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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)**

### **CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING**

Reference is made to the clarification announcement of the Company dated 15 August 2019 (the “**Announcement**”) in relation to allegations made in the Report published by a Texas based short seller named Blue Orca Capital (“**Blue Orca**”) on the same day. Terms used herein shall have the same respective meanings as those defined in the Announcement.

Save as disclosed in this announcement, after having made all reasonable enquiries with the Company, the Board confirms that it is not aware of any other information which must be announced to avoid a false market in the Company’s securities or any inside information that needs to be disclosed under the Inside Information Provisions (as defined in the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)) under Part XIVA of the Securities and Futures Ordinance.

#### **BACKGROUND**

The Company noted from the Report that Blue Orca made various allegations against the Company (the “**Allegation(s)**”). The Board vigorously denies all the Allegations contained in the Report and considers such Allegations completely unfounded and gravely misleading. The Company reminds its shareholders (the “**Shareholders**”) and potential investors to read the disclaimer of Blue Orca in the Report carefully, which states that the authors are biased and short sellers.

The Company wishes to point out that Blue Orca never contacted nor sought clarification from the Company nor any of its directors (the “**Director(s)**”) before or after the publication of the Report. The Company has no knowledge of the identities of the parties associated with Blue Orca, and also notes that Blue Orca is not licensed to conduct any regulated activities in Hong Kong, including the provision of investment advice, based on available information on the website of the Securities and Futures Commission of Hong Kong.

## CLARIFICATIONS

The Company summarised the main Allegations in the Report and the Company's response are as follows.

### (i) **Import data, revenues and profits of infant milk formula of the Company**

#### ***Blue Orca's Allegation***

It is alleged that the Company was importing far less infant milk formula than it claims, and the Company had been overstating both its revenues and profits.

#### ***Company's response***

Such Allegation is completely baseless and the Company refutes such Allegation.

All the import data relating to the infant milk products of the Company contained in the Company's financial reports were true and correct, which can be supported by official documents issued by the General Administration of Customs of the People's Republic of China (the "**China Customs**"). The Company believes that these official documents issued by the China Customs were the most credible source for the relevant import statistics.

The Company would like to emphasise that there are documentary support for all the import data of its infant milk products. The Company considers the purported discrepancies in import data and hence the Allegations of overstatement of revenue and profits are factually incorrect.

It is alleged that the revenue of the infant milk products was overstated. However, the Company strongly disagrees with the computation basis of the purported revenue. Firstly, the computation was merely based on the purported estimated import value, which was derived by the number of shipment of the referred import agents in the Reports, instead of the actual import value. Secondly, the estimation was arrived after deducting the Group's inventory level (instead of the inventory in the People's Republic of China (the "**PRC**")) in the relevant period. Thirdly, such estimation did not take into account the overhead costs incurred and value-added processes conducted by the Company after the imported infant milk products arriving the Changsha factory. Last but not least, the estimation did not take into account of the purchase of imported base powder (mainly New Zealand) from local importers.

The Company considers the estimation of import value and hence the purported overstatement in revenue is completely incorrect and baseless.

### (ii) **Labor costs of the Company's Dutch subsidiary**

#### ***Blue Orca's Allegation***

It is alleged that the Company has understated its labor and staff costs and that the Company was substantially less profitable than reflected in the Company's consolidated financial statements.

#### ***Company's response***

Such Allegation is factually incorrect and the Company refutes such Allegation.

The purported understatement in staff costs was mainly due to differences in disclosure of certain expenses (including but not limited to temporary personnel costs, social security charges and other expenses including travel costs, messing and other allowances) (the “**Expenses**”) between the consolidated financial statements of the Company, which adopted the International Financial Reporting Standards (IFRS), and its Dutch subsidiaries, namely Ausnutria B.V. and its subsidiaries, which adopted the generally accepted accounting principles in the Netherlands (the “**Dutch GAAP**”).

The Expenses were disclosed as part of staff costs in Ausnutria B.V.’s consolidated financial statements under the Dutch GAAP, whilst the Expenses were not included as part of the staff costs in the Company’s consolidated financial statements for disclosure purpose under IFRS. If the Expenses were excluded from disclosure in the financial statements of Ausnutria B.V., the staff costs of Ausnutria B.V. would have only accounted for approximately 57.6% and 52.9% of the total staff costs of the Group for the years ended 31 December 2016 and 2017 respectively. The Company wishes to emphasise that the concerned matter was a pure disclosure issue. It did not give rise to an understatement of actual staff costs nor did it have any impact on the overall financial performance of the Company.

In the circumstances, the Company considers the Allegations in the Report in this regard were completely untrue and baseless, and that the conclusions drawn in the Report about the Company and its financial results were incorrect.

**(iii) Efficacy of *Kabrita* infant goat milk formula**

***Blue Orca’s Allegation***

It is alleged that the Company was misleading Chinese consumers in relation to the ingredients of *Kabrita* infant goat milk formula.

***Company’s response***

Such Allegation is incorrect and concluded based on incomplete information, and the Company refutes such Allegation.

Since its launch, the core selling point of *Kabrita* is that its infant goat milk formula contains 100% pure goat milk protein. According to the clinical trials conducted by Peking University and other research conducted by other scientists, goat milk formula has been proven to be more easily digested and has lower allergic reactions than cow milk formula. Furthermore, goat milk contains much lower level of  $\alpha$  S1-casein, which was proven to be the main source of allergy for infants, than cow milk. Accordingly, pursuant to a few relevant research reports, goat milk formula theoretically has fewer allergens.

Further, the State Administration for Market Regulation of the PRC (國家市場監督管理總局) does not require milk powder products to indicate the animal source of lactose. It should be noted that lactose is merely a kind of carbohydrate and an energy source, not a protein. To the best of the Company’s knowledge, it is identical in both functional and molecular term regardless of its source (e.g. goat milk, cow milk or breast milk).

Regarding the e-commerce platform customer service, to improve the accuracy of replies made by its customer service representatives, the Company will strive to strengthen the product knowledge of its customer service representatives by providing further training and will closely monitor the quality of replies in the future.

(iv) **Acquisition of 40% equity interest in Nutriunion (Hong Kong) Company Limited (“Nutriunion HK”)**

***Blue Orca’s Allegation***

It is alleged that the Company does not have any interest in Nutriunion HK, which was instead wholly-owned by Mr. Wong Wei Hua Derek (“**Mr. Wong**”), the chief financial officer of the Company. It is further alleged that the acquisition of the 40% equity interest in Nutriunion HK conducted in July 2019 was a sham transaction to unjustly enrich insiders.

***Company’s response***

Such Allegation is completely baseless and the Company refutes such Allegation.

Reference is made to the Company’s announcement dated 8 July 2019 in relation to, among others, the acquisition of Nutriunion HK (the “**Acquisition Announcement**”). Terms used in this section shall have the same respective meanings as those defined in the Acquisition Announcement.

On 23 May 2016 (being the date of incorporation of Nutriunion HK), the Company and Mr. Wong entered into deeds of trust, pursuant to which the Company, Mr. Lin and Mr. Zhao (who, along with 3 other individuals, constituted the management of the Ausnutria nutrition products platform) and Mr. Qu (as a passive investor), as the settlors, appointed Mr. Wong, as trustee, to hold the entire equity interest in Nutriunion HK on behalf of the settlors as beneficiaries. Under the trust arrangement, the settlors were also the beneficial owners of the respective equity interests and Mr. Wong shall act on behalf of the settlors when exercising his rights and powers as the sole registered holder of the issued shares in Nutriunion HK. On 3 July 2019, as requested by all the settlors, Mr. Wong transferred his legal title to 60%, 30% and 10% of the equity interests in Nutriunion HK to the HK Purchaser, Vendor A and Vendor B respectively.

In short, Mr. Wong was merely a nominee shareholder who had never been the beneficial owner of any of the shares in Nutriunion HK held by him. The Acquisition Announcement made no reference to Mr. Wong since he no longer held any legal title over the shares in Nutriunion HK as at the date of the Acquisition Announcement.

Further, the Report claims that “*the total consideration of RMB236 million... implied a valuation of RMB591 million, or 65x the target group’s reported 2018 earnings*”. Such Allegation is misleading. As disclosed in the Acquisition Announcement, Vendor A and Vendor B together only received RMB56.4 million upfront. The remaining RMB180.0 million was conditional upon the achievement of defined revenue targets by the Nutriunion Group in the next three financial years. The Company considers that the actual valuation of the acquisition should take into account such profit guarantee.

The Board is of the view that the Acquisition Announcement contained information that (i) was material to the Shareholders and the investment public to properly assess the Acquisition, and (ii) was required to be disclosed under the Listing Rules.

(v) **Independence of the Company’s distributors**

***Blue Orca’s Allegation***

It is alleged that the Company engaged in undisclosed related party transactions with three distributors allegedly controlled by the Company’s current and/or former executives.

## ***Company's response***

Such Allegation is completely groundless and the Company refutes such Allegation.

The Company would like to emphasise that the issues which lead to the suspension back in 2012 had been resolved completely, and trading in its shares was resumed in 2014. Since then, the Company has been maintaining a good corporate governance and internal control system.

The purported independence issue of the Group's distributors set out in the Report is factually incorrect. As at the date of this announcement, to the best of the knowledge and belief of the Board, it is confirmed that all three distributors of the Group referred to in the Report are not connected persons as defined under the Listing Rules. Notwithstanding the Company's indirect minority interests in certain distributors, they are either not considered to be a related party (with the meanings specified in *IAS 24 – Related Party Disclosure*) or not required to be disclosed under the relevant accounting standard given the insignificant transaction amounts between the Company and these distributors.

The Company reaffirms that no Director, chief executive or senior management of the Company, who shall be regarded as a connected person of the Company, beneficially owns any interest in the three distributors concerned. The business relationship between the Company and its distributors are governed by distributorship agreements and relevant guidelines, the terms of which are substantially the same among all distributors, and no material changes have been made in the recent years.

The Group noted that sometimes, for the sake of marketing convenience and not in the context of the use of legal terms, some distributors may claim themselves as “subsidiaries” or “branch” of the Group. Such statements did not intend to create nor confirm a legal relationship but merely stated the fact that they are part of the Group's brands. The Group also regularly organises corporate culture and strategy seminars for distributors and senior management of the Group to ensure a consistent approach and effective communication of the strategy of the Group from brand level down to the retail operations managed by the distributors and their franchisees.

To support the distributors' marketing efforts, the Group, under certain circumstances, allows distributors from using the brand name “Ausnutria” and its logo as well as other administrative tools such as email domain and correspondence address.

In view of the close working relationship between the Group and its distributors, there were cases where individual employees who had left the Group subsequently joined the distributors. Such cases were personal career planning and decisions of the relevant employees and not uncommon in the industry.

Based on the above, the Company considers the claims in the Report to be untrue and groundless, and that the conclusions drawn in the Report about the Company and relationship with its distributors are incorrect.

It is important for the Shareholders to recognise that the relevant Allegations are the opinions of a short seller whose interests may not be aligned with those of the Shareholders in general, and that it may be specifically intended to undermine the Shareholders' confidence in the Company and its management, and to harm its reputation. Accordingly, Shareholders should treat such Allegations with extreme caution.

**The Board considers that the Report contained factual errors, misleading statements and unfounded Allegations which may lead to unusual price movement. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.**

**The Company will consider and adopt all reasonable measures to protect the interests of the Shareholders. The Company reserves its right to take legal action against Blue Orca and/or those responsible for making unfounded Allegations.**

#### **RESUMPTION OF TRADING**

At the request of the Company, trading in the shares of the Company was halted with effect from 11:17 a.m. on 15 August 2019, pending the release of this clarification announcement. The Company has applied to the Stock Exchange for resumption of trading in its shares on the Stock Exchange with effect from 9:00 a.m. on 16 August 2019.

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

The PRC, 16 August 2019

*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; three non-executive Directors, namely Mr. Shi Liang (Vice-Chairman), Mr. Qiao Baijun and Mr. Tsai Chang-Hai; and three independent non-executive Directors, namely Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman.*