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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)

RESUMPTION OF TRADING

Financial Adviser to the Company

ASIAN CAPITAL (CORPORATE FINANCE) LIMITED
卓亞(企業融資)有限公司

The Company is pleased to inform the Shareholders and potential investors that as at the date of this announcement, the Company has fulfilled all the Resumption Conditions.

Application has been made to the Stock Exchange for the Resumption with effect from 9:00 a.m. on 4 August 2014.

In compliance with Rule 13.09 of the Listing Rules and under Part XIVA of the SFO, the Company is pleased to inform the Shareholders and potential investors that as at the date of this announcement, the Company has fulfilled all the Resumption Conditions.

FULFILMENT OF THE RESUMPTION CONDITIONS

Unresolved Issues

During the course of the audit of the 2011 Annual Results, EY reported to the Board in the EY Letter the Unresolved Issues relating to the China Subsidiary, mainly including the following:

(a) the authenticity of delivery notes relating to certain sale transactions in December 2011;

(b) the integrity of the original sales order system and the barcode system; and

(c) the discrepancy in the quantity of goods sold and delivered during January and November 2011 between the China Subsidiary's records and those provide by the independent logistic service provider (the "**Logistic Company**") engaged by the China Subsidiary.

According to the EY Letter, EY were unable to carry out effective audit procedures on the 2011 Annual Results primarily in respect of the revenue, cost of sales, inventories and accounts receivable due to the Unresolved Issues. As a result, EY has suspended its audit work until an investigation into the Unresolved Issues is completed.

Accordingly, on 29 March 2012, in the interest of the Company and the Shareholders as a whole, the Company applied for the suspension of the trading of the Shares on the Stock Exchange.

Resumption Conditions

On 26 June 2012, the Company received a letter from the Stock Exchange, in which the Stock Exchange stated the following Resumption Conditions for the Resumption:

(a) ensure the independent professional adviser engaged by the SRC to conduct forensic audit and investigation to address all the Unresolved Issues raised in the EY Letter;

(b) inform the market of all information (including those matters highlighted in the EY Letter and the findings of the independent professional adviser in this regard) that is necessary to appraise the Group's position, including their implications to the Group's assets, financial and operational position;

(c) publish all outstanding financial results and report, and address any concerns raised by the Company's auditors through qualifications in their audit report or otherwise; and

(d) demonstrate that there are no significant deficiencies in the Group's corporate governance, and that the Company has put in place adequate financial reporting procedures and internal control systems to meet obligations under the Listing Rules.

The Company should also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation before Resumption. The Stock Exchange might modify any of the above and/or impose further conditions at its discretion.

Status of the Resumption Conditions

The Company is pleased to announce that as at the date of this announcement, all of the Resumption Conditions above have been fulfilled, details of which are set out as follows:

Resumption Condition (a)

The SRC, upon its establishment, was deeply concerned with the Unresolved Issues and accordingly, took the initiative to request the Management to carry out reviews to, among other things, quantify the financial impact in relation to the Unresolved Issues. Based on its review, the Management informed the SRC that goods with an aggregate sales amount of approximately RMB123 million (or approximately RMB143.5 million, 17% VAT inclusive) recognised in December 2011 (the "**Questionable December Transactions**") had not been delivered to the distributors before the end of 2011, and accordingly, should not be recognised as sales in December 2011. Upon the commencement of the PwC Review, the Management provided PwC the list of Questionable December Transactions.

PwC was engaged to conduct an independent forensic review primarily to address the Unresolved Issues and had completed its forensic review and investigation to address all the Unresolved Issues and issued its report in relation to its findings on the PwC Review, a copy of which was submitted to the SRC on 12 August 2013.

The key findings of the PwC Review include the following:

(a) the Questionable December Transactions in respect of which the relevant sample underlying documents appeared to be different from sample of transactions took place in other months of 2011, and the goods involved had not been delivered to the relevant distributors before 31 December 2011 and accordingly, should not have been recognised as sales of the China Subsidiary in December 2011;

(b) the integrity of the old sales order system of the China Subsidiary, which had ceased to be used since October 2011 but recorded the Questionable December Transactions, is questionable. Also, the data in relating to the Questionable December Transactions had been manually altered, and the integrity of the warehouse barcode system at the time was also questionable as the Ex-China CFO had instructed the developer of the warehouse barcode system to alter the data in it for December 2011 to match the data previously provided to EY;

(c) there were discrepancies in the quantity of goods sold and delivered during January to November 2011 between the Accounting Records and information provided by the Logistic Company as well as discrepancies in inventory movement records between the Accounting Records and the warehouse records of the China Subsidiary in 2011;

(d) certain material differences between reported sales and the value amount of VAT invoices issued; and

(e) certain observations in relation to electronic data review.

On 18 August 2013, the Company published an announcement giving details of the Unresolved Issues, the findings of PwC, the management responses, the Company's remedial actions and the relevant observations of the SRC.

Whilst the primary objective of the PwC Review was not a review over the Group's internal control system, PwC covered in its report to the SRC some weaknesses in the China Subsidiary's internal control system at the time. In response to this, the Company has taken several remedial actions, including the continuing investment in improving the internal control system of the Group, particularly in relation to the sales cycle of the China Subsidiary. Details of PwC's findings on internal control weaknesses and the related remedial actions on internal control weaknesses taken by the Company are summarised under the paragraphs headed "Status of the Resumption Conditions – Resumption Condition (d)" below.

Further, in view of the possible involvement of fraudulent activities in the Unresolved Issues, the Company reported the Alleged Wrongdoing to the Bureau of Finance and the Bureau of Public Security which the SRC believes is in a better position to help investigate the matter. According to the officers of the Bureau of Public Security, they would not deal with the Alleged Wrongdoing and commence any investigation into the Alleged Wrongdoing as there was no report of misappropriation of assets of the China Subsidiary arising from such Alleged Wrongdoing. On the other hand, the Bureau of Finance has completed its independent investigation into the Alleged Wrongdoing, to which the China Subsidiary has been extending its full co-operation. As far as the Company is aware, based on its independent investigation, the Bureau of Finance has confirmed that the Ex-China CFO was involved in the Alleged Wrongdoing and further actions will be taken on him. Despite the attempt of enquiry by the Company, the Bureau of Finance has declined to comment on the possible actions (if any) to be taken on the Ex-China CFO. As far as the Company is aware, except for the above, the Bureau of Finance concluded that (i) no one (including any the Directors at the time) has been identified to be involved in or has been arrested for the Alleged Wrongdoing; and (ii) no fines/penalties would be imposed on the Group and/or any individuals in respect of the Alleged Wrongdoings by the Bureau of Finance.

The China Subsidiary's PRC legal advisors advised that it is an offence under the PRC Accounting Law if an enterprise/person, among other things, forges accounting documents or books or accounts, and/or provides false financial or accounting report. The China Subsidiary's PRC legal advisors further advised that, according to the relevant provisions in the PRC Accounting Law, if the Alleged Wrongdoing constitutes a breach of the relevant provisions and regulations, the enterprise and/or the executive officers and other responsible persons who are directly responsible may be notified of the Alleged Wrongdoing by the relevant governmental authorities and/or institutions, may be imposed with a certain amount of administrative fines (with a maximum up to RMB50,000 on the enterprise and a maximum up to RMB20,000 on the executive officers/ responsible persons) or may result in the loss of accounting licence. The SRC and the Board are of the view that this will not have a significant negative financial impact on the China Subsidiary, the Company and the Group as a whole.

In addition, the Company has also taken proactive steps in restructuring the Board (including the resignation of the then chief executive officer of the Company and the China Subsidiary, and the appointment of Mr. Bartle van der Meer, who has ample international experience in banking, investment and paediatric nutritional products, as an executive Director and chief executive officer of the Company) and the senior management of the China Subsidiary. The Ex-China CFO, who might have been involved in the Unresolved Issues, has left the China Subsidiary. In addition, certain other personnel, such as the then head of the internal audit department and the former head of the sales department of the China Subsidiary, who had failed to detect the occurrence of these fraudulent acts relating to the Unresolved Issues, have also left the China Subsidiary and have been replaced by other personnel of the China Subsidiary not having any connection with the Unresolved Issue.

Resumption Condition (b)

As set out above, PwC was engaged to conduct an independent forensic review primarily to address the Unresolved Issues. The PwC Review was completed on 12 August 2013, and the Company published an announcement in relation to the Unresolved Issues and the findings of the PwC Review on 18 August 2013.

The Management, at the request of the SRC, performed certain procedures to quantify the financial impact of the Unresolved Issues on the financial statements.

In view of the Unresolved Issues casting doubts over the completeness and accuracy of the accounting records, as the order books for the distributors maintained by the staff in the sales accounting department of the China Subsidiary (the "**Order Books**") are the best available alternative information that the SRC and the Board can reasonably rely on, the Management has used these Order Books to summarise all the orders and cash receipt information and compared them to the financial statements of the China Subsidiary from January 2006 (being the commencement date of the track record period of the Group as disclosed in the prospectus of the Company dated 24 September 2009) to December 2011 (being the financial year in respect of which EY identified the Unresolved Issues during the course of the audit of the 2011 Annual Results). Certain additional procedures were also carried out by the Management, including but not limited to the confirmation and reconciliation of balances with the distributors as at 30 June 2013, certain roll-back procedures based on the confirmed balances of trade receivables and reconciling the cash receipts as set out in the Order Books with the China Subsidiary's bank statements for the relevant years (the "**Rollback Exercise**").

The Company estimated the adjustments required for revenue for the Year 2011 and prior years using the total monetary amounts of sales orders received as recorded in the Order Books, after adjusting for those orders received around the respective year end dates to allow for the estimated timing of delivery to distributors. Regarding the cost of sales adjustments, the Company separately estimated the average gross margin rates which it considered to be reasonable for the Year 2011 and prior years/periods beginning on 1 July 2009.

As a result of these procedures, the Management (i) concluded that there was no impact of the Unresolved Issues on the financial statements relating to the period up to June 2009; (ii) restated the Company's consolidated financial statements for the six months ended 31 December 2009 and hence the Year 2009 and the Year 2010 as well as the six months ended 30 June 2010 and 30 June 2011; and (iii) identified accounting adjustments to reduce approximately RMB190 million and RMB46 million from revenue of the Year 2011 and the Year 2012, respectively, from the Company's consolidated statements of profit and loss in respect of certain questionable sales transactions happened during the Year 2011 and corresponding accounting adjustments to the related consolidated statements of financial position accounts, primarily accounts receivable and inventories, as at 31 December 2011 and hence the corresponding opening balances as at 1 January 2012. Details of the aforementioned adjustments were disclosed in the annual reports of the Company for the Year 2011 and the Year 2012 as well as the interim report of the Company for the six months ended 30 June 2012. No adjustments in relation to the Unresolved Issues or in response to the findings of the PwC Review have been made on the Group's consolidated statements of financial position as at 31 December 2012 and 2013 or its consolidated statements of profit and loss or other comprehensive income for the Year 2013. Details of the disclaimers/qualifications/modifications of audit opinion by EY are disclosed in the audit reports of EY for the Years 2011, 2012 and 2013 and further summarised under the paragraphs headed "Status of the Resumption Conditions - Resumption Condition (c)" below.

In addition, the Company has published other announcements and circulars from time to time in compliance with the Listing Rules, the disclosure of inside information under Part XIVA of the SFO and on a voluntary basis in order to keep the Shareholders and the market informed of the Group's status and latest development, including but not limited to its progress in fulfilling the Resumption Conditions and its business development.

<u>Resumption Condition (c)</u>

The Company is pleased to advise that as at the date of this announcement, all of the Company's outstanding annual and interim results have been published with the relevant annual/interim reports despatched. As at the date of this announcement, the Company has complied with the financial reporting obligations under the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation.

As set out in the Company's annual report for the Year 2013, EY modifies its audit opinion on the Company's consolidated financial statements for the Year 2013. Such modification only relates to the comparability of the Group's profit and cash flows for the Year 2013 and the modified comparative information for the Group's profit and cash flows for the Year 2012, but not on the Group's consolidated statement of financial position as at 31 December 2012. The SRC and the Board consider that such modification literally means that there is an otherwise clean opinion on the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the Year 2013.

The SRC and the Board expect this technical audit modification will be removed from the audit opinion on the Company's consolidated financial statements for the year ending 31 December 2014.

Accordingly, SRC and the Board consider that all the concerns in relation to the Unresolved Issues or otherwise raised by EY through qualifications in their audit reports or otherwise have been addressed.

Resumption Condition (d)

Prior to the finalisation of the PwC report, the SRC had requested the Company to adopt measures to strengthen its corporate governance, management team and internal control so as to address the Unresolved Issues raised by EY and also to ensure that nothing like the Unresolved Issues will arise in the future. The Company has promptly taken actions to remedy the issues, for instance, strengthening internal control and information technology system, restructuring the Board and the senior management of the China Subsidiary, and reporting the matter to the Bureau of Public Security and the Bureau of Finance. Details of the abovementioned remedial actions are set out under the paragraphs headed "Status of the Resumption Conditions – Resumption Condition (a)" above.

As mentioned under the paragraphs headed "Status of the Resumption Conditions – Resumption Condition (a)" above, whilst the primary objective of the PwC Review was not a review over the Group's internal control system, PwC covered in its report to the SRC certain weaknesses in the China Subsidiary's internal control system at the time. At the request of the SRC, PKF was appointed to carry out the First Stage Internal Control Review on the Company and the China Subsidiary in relation to the Unresolved Issues, particularly the sales cycle of the China Subsidiary, the results of which are set out in the Company's announcement dated 11 November 2013.

The details of the internal control weaknesses identified by PwC and PKF in relation to the Unresolved Issues together with the remedial actions taken by the Company are summarised below:

(i) Sub-standard fraud awareness amongst the staff in the China Subsidiary and a lack of a sound reporting mechanism

The Company and the China Subsidiary have amended the code of conduct, established and announced the anti-fraud and whistleblowing policies and procedures and sought the undertakings for compliance with code of conduct from all staff of the Company and the China Subsidiary. Training on the anti-fraud and whistleblowing policies and procedures had been provided to all staff of the Company and the China Subsidiary.

(ii) A lack of controls over the manual input of orders into the order system

The information technology ("**IT**") system (the "**IT System**") replaced the old sales order system. The IT System has the following features:

Each distributor has an account maintained in the IT System which is protected by unique passwords. All the orders placed by the distributors are now required to be put through their respective accounts online.

Further, the distributors are required to confirm their orders with the China Subsidiary online on a monthly basis.

In order to detect for any unauthorised alteration to the data in the IT System, the China Subsidiary has purchased and installed a bastion host (an equipment that keeps track the access and changes made to the servers which store all the critical business information of the Company and the China Subsidiary) to monitor operation on the IT System. In addition, an administrator from the IT department of the China Subsidiary is assigned to examine, on daily basis, the access and change log, which contains detailed information of log-in user names, operations and operation times. The manager of the IT department of the China Subsidiary will double check the access and change log weekly. The head of the IT department will review the access and change log on an unscheduled basis each month. Any unusual access to or operation on the IT System will be reported to the Chief Financial Officer of the Company with copy to the Audit Committee.

(iii) Weak control over the transportation expenses billed to the China Subsidiary

The China Subsidiary has instructed its finance department to settle logistic expenses only after the receipt of delivery notes acknowledged by distributors and reconciliations of the warehouse records and the records of the Logistic Company have been completed.

(iv) A lack of a routine data backup procedure

In order to keep proper storage of critical business information of the Company and the China Subsidiary and allow retrieval of historical information when necessary, the China Subsidiary has implemented daily and monthly data backup of the information in the IT System and engaged an independent IT consultant to test data restoration on a monthly basis.

Besides the backup of critical business information, the China Subsidiary has implemented a new policy in relation to the backup of emails whereby all the China Subsidiary's emails are diverted to a designated email account. The emails received and sent in this designated account are automatically downloaded into a computer on a daily basis, which will then be backed up to a separate hard disk on a monthly basis.

The IT department of the China Subsidiary will backup the data contained in the computers before they are formatted and re-assigned to new users with a view to ensuring that data in such computers is kept before they are formatted.

(v) Weak control over the inventory records maintained by different functional segments within the China Subsidiary

The China Subsidiary performs monthly reconciliation among records in the new sales order system, the Accounting Records, the warehouse records and the external records from the Logistic Company.

Based on its results of the First Stage Internal Control Review, PKF considered that the material internal control weaknesses that might have given rise to the Unresolved Issues raised by EY and covered in the PwC report have been rectified.

At the request of the SRC, PKF was engaged to carry out the Second Stage Internal Control Review on the Group, extending its scope to cover the Group's internal control components which are not related to the Unresolved Issues and have not yet been covered, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, including the fulfilling of the Company's obligations under the Listing Rules.

Based on its results of the Second Stage Internal Control Review, PKF has opined that the Group had maintained, in all material respects, effective internal control as at 31 December 2013. PKF also considered that the Company has put in place effective internal control to meet the obligations under the Listing Rules. Details of the Second Stage Internal Control Review are set out in the Company's announcement dated 27 June 2014.

THE VIEW OF THE SRC

1. <u>Unresolved Issues</u>

Based on the findings of the PwC Review and the responses from the Management as well as the findings of the Bureau of Finance, the SRC believes that (i) the Unresolved Issues might have been caused by certain fraudulent acts committed by certain personnel of the China Subsidiary and certain underlying documents and records of the China Subsidiary had been prepared or otherwise altered at the instruction of the Ex-China CFO, who had left the China Subsidiary in or around April 2012; and (ii) certain employees of the China Subsidiary who might have failed to detect the occurrence of these fraudulent acts relating to the Unresolved Issues, have also left the China Subsidiary. Despite the high priority, efforts and the substantial time and costs spent on the matter, the SRC and the Company had tried to but had not been able to ascertain the actual identity of these people and the extent of their involvement in the Unresolved Issues and their related fraudulent acts due to a lack of concrete evidence and the departure of these people. However, as far as the Company is aware, based on its independent investigation, the Bureau of Finance concluded that none of the Directors at the time has been identified to be involved in or has been arrested for the Alleged Wrongdoing relating to the Unresolved Issues.

The occurrence of the Unresolved Issues also gave rise to the SRC's concern that there were weaknesses in the internal control systems of the Company and the China Subsidiary, which had, at the relevant time, prevented the detection of the occurrence of these fraudulent acts, and the SRC recognised that the internal control weaknesses pointed out by PwC had, at the relevant time, prevented the detection of the occurrence of these fraudulent acts.

At the instructions of the SRC, PKF has completed the First Stage Internal Control Review and considers that the material internal control weaknesses that might have given rise to the Unresolved Issues raised by

EY and covered in the PwC report have been rectified. Based on the Second Stage Internal Control Review, PKF has further opined that the Group had maintained, in all material respects, effective internal control as at 31 December 2013. The details of the PwC findings on internal controls and the remedial actions taken by the Group with the assistance of PKF are set out under the paragraphs headed "Status of the Resumption Conditions – Resumption Condition (d)" above.

Taking into account of:

(i) the above-mentioned conclusion and opinion of PKF based on the First Stage Internal Control Review and the Second Stage Internal Control Review;

(ii) the departure of the relevant staff of the China Subsidiary who may have involved in the fraudulent acts, including the Ex-China CFO, has left the China Subsidiary;

(iii) certain key management and staff position of the China Subsidiary (including but not limited to the head of the logistic and warehouse department, the chief accountant of the finance department, the head of the internal audit department and the head of the sales department of the China Subsidiary) that might have an important role to timely detect and report of the fraudulent acts relating to the Unresolved Issues, have also left the China Subsidiary and have been replaced by other personnel of the China Subsidiary not having any connection with the Unresolved Issues;

(iv) the internal audit department has been strengthened and empowered to step up their internal audit of the Group including the China Subsidiary;

(v) the Audit Committee and the Board have committed to continuously engaged an external professional internal control consultant to carry out an independent review of the effectiveness of the Group's internal control system, at least on an annual basis, with special emphasis on the sales cycle of the China Subsidiary;

(vi) the requirement for the distributors of the China Subsidiary to timely confirm their receipts of the goods via the IT System (where each of the distributors have been assigned with a unique account which are password protected) of the China Subsidiary and the monthly reconciliation of such records with the delivery documents from the Logistic Company and the Accounting Records; and

(vii) other remedial actions taken by the Group with an aim to prevent the occurrence of similar incidents in the future,

the SRC considers that the concerns on the occurrence of possible fraudulent acts similar to those relating to the Unresolved Issues within the Group in the future has been properly addressed.

2. Financial impact of the Unresolved Issues to the Group

The SRC and the Board noted that what might appear to be the fraudulent acts or failings of certain personnel have caused serious harm to the Group. Notwithstanding the above, the SRC and the Board believe that the business of the Group is sound and on the following basis, they have not identified any material asset misappropriation in the Group:

(a) The Unresolved Issues and the key findings of the PwC Review mainly relates to the inconsistencies in records regarding the China Subsidiary's sales and inventories and the findings of the review conducted by the Management indicated that the impact of these inconsistencies on the Group's financial statements was premature revenue recognition by recording sales in advance of the actual delivery of goods to its customers. Other than these, the SRC is not aware of any irregularities that may cause misappropriation and/or dissipation of the Group's assets.

(b) The SRC identified that the Group's tangible assets mainly comprised (i) cash and cash equivalents and time deposits; (ii) trade and bills receivables and inventories; and (iii) properties, plants and equipment ("**PPE**"). In this regard, the SRC requested the Company to ascertain whether there are any misappropriation or dissipation of the abovementioned tangible assets:

(i) Cash and cash equivalents and time deposits

The China Subsidiary performed a cash count on 30 June 2012. Further, the China Subsidiary also visited the relevant banks with which it placed deposits to confirm its deposit balance immediately after the occurrence of the Unresolved Issues and on 30 June 2012. No adjustment has been made on the cash and cash equivalents and time deposits accounts as a result of the Unresolved Issues as well as from the reconstruction of records based on the audit as conducted by EY and the work as conducted by the Management.

(ii) Trade and bills receivables and inventories

The China Subsidiary confirmed its trade receivable balance on 30 June 2012 and thereafter on a monthly basis through its correspondence with the distributors and the trade balance confirmations system as installed in the IT System with its trade debtors. Based on the results of the Rollback Exercise and the review of the subsequent settlement of its trade receivable balance and the monthly stocktake results of the China Subsidiary, other than the adjustments as already been disclosed in the annual reports for the Year 2011 and the Year 2012, no other adjustment in relation to the Unresolved Issues has been made.

(iii) Properties, plants and equipment

The China Subsidiary performed a physical count of its PPE on 30 June 2012 and 31 December 2012 and 2013, the results were satisfactory and no misappropriation of the PPE has been identified. Besides, no adjustment in relation to its PPE has been made.

The China Subsidiary, after conducting the abovementioned procedures, reported to the SRC that the findings of the abovementioned procedures agreed with its accounting records and no material discrepancies noted. As noted by the Company, EY have issued a modified opinion on the Company's consolidated financial statements for the Year 2013. The SRC and the Board are of the view that (i) such modification only related to the comparability of the Group's profit and cash flows for the Year 2013 and the qualified comparative information for the Group's Profits and cash flows for the Year 2012 (but not on the Group's consolidated statement of financial position as at 31 December 2012); (ii) this literally means that there is an otherwise clean opinion on the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended; and (iii) this technical audit modification will be removed from the audit opinion on the Company's consolidated financial statements for the year ending 31 December 2014.

3. Involvement of the then executive Directors in the Unresolved Issues

The SRC considers that each of the then executive Directors, namely Mr. Chen Yuanrong ("**Mr. Chen**"), Mr. Wu Yueshi ("**Mr. Wu**"), Mr. Yan Weibin ("**Mr. Yan**") and Ms. Ng Siu Hung ("**Ms. Ng**") has no involvement in the matters relating to the Unresolved Issues during the time when the incident occurred which led to the Unresolved Issues (the "**Relevant Period**") on the following bases:

(a) Mr. Chen

Mr. Chen was an executive Director and the chief executive officer of the Company from 8 June 2009 to 7 June 2013.

He has extensive experience in cattle breeding, management of cattle farm, production and marketing of dairy products and its business management.

Prior to joining the Group, Mr. Chen was the senior management of a number of dairy related companies for many years, including a few reputable and large state-owned dairy enterprises, including Nanshan Dairy Marketing Company* (南山乳業行銷有限公司) ("**Nanshan Dairy**"). Mr. Chen founded the Group in 2003 as the Director and chief executive officer of the China Subsidiary. As an executive Director and chief executive officer of the Company, he was primarily responsible for the day-to-day management and operations of the China Subsidiary, being the principal operating subsidiary of the Group during the Relevant Period prior to the completion of the acquisition of the Ausnutria Hyproca B.V. (with principal operations in the Netherlands) by the Group in October 2011.

While the Company had four executive Directors during the Relevant Period, Mr. Chen was the executive Director of the Company designated by the Board to be responsible for the daily management and operations of the China Subsidiary due to his extensive experience in the dairy industry and as a result of the agreed segregation of duties. For the period prior to his resignation from the Company, including the Relevant Period, he oversaw the day-to-day management and operations of the China Subsidiary, and attended the weekly management meetings of the China Subsidiary in which the business performance of the China Subsidiary were discussed and determined.

In view of the delay in the publication of the Company's results for the Years 2011 and 2012 due to the occurrence of the Unresolved Issues and to facilitate the Company to diversify its Board with international management expertise, Mr. Chen resigned from all his positions in the Group on 7 June 2013.

Although Mr. Chen had the responsibility of overseeing the day-to-day management and operations of the China Subsidiary, the SRC and the Board did not identify any evidence that Mr. Chen was involved in the Unresolved Issues nor was there any suggestion that Mr. Chen was aware of the fraudulent activities during the Relevant Period. Further, based on the findings of the PwC Review, there was no document or evidence which indicates that Mr. Chen had any direct involvement in the Unresolved Issues noted by PwC. In addition, as far as the SRC and the Board are aware, the Bureau of Finance concluded that Mr. Chen has not been identified to be involved in or has not been arrested for the Alleged Wrongdoing relating to the Unresolved Issues.

(b) <u>Mr. Wu</u>

Mr. Wu is a controlling shareholder of the Company. To recognise and give respect to Mr. Wu (which is a Chinese business culture etiquette) as a major shareholder of the Company upon the listing of the Company, Mr. Wu was appointed as an executive Director and the chairman of the Company (which owns the China Subsidiary) until his resignation from these positions as well as his other positions within the Group on 7 June 2013. During his tenure with the Company, he was primarily responsible for the overall corporate strategy, planning and business development of the Group and was not involved in the day-to-day running and operations of the Company and its subsidiaries, including the China Subsidiary. In particular, the day-to-day management and operation of the China Subsidiary was in the hands of Mr. Chen.

Due to (i) the strategic importance and business potential of his investment in Yuan Longping High-tech Agriculture Co., Ltd* (袁隆平農業高科技股份有限公司) ("**Longping High-tech**") (the No.1 seeds company on its overall capabilities in the seeds industry by the Ministry of Agriculture in the PRC, with shares listed on the Shenzhen Stock Exchange); and (ii) the significance of his own real estate business which he founded through his 59.57% equity interest in Hunan Xin Da Xin Co., Ltd. (湖南新大新股份有限公司) ("**Xin Da Xin**"), Mr. Wu has dedicated an enormous amount of time, attention and energy to the care and management of Longping High-tech on a full-time basis and Xin Da Xin on a full-time basis. Further, Mr. Wu is also occupied with a number of social positions and social works.

In reality, Mr. Wu is a mere financial and passive investor of the Company as he has no experience in operating the milk formula business. He relied on Mr. Chen and his team in the management of the China Subsidiary as he was satisfied with the investment return he received from the China Subsidiary. After Mr. Wu's investment in the China Subsidiary, the China Subsidiary remained to be managed by Mr. Chen and his team up to the date of Mr. Chen's resignation mentioned above. He did not have his own office in the Company and the China Subsidiary. His involvement in the Company was limited to attending regular board meetings of the Company. He received the board papers of these meetings at the same time as the independent non-executive Directors. Mr. Wu did not attend the regular management meetings of the China Subsidiary, which were mainly attended by Mr. Chen. He relied on Mr. Yan to report and discuss with him on any finding and result of the regular management meetings which Mr. Yan attended and discussions between Mr. Chen and Mr. Yan. The above shows the little involvement of Mr. Wu in the Company and the China Subsidiary in comparison with his involvement in Longping High-tech and Xin Da Xin.

Unlike in the case of Xin Da Xin and Longping High-tech where he receives salaries and/or directors' fees, Mr. Wu received only director fees from the Company since its listing. This reflects that Mr. Wu has practically no involvement in the Company other than as mentioned above.

The SRC and the Board did not identify any evidence that Mr. Wu was involved in the Unresolved Issues nor was there any suggestion that Mr. Wu was aware of the fraudulent activities during the Relevant Period. Further, based on the findings of the PwC Review, there was no document or evidence which indicates that Mr. Wu had any direct involvement in the Unresolved Issues noted by PwC. In addition, as far as SRC and the Board are aware, the Bureau of Finance concluded that Mr. Wu has not been identified to be involved in or has not been arrested for the Alleged Wrongdoing relating to the Unresolved Issues.

(c) Mr. Yan

Mr. Yan was appointed as an executive Director on 8 June 2009 and remains to be an executive Director. He was elected to be the chairman of the Board on 7 June 2013.

Mr. Yan was also a director and the vice president of Hunan Ava Seed Co., Ltd (湖南亞華種業股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange, and a director and the chief executive officer of Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd (長沙新大新威邁農業有限公司).

Mr. Yan has been and is still a director of Longping High-tech. He was Longping High-tech's chief executive officer from 2004 to April 2010, the vice chairman and the chief financial officer from April 2010 to December 2011, the chief executive officer and chief financial officer from December 2011 to June 2012 and has become the vice chairman since June 2012. The resignation of Mr. Yan as the chief executive officer and the chief financial officer (remains as the vice chairman) of Longping High-tech in June 2012 was made at the strong request from the Board so that he could allocate most of his time to oversee the Company after the occurrence of the Unresolved Issues.

As the executive Director during the Relevant Period, Mr. Yan was responsible for the overall corporate strategy, planning and business development, including mergers and acquisitions, and the management of the overseas companies of the Group. He was not involved in the day-to-day running and operations of the China Subsidiary.

Further, during the Relevant Period, Mr. Yan:

- apart from attending regular board meetings of the Company, depending on his availability, Mr. Yan attended the regular management meetings of the China Subsidiary mainly for briefing to the senior management of the China Subsidiary when there were changes in the business development, strategies and corporate structure as well as when there were major mergers and acquisitions to be entered into by the Group. He obtained updates on the business performance of the China Subsidiary from Mr. Chen and other senior management. He would report and discuss such findings with Mr. Wu and Ms. Ng whenever he considered necessary;

- save for an office in the Company's Changsha factory that was assigned to him which he rarely used, Mr. Yan did not have his own office in the Company and the China Subsidiary during the Relevant Period. He only has his own office in the Company after he resigned as the chief executive officer of Longping High-tech in June 2012 when he was strongly requested by the Board to spend most of his time in the management of the Group; and

- received only Director's fee after the listing of the Company but not salary and bonuses during the Relevant Period.

The SRC and the Board did not identify any evidence that Mr. Yan was involved in the Unresolved Issues nor was there any suggestion that Mr. Yan was aware of the fraudulent activities during the Relevant Period. Further, based on the findings of the PwC Review, there was no document or evidence which indicates that Mr. Yan had any direct involvement in the Unresolved Issues noted by PwC. In addition, as far as SRC and the Board are aware, the Bureau of Finance concluded that Mr. Yan has not been identified to be involved in or has not been arrested for the Alleged Wrongdoing relating to the Unresolved Issues.

(d) Ms. Ng

Ms. Ng was appointed as an executive Director on 19 September 2009 and remains to be an executive Director.

As an executive Director, Ms. Ng is primarily responsible for the Group's investor relations. Apart from that, her involvement in the Company is limited to the management of the logistics of board meetings of the Company when she was a joint company secretary and attending such board meetings during the Relevant Period. She did not attend the regular management meetings of the China Subsidiary.

During the Relevant Period, she relied on Mr. Yan's briefing on any finding and result of the regular management meetings which Mr. Yan attended and discussed between Mr. Chen and Mr. Yan. She did not have her own office in the Company and the China Subsidiary during the Relevant Period. She receives only Director's fee and monthly salary for her role as a joint company secretary up to 2012 and for handling public investor relationships after the listing of the Company.

The SRC and the Board did not identify any evidence that Ms. Ng was involved in the Unresolved Issues nor was there any suggestion that Ms. Ng was aware of the fraudulent activities during the Relevant Period. Further, based on the findings of the PwC Review, there was no document or evidence which indicates that Ms. Ng had any direct involvement in the Unresolved Issues noted by PwC. In addition, as far as SRC and the Board are aware, the Bureau of Finance concluded that Ms. Ng has not been identified to be involved in or has not been arrested for the Alleged Wrongdoing relating to the Unresolved Issues.

Premised on the above, the SRC considers that none of Mr. Chen, Mr. Wu, Mr. Yan and Ms. Ng had any involvement in the matter relating to the Unresolved Issues nor was there any suggestion that any of the then executive Directors was aware of the fraudulent activities during the Relevant Period.

The SRC would like to highlight that in addition to the remedial actions taken by the Group to improve its internal control, as mentioned above, the Company has also taken proactive steps in restructuring the Board (including the departure of the then chief executive officer of the Company and the China Subsidiary, and the appointment of Mr. Bartle van der Meer, who has ample international experience in banking, investment and paediatric nutritional products, as an executive Director and chief executive officer of the Company). The Ex-China CFO, who might have been involved in the Unresolved Issues, have left the China Subsidiary. In addition, certain other personnel, such as the then head of the internal audit department and the former head of the sales department of the China Subsidiary, who had failed to detect the occurrence of these fraudulent acts relating to the Unresolved Issues, have also left the China Subsidiary and have been replaced by other personnel of the China Subsidiary not having any connection with the Unresolved Issue.

As a result of the restructuring of the Board and the senior management of the China Subsidiary, including the departure of Mr. Wu and Mr. Chen as Directors, the SRC considers that under the leadership of Mr. Bartle van der Meer as the chief executive officer of the Company and the more involved role of Mr. Yan in the Group, together with the overseeing role of the independent non-executive Directors, the Group is now managed by a team of professional executives who have strong background and diversified experience in paediatric nutritional products and this is in the best interest of the Company, the Shareholders and stakeholders as a whole.

4. Fulfilment of Resumption Conditions

(a) Resumption Conditions (a) and (b)

The SRC considers that the PwC Review has addressed the Unresolved Issues as the SRC considered the PwC Review has properly revealed the facts and circumstances surrounding the Unresolved Issues and reported to the SRC the internal control weaknesses that might have caused the fraudulent acts not reported. As set out above, the Management, under the request of the SRC, has taken remedial actions to improve the Group's internal control system and performed certain procedures to quantify the financial impact of the Unresolved Issues on the respective consolidated financial statements of the Company.

Based on the results of the PwC Review and the information available to the SRC, the SRC and the Board believe that the questionable sales transactions, if any, should have been excluded from the Company's consolidated financial statements for the Years 2009, 2010 and 2011 so as to reflect the errors due to the early recognition of revenue identified by EY. As such, the publication of the Company's annual and/or interim financial results and the despatch of the related annual and/ interim reports for the Years 2011, 2012 and 2013 have provided the Shareholders and the market all information that is necessary to appraise the Group's financial and operational position.

(b) Resumption Condition (c)

As set out above, the modification in the auditor's opinion in respect of the Company's consolidated financial statements for the Year 2013 only relates to the comparability of the modified comparative information for the Group's profit and cash flows for the Year 2012 against those for the Year 2013.

The SRC and the Board consider that such modification literally means that there is an otherwise clean opinion on the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended. As such, the SRC and the Board expect this technical audit modification will be removed from the audit opinion on the Company's consolidated financial statements for the year ending 31 December 2014. Accordingly, the SRC and the Board consider that all the concerns in relation to the Unresolved Issues or otherwise raised by EY through qualifications in their audit reports or otherwise have been addressed.

(c) Resumption Condition (d)

In view of the results of the First Stage Internal Control Review, the SRC and the Board consider that the material internal control weaknesses that prevented the detection of the occurrence of the fraudulent acts which caused the Unresolved Issues and covered in the PwC Report have been rectified. Further, given the fact that PKF opined in its report dated 27 June 2014 that the Group had maintained, in all material respects, effective internal control as at 31 December 2013 and that it considered the Company has put in place effective internal control to meet the obligations of the

Listing Rules, the SRC and the Board consider that the Company fulfilled the Resumption Condition (d).

The SRC and the Board are committed to (i) supervising the management of the Company and the respective subsidiaries of the Group to complete the implementation of PKF's recommendations to rectify the outstanding medium risk internal control weaknesses; and (ii) maintaining sound and effective internal controls to safeguard the Shareholders' investment and the Group's assets.

In view of the above, the SRC and the Board consider that the Company has complied with the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation.

RESUMPTION OF TRADING

At the Company's request, trading in the Shares was suspended on the Stock Exchange from 9:00 a.m. on 29 March 2012, and the Company has made an application to the Stock Exchange for the Resumption with effect from 9:00 a.m. on 4 August 2014.

Save as disclosed above, the Company is not aware of any information should be disclosed pursuant to Rule 13.09 of the Listing Rules and under Part XIVA of the SFO.

DEFINITIONS

In this announcement, the following terms shall have the meanings set opposite then unless the context otherwise requires:

"2011 Annual Results"	the Company's annual results for the Year 2011
"Accounting Records"	the accounting records of the monthly quantity of goods delivered kept by the finance department of the China Subsidiary
"Alleged Wrongdoings"	certain fraudulent acts committed by certain personnel of the China Subsidiary and certain underlying documents and records of the China Subsidiary had been prepared or otherwise altered, that might have given rise to the Unresolved Issues
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors
"Bureau of Finance"	Bureau of Finance in Hunan Province* (湖南省財政廳) of the PRC

"Bureau of Public Security"	the Bureau of Public Security in Changsha Municipal of Changsha* (長沙市公安局) of the PRC
"China Subsidiary"	Ausnutria Dairy (China) Co., Ltd* (澳優乳業 (中國) 有限公司), a company established in the PRC which is an indirectly wholly-owned subsidiary of the Company and the principal operating company of the Company's business in the PRC
"Company"	Ausnutria Dairy Corporation Ltd (澳優乳業股份有限公司), a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 1717)
"Director(s)"	the director(s) of the Company
"Ex-China CFO"	the then chief financial officer of the China Subsidiary
"EY"	Ernst & Young, the auditors of the Company
"EY Letter"	the letter dated 29 March 2012 issued by EY to the Board regarding the Unresolved Issues and the status of the audit work carried out by EY in relation to the 2011 Annual Results
"First Stage Internal Control Review"	review conducted by PKF in respect of the internal control systems of the Company and the China Subsidiary relevant to the Unresolved Issues, particularly the sales cycle of the China Subsidiary
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Management"	the management of the Group, consisting the chief financial officer of the Company and several senior managers of the China Subsidiary who were not associated in any way in the Unresolved Issues
"PKF"	PKF Consulting Inc, appointed as an internal control adviser of the Company to conduct the First Stage Internal Control Review, and subsequently, the further internal control review by extending its scope to cover the Group's internal control system, including the fulfilling the Company's obligations under the Listing Rules

"PRC"	the People's Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Accounting Law"	the PRC Accounting Law (中華人民共和國會計法) and the Enterprise Financial and Accounting Reporting Regulations (企業財務會計報告條例)
"PwC"	PricewaterhouseCoopers Limited, an independent professional adviser appointed by King & Wood Mallesons, who are the legal advisers of the SRC, to carry out the PwC Review in respect of the Unresolved Issues. PwC issued the report addressed to King & Wood Mallesons and copied to the SRC on 12 August 2013 relating to the results of the PwC Review
"PwC Review"	the forensic review carried out by PwC
"Resumption"	resumption of trading in the Shares on the Stock Exchange
"Resumption Conditions"	the conditions for the resumption of trading in the Shares imposed by the Stock Exchange to the Company by its letter dated 26 June 2012
"Second Stage Internal Control Review"	review of the effectiveness of the Group's internal control system as at 31 December 2013, which was conducted by PKF based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission
"SFO"	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shareholder(s)"	the holder(s) of the Shares
"Shares"	ordinary shares of HK$0.10 each in the share capital of the Company
"SRC"	a special review committee, comprising two of the Company's independent non-executive Directors, namely Mr. Qiu Weifa and Mr. Chan Yuk Tong, established by the Board on 28 March 2012 to investigate into the Unresolved Issues
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Unresolved Issues"	a number of unresolved issues identified in the EY Letter, details of which were published in the announcement of the Company dated 28 June 2013

“VAT”	value-added-tax in the PRC
“Year 2009”	the financial year ended 31 December 2009
“Year 2010”	the financial year ended 31 December 2010
“Year 2011”	the financial year ended 31 December 2011
“Year 2012”	the financial year ended 31 December 2012
“Year 2013”	the financial year ended 31 December 2013
“HK$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

Changsha City, the PRC, 1 August 2014

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung, and three independent non-executive directors, namely Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.

** For identification purpose only*