of the percentages may not add up to 100% due to rounding.
10. Due to the round-down treatment as detailed in the paragraph headed “Sale and Purchase Agreement – Consideration Shares”, the sum of the maximum Consideration Shares having been issued to each of the Vendors as illustrated in the above table is less than 80,174,000 Shares.

As shown in the above table, the shareholding of the Company held by existing public Shareholders will be diluted from 38.21% as at the Latest Practicable Date to approximately 35.93%, representing a dilution of 2.28 percentage points upon the issuance and allotment of the maximum Consideration Shares.

However, taking into account of the reasons and benefits of the Acquisition as discussed in the section headed “Reasons and benefits of the Acquisition”; and (ii) the terms of the Sale and Purchase Agreement, including the Consideration and the Consideration Share Price, are fair and reasonable as far as the Independent Shareholders are concerned, we are of the view that the dilution effect to the shareholding interests of the existing Shareholders as a result of the Acquisition is acceptable.

**7. Financial effects of the Acquisition**

*Earnings*

According to the 2017 Annual Result Announcement, the Group had an audited consolidated profit for the year attributable to the equity Shareholders for the year ended 31 December 2017 of approximately RMB308.1 million. Upon Completion, the Company's attributable equity interest in the HNC Group would increase from 85.00% to 100.00% and so the profit for the year of the HNC Group attributable to the owners of the Company would be increased by approximately 15.00%.

We have also considered the possible dilution effect to the earnings per share due to the issuance of the Consideration Shares. Assuming only the Upfront Consideration would be settled by the Company, the pro-forma earnings per share for 2017 to the Shareholders of the Company ("**Pro-forma EPS**") would increase by 3.68%; and assuming the maximum number of Consideration Shares will be reached by the issue and allotment of the Subsequent Consideration Shares, the Pro-forma EPS would increase by 1.23%. As the Pro-forma EPS would increase from a range of 1.23% to 3.68% after the Acquisition, we consider the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

The Management has also advised us that no significant effect on the Group's consolidated statement of profit or loss is expected to be resulted from the Acquisition immediately upon completion of the Acquisition.

*Net asset value*

According to the 2017 Annual Result Announcement, the net asset value of the Group was approximately RMB1,947.0 million as at 31 December 2017.

As mentioned in the Letter from the Board, as at the Latest Practicable Date, the HNC Group is a subsidiary of the Company with its consolidated financial results being consolidated into the financial statements of the Group. After completion of the Acquisition, the HNC Group will continue to be a subsidiary of the Company, and the assets and liabilities and the financial results of the HNC Group will continue to be consolidated to the financial statements of the Group. The Management is of the view that the Acquisition will not have any material impact on the assets and liabilities of the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position/results of the Group will be upon completion of and the issuance of the Consideration Shares pursuant to the Acquisition.

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## LETTER FROM ORIENT CAPITAL

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### RECOMMENDATION

Having considered the above principal factors and reasons, we consider that although the Sale and Purchase Agreement is not within the ordinary and usual course of business of the Group, the entering into of the Sale and Purchase Agreement are on normal commercial terms or better and in the interests of Independent Shareholders, and, from those perspectives, are in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder in the EGM. Independent Shareholders are however advised to take note of the possible dilution effect on their shareholding in the Company upon the issuance of the Consideration Shares.

Yours faithfully,  
For and on behalf of  
**Orient Capital (Hong Kong) Limited**  
**Jiang Jun**  
*Managing Director*  
*Investment Banking*

*Ms. Jiang Jun is a licensed person of the Securities and Future Commission of Hong Kong and a Responsible Officer of Orient Capital to carry out Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), and has over 9 years of experience in corporate finance 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 Group. 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. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following the issue of the Consideration Shares will be, as follows:

<i>Authorised share capital</i>	<i>HK\$</i>
<u>1,500,000,000</u> Shares as at the Latest Practicable Date	<u>150,000,000</u>
 <i>Issued and fully paid share capital</i>	
<u>1,256,061,530</u> Shares in issue as at the Latest Practicable Date	<u>125,606,153</u>
50,294,123 Upfront Consideration Shares to be issued and allotted	5,029,412
29,879,876 Subsequent Consideration Shares to be issued and allotted (assuming the maximum number of Consideration Shares having been issued and allotted)	<u>2,987,988</u>
<u>1,336,235,529</u> Shares in issue immediately following the issue of the maximum Consideration Shares	<u>133,623,553</u>

All Shares in issue rank *pari passu* with each other in all respects including the rights as to voting and dividends.

As at the Latest Practicable Date, the number of share options outstanding under the Company's share option scheme, which was approved by the Shareholders on 19 September 2009, was 37,486,000 and the exercise price was HK\$2.45.

Save as disclosed above, no share, options, warrants, conversion rights or any equity or debt securities of the Company were outstanding or were proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

### 3. DISCLOSURE OF INTERESTS

#### A. Directors' interests in Shares

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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 the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (“**Model Code**”) were as follows:

Name of Director	Number of Shares or underlying Shares <sup>(Note 1)</sup>	Nature of interest	Approximate percentage of issued share capital <sup>(Note 5)</sup>
Mr. Yan Weibin	400,000 (L)	Beneficial owner	0.03%
	800,000 (L)	Beneficial owner <sup>(Note 2)</sup>	0.07%
	106,539,085 (L)	Interest of a controlled corporation <sup>(Note 3)</sup>	8.48%
Mr. Bartle van der Meer	400,000 (L)	Beneficial owner	0.03%
	800,000 (L)	Beneficial owner <sup>(Note 2)</sup>	0.07%
	162,205,230 (L)	Interest of a controlled corporation <sup>(Note 4)</sup>	12.91%
Ms. Ng Siu Hung	330,000 (L)	Beneficial owner	0.03%
	670,000 (L)	Beneficial owner <sup>(Note 2)</sup>	0.05%
Mr. Tsai Chang-Hai	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner <sup>(Note 2)</sup>	0.02%
Mr. Zeng Xiaojun	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner <sup>(Note 2)</sup>	0.02%
Ms. Ho Mei-Yueh	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner <sup>(Note 2)</sup>	0.02%
Mr. Jason Wan	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner <sup>(Note 2)</sup>	0.02%
Mr. Lau Chun Fai Douglas	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner <sup>(Note 2)</sup>	0.02%

*Notes:*

1. The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.
2. These are the Shares subject to the exercise of the share options granted by the Company to the Directors on 21 January 2016 under the Company’s share option scheme.
3. The Shares are held by Ausnutria Holding Co Ltd (“**Ausnutria BVI**”), a company wholly-owned by Mr. Yan Weibin. Mr. Yan Weibin is therefore deemed to be interested in 106,539,085 Shares held by Ausnutria BVI under the SFO.
4. The Shares are held by Dutch Dairy Investments HK Limited, which is in turn wholly-owned by Dutch Dairy Investments B.V. (“**DDI**”). DDI is owned as to 50.00% by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer. Mr. Bartle van der Meer is therefore deemed to be interested in 162,205,230 Shares held by Dutch Dairy Investments HK Limited under the SFO.
5. Based on 1,256,061,530 shares of HK\$0.10 each in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required 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 the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**B. Substantial shareholders’ interests in Shares**

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares and underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares	Nature of interest	Approximate percentage of issued share capital <sup>(Note 10)</sup>
Ausnutria BVI <sup>(Note 1)</sup>	106,539,085	Beneficial owner	8.48%
Babyland Holdings Limited <sup>(Note 2)</sup>	71,301,949	Beneficial owner	5.68%
BioEngine Capital Inc. <sup>(Note 3)</sup>	123,355,375	Beneficial owner	9.82%
Center Laboratories, Inc. <sup>(Note 3)</sup>	361,738,129	Beneficial owner	28.80%
	144,193,643	Interest of a controlled corporations	11.48%
Chengwei Evergreen Capital L.P. <sup>(Notes 2 and 4)</sup>	71,301,949	Interest of controlled corporations	5.68%

Name	Number of Shares	Nature of interest	Approximate percentage of issued share capital <sup>(Note 10)</sup>
Chengwei Evergreen Management, LLC	71,301,949	Interest of controlled corporations	5.68%
DDI <sup>(Notes 5 and 6)</sup>	162,205,230	Interest of a controlled corporation	12.91%
Dutch Dairy Investments HK Limited <sup>(Note 6)</sup>	162,205,230	Beneficial owner	12.91%
Fan Deming BV <sup>(Note 7)</sup>	162,205,230	Interest of a controlled corporation	12.91%
Manids B.V. <sup>(Notes 5 and 8)</sup>	162,205,230	Interest of a controlled corporation	12.91%
Mr. Ignatius Petrus Jorna <sup>(Note 8)</sup>	162,205,230	Interest of controlled corporation	12.91%
Ms. Chen Miaoyuan <sup>(Note 9)</sup>	106,539,085	Interest of spouse	8.48%

## Notes:

1. Ausnutria BVI is wholly-owned by Mr. Yan Weibin. Mr. Yan Weibin is therefore deemed to be interested in 106,539,085 Shares held by Ausnutria BVI under the SFO.
2. Babyland Holdings Limited is owned as to 93.88% by Chengwei Evergreen Capital, L.P.
3. Both BioEngine Capital Inc. and BioEngine Technology Development Inc. are non-wholly-owned subsidiaries of Center Laboratories, Inc.. Center Laboratories, Inc. is therefore deemed to be interested in 123,355,375 Shares and 20,838,268 Shares held by BioEngine Capital Inc. and BioEngine Technology Development Inc., respectively under the SFO.
4. Chengwei Evergreen Capital, L.P. is wholly-owned by Chengwei Evergreen Management, LLC.
5. DDI is owned as to 50.00% by each of Fan Deming B.V. and Manids B.V..
6. Dutch Dairy Investments HK Limited is wholly-owned by DDI.
7. Fan Deming BV is wholly-owned by Mr. Bartle van der Meer.
8. Manids B.V. is owned as to 99.84% by Mr. Ignatius Petrus Jorna.
9. Ms. Chen Miaoyuan is the spouse of Mr. Yan Weibin. Ms. Chen Miaoyuan is therefore deemed to be interested in 106,539,085 Shares held by Mr. Yan Weibin under the SFO.
10. Based on 1,256,061,530 Shares of HK\$0.10 each in issue as at the Latest Practicable Date.

Other than as disclosed above, as at the Latest Practicable Date, no person (other than Directors and chief executive of the Company) or company had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.



#### **4. FURTHER INFORMATION CONCERNING DIRECTORS**

##### **A. Competing interests**

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined under the Listing Rules) had any business or interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

##### **B. Directors' service contracts**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

##### **C. Directors' interest in assets**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased, or which were proposed to be acquired, disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

##### **D. Directors' interest in contracts**

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

#### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **6. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

Based on the best information, knowledge and belief of the Directors, as at the Latest Practicable Date, the companies comprising the Target Group were not involved in any litigation, arbitration or claim of material importance, and the Directors are not aware of any pending or threatened litigation, arbitration or claim against any member of the Target Group.

**7. EXPERT AND CONSENT**

The following is the qualifications of the expert who has given opinions, letters or advice which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Orient Capital	A licensed corporation to carry out Type 6 (Advising on Corporate Finance) regulated activities under the SFO

Orient Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report, as the case may be dated 12 April 2018, and reference to its name, and/or its advice in the form and context in which it appears.

As at the Latest Practicable Date, Orient Capital did not:

- (i) have any shareholding, directly or indirectly, in any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (ii) have any direct or indirect interest in any assets which had been acquired, or 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 since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**8. MISCELLANEOUS**

- (i) Conyers Trust Company (Cayman) Limited, the registered office of the Company, is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands;
- (ii) The head office and principal place of business in Hong Kong of the Company is situated at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong;
- (iii) Computershare Hong Kong Investor Services Limited, the Company's branch share registrar is located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;
- (iv) The company secretary of the Company since 3 December 2012 is Mr. Wong Wei Hua Derek, who is a member of the Hong Kong Institute of Certified Public Accountants; and
- (v) In the event of inconsistency, the English version of this circular shall prevail over the Chinese text.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours on Business Days at the office of the Company at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong, from the date of this circular up to and including the date of EGM:

- (i) the Sale and Purchase Agreement;
- (ii) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 to this circular;
- (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 23 to 50 to this circular;
- (iv) the written consent referred to in the paragraph headed “Expert and consent” in this appendix; and
- (v) this circular.

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## NOTICE OF EGM

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### AUSNUTRIA DAIRY CORPORATION LTD

### 澳優乳業股份有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1717)**

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Ausnutria Dairy Corporation Ltd (the “**Company**”) will be held on Friday, 11 May 2018 at 10:30 a.m. or immediately after conclusion of the Company’s annual general meeting to be held on the same day, whichever is later, at Bowen Room, 7th Floor, Conrad Hong Kong Hotel, Pacific Place, 88 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing, without modifications, the following ordinary resolutions of the Company. Unless otherwise specified, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 12 April 2018 of which the notice convening the EGM forms part.

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the conditional Sale and Purchase Agreement (a copy of which is tabled at the EGM and marked “A” and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) any one Director be and is hereby specifically authorised to issue and allot the Consideration Shares in accordance with the terms of the Sale and Purchase Agreement; and
- (c) any one Director be and is hereby authorised to, on behalf of the Company, do all such acts and things, to sign and execute such documents or agreements or deeds and take all such actions as he or she may in his or her absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder.”

2. “**THAT**

- (a) the issue and allotment of the Consideration Shares in the principal amount of HK\$400,870,000 at the issue price of HK\$5.00 per Consideration Share to the Vendors be and are hereby approved;

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## NOTICE OF EGM

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- (b) subject to and conditional upon the Listing Committee of Stock Exchange having granted the listing of, and permission to deal in the Consideration Shares, the Directors be and are hereby granted the Specific Mandate which shall entitle the Directors to exercise all the powers of the Company to issue, allot and credit as fully paid, the Consideration Shares, on and subject to the terms and conditions of the Sale and Purchase Agreement, providing that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandates(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and
- (c) any one Director be and is hereby authorised to, on behalf of the Company, do all such acts and things, to sign and execute such documents or agreements or deeds and take all such actions as he or she may in his or her absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the issue and allotment of the Consideration Shares.”

By Order of the Board  
**Ausnutria Dairy Corporation Ltd**  
**Yan Weibin**  
*Chairman*

The PRC, 12 April 2018

*Notes:*

- (a) The register of members of the Company will be closed from Tuesday, 8 May 2018 to Friday, 11 May 2018, both days inclusive. No transfer of shares of the Company will be registered during that period. In order to qualify to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong for registration no later than 4:30 p.m. on Monday, 7 May 2018.
- (b) A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company but must be present in person to represent the member.
- (c) If the appointer is a corporation, the form of proxy must be under its common seal, or under the hand of an officer or attorney duly authorized on its behalf.
- (d) In order to be valid, a form of proxy must be deposited at the Company's Hong Kong branch registrar, 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 less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. The completion and delivery of the form of proxy will not preclude a member from attending and voting at the meeting if he so wishes. In the event that he attends the meeting after having lodged the form of proxy, the form of proxy will be deemed to have been revoked.
- (e) Where there are joint registered holders of any share of the Company, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons 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 and will be accepted to the exclusion of other joint registered holders in respect hereof.

*As at the date of this notice, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; two non-executive Directors, namely Mr. Tsai Chang-Hai and Mr. Zeng Xiaojun; and three independent non-executive Directors, namely Ms. Ho Mei-Yueh, Mr. Jason Wan and Mr. Lau Chun Fai Douglas.*