

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **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)**

### **KEY FINDINGS OF PHASE 1 OF THE INDEPENDENT REVIEW**

As disclosed in the Company's announcement dated 19 August 2019, the IRC has been established and engaged the Independent Consultant to conduct the Independent Review. Taking into account (i) enquiries received on the Allegations, in particular Allegation 1, Allegation 2 and Allegation 3, from certain Shareholders and/or potential investors since the publication of the Short Seller Reports; (ii) the time required to perform independent review works on each of the Allegations; and (iii) the Board's intention to timely update the public relating to the Allegations to ensure fair and orderly market relating to the trading of the Shares, the IRC and the Independent Consultant decided to conduct the Independent Review in two phases, namely Phase 1 and Phase 2.

The Company is pleased to announce that Phase 1 of the Independent Review has been completed and the Independent Consultant has issued the Status Report on 12 September 2019.

Based on the work performed and information obtained up to the date of the Status Report, below is a summary of the key findings:

#### **ALLEGATION 1**

- The Independent Consultant compared the Customs' Records to the Group's Import Records and noted that the imported volume of infant milk formula products in 2016 and 2017 as per the Customs' Records were not less than 9,000 tonnes and 12,000 tonnes respectively, and considered that the Customs' Records and the Group's Import Records are consistent in all material aspects;
- The Independent Consultant further noted that the import volume of goat milk in 2017 as per the Customs' Records was 154% higher than the annualised import volume as estimated by Blue Orca in the Short Seller Reports; and
- The allegation of the overstatement of revenue in the Short Seller Reports, on the underlying basis (i.e. import volume), is not supported by the evidence collected by the Independent Consultant.

## ALLEGATION 2

- The Ausnutria B.V. Employee Expenses accounted for 57.6% and 52.9% of the AR Employee Expenses in 2016 and 2017, respectively, rather than 96% and 94% as alleged in the Short Seller Reports;
- The employee-related expenses reported in the Regulatory Filings had been fully included in the compilation of Group's 2016 and 2017 consolidated profit and loss account;
- The profit and loss accounts reported for Regulatory Filings had been fully included in the compilation of the Group's 2016 and 2017 consolidated profit and loss accounts; and
- Certain facts stated in the Judgements, in particular the fact that the Plaintiffs did not allege to be employees of Globlait Nutrition, had been omitted in the Short Seller Reports. Such omissions rendered the allegations in relation to the Lawsuits contained in the Short Seller Report incomplete.

## ALLEGATION 3

- The CFO was merely a nominee shareholder of Nutriunion HK under the trust arrangements;
- The transfer of 40% shareholding interests in Nutriunion HK beneficially held by Mr. Zhao, Mr. Lin and Mr. Qu back to them has been completed on 3 July 2019;
- The trust arrangement has been effectively terminated following the completion of the aforementioned transfer, and the CFO is no longer the trustee holding the entire shareholding interests of Nutriunion HK accordingly; and
- The Independent Consultant has not identified any direct evidence indicating that the Company's acquisition of the 40% shareholding interests in Nutriunion HK was a sham transaction and Allegation 3 is not substantiated accordingly.

As at the date of this announcement, Phase 2 of the Independent Review has commenced. The IRC will further review the findings of the Independent Review upon completion of Phase 2 and accordingly make recommendations, if any, to the Board on appropriate actions to be taken.

Reference is made to (i) the clarification announcements of the Company dated 15 and 16 August 2019, respectively in relation to allegations made in a report published by Blue Orca on 15 August 2019; (ii) the clarification announcement of the Company on 19 August 2019 in relation to the allegations made in a report published by Blue Orca on 19 August 2019 (together with the Blue Orca's report dated 15 August 2019, the "**Short Seller Reports**") and the establishment of the independent review committee (together with the announcements dated 15 and 16 August 2019, the "**Announcements**"). Unless otherwise defined, terms used herein shall have the same respective meanings as those defined in the Announcements.

As disclosed in the Company's announcement dated 19 August 2019, an independent review committee (the "IRC"), comprising all independent non-executive Directors, has been established to (i) review the matters as alleged in the Short Seller Reports; (ii) report to the Board on its findings; and (iii) make recommendations to the Board on appropriate actions to be taken. On 21 August 2019, the IRC engaged Deloitte Advisory (Hong Kong) Limited as an independent consultant (the "Independent Consultant") to conduct an independent review on the Allegations (the "Independent Review").

## **BACKGROUND AND SCOPE OF THE INDEPENDENT REVIEW**

Summary of the Allegations in the Short Seller Reports are as follows:

- (i) It is alleged that the Company was importing far less infant milk formula than it claims, and as such Blue Orca believes that the Company had been overstating its revenue and profit from the infant milk formula in the PRC ("**Allegation 1**");
- (ii) It is alleged that the Company has understated its labour and staff costs in 2017, in particular based on Ausnutria B.V.'s regulatory filing, and as such Blue Orca believes that the Company was substantially less profitable than reflected in the Company's consolidated financial statements published in 2017 annual report ("**Allegation 2**");
- (iii) It is alleged that the Company does not have any interest in Nutriunion HK, which was instead owned by the chief financial officer of the Company (the "**CFO**"). It is further alleged that the acquisition of the 40% shareholding interests of Nutriunion HK conducted in July 2019 was merely a sham transaction ("**Allegation 3**");
- (iv) It is alleged that the Company was misleading Chinese consumers in relation to the marketing of infant goat milk formula ("**Allegation 4**");
- (v) It is alleged that the Company engaged in undisclosed related party transactions with three distributors allegedly controlled by the Company's current and former executives ("**Allegation 5**"); and
- (vi) It is alleged that the amounts of packaging materials and resources consumption published in the 2016 and 2017 environmental, social and governance report of the Company did not increase correspondingly to the growth in infant formula revenue stream ("**Allegation 6**").

Taking into account (i) the enquiries received on the Allegations, in particular Allegation 1, Allegation 2 and Allegation 3, from certain Shareholders and/or potential investors since the publication of the Short Seller Reports; (ii) the time required to perform independent review works on each of the Allegations; and (iii) the Board's intention to timely update the public relating to the Allegations to ensure fair and orderly market relating to the trading of the Shares, the IRC and the Independent Consultant decided to conduct the Independent Review in two phases, namely phase 1 (which covers Allegation 1, Allegation 2 and Allegation 3) ("**Phase 1**") and phase 2 (which covers Allegation 4, Allegation 5 and Allegation 6) ("**Phase 2**").

## SUMMARY OF KEY FINDINGS OF PHASE 1 INDEPENDENT REVIEW

The Company is pleased to announce that Phase 1 of the Independent Review has been completed and the Independent Consultant has submitted a status report of the Independent Review (the “**Status Report**”) to the IRC on 12 September 2019, and the IRC has subsequently reported the same to the Board. A summary of its key findings is as follows:

### (i) **Allegation 1 – the Group’s import data and revenue of infant milk formula in the PRC**

#### ***Blue Orca’s allegation***

Based on the purported data sources related to the infant milk products quoted in the research report of the Chinese Academy of Social Sciences (“**CASS**”), it is alleged that the Company was importing far less infant milk formula than it claims, and as such Blue Orca believes that the Company had been overstating its revenue and profit of infant milk formula in the PRC in 2016 and 2017.

#### ***Works performed by the Independent Consultant and its key findings***

With a view to understanding the Customs declaration process of import infant milk products of the Group, the Independent Consultant interviewed the Group’s personnel and was advised that there are three operating subsidiaries which import infant goat and cow milk products from overseas countries into the PRC, namely (1) Hyproca Nutrition Co., Ltd. (“**HNC**”); (2) Ausnutria Dairy (China) Co. Ltd. (“**Ausnutria China**”); and (3) Neolac (Shanghai) Nutrition Co., Ltd (“**Neolac Shanghai**”) through four import agents. Among the four import agents, three of them are with principal business offices in Hunan Province and the remaining one is with principal business office in Hebei Province.

In contemplation of verifying the Group’s import figures as referred in the Short Seller Reports, the Independent Consultant obtained and inspected all available Declaration Forms for Import of Goods to the PRC (the “**Customs Declaration Forms**”) of these subsidiaries for 2016 and 2017 provided by the Company. Based on the Customs Declaration Forms obtained, the Independent Consultant summarised the total volume of imported infant milk products of the Group for 2016 and 2017 (the “**Group’s Import Records**”).

In order to cross check the Group’s Import Records with independent third party’s sources, the Independent Consultant, together with representatives of the Group, visited the two Changsha Customs offices and one of the import agents’ offices. The Independent Consultant interviewed a senior officer of the Changsha Customs (the “**Customs Officer**”). The Independent Consultant was advised by the Customs Officer that customs information is subject to geographical limitation, and that Changsha Customs could only retrieve data for goods declared in Hunan Province, and was unable to retrieve any data for goods declared by the import agent located in Hebei Province.

From the aforementioned visits to Changsha Customs offices and import agent’s office, the Independent Consultant obtained:

- two confirmation letters issued by the Changsha Customs, which show the import volume of HNC and Ausnutria China through the import agents based in Hunan from January 2016 to June 2019 (the “**Confirmation Letters**”);

- data provided by Changsha Customs in relation to the import volume of Neolac Shanghai, who declared its goods through Changsha Customs, and extracted from the Changsha Customs' system on site; and
- the import records declared by an import agent that were not included in the Confirmation Letters due to Changsha Customs system limitations.

Based on the aforementioned information obtained, the Independent Consultant summarised the total import volume of import infant milk products of the Group for the two years ended 31 December 2016 and 2017 (collectively, the “**Customs' Records**”).

The Independent Consultant compared the Customs' Records to the Group's Import Records and noted that the imported volume of infant milk formula products for the two years ended 31 December 2016 and 2017 as per the Customs' Records were not less than 9,000 tonnes and 12,000 tonnes respectively, and considered that the Customs' Records and the Group's Import Records are consistent in all material aspects. The Independent Consultant further noted that the import volume of goat milk in 2017 as per the Customs' Records was 154% higher than the annualised import volume as estimated by Blue Orca in the Short Seller Reports.

Further, with a view to understanding the purported data sources related to the infant milk products quoted in the research report of the CASS mentioned in the Short Seller Reports, the Independent Consultant contacted CASS by way of telephone calls. However, despite multiple attempts, no one answered the telephone calls.

Based on the work performed and information they obtained, the Independent Consultant concluded that the allegation of the overstatement of revenue, on the underlying basis (i.e. import volume), is not supported by the evidence collected by the Independent Consultant.

### ***View of the IRC***

The IRC has reviewed and accepted the key findings by the Independent Consultant on Allegation 1. Based on the findings in the Status Report, the IRC considers the basis of Allegation 1, being the import volume, is untenable. Accordingly, the purported conclusion of Allegation 1 in the Short Seller Reports, which was deduced from such basis, is unfounded.

### ***View of the Company***

The Company considers Allegation 1 is completely baseless and categorically denies such allegation. As stated in its announcement dated 16 August 2019, the import data relating to the infant milk products of the Company contained in the Company's financial reports are true and are supported by official documents issued by the China Customs.

The Company is of the view that these official documents issued by the China Customs were the most authoritative and credible source for the relevant import statistics, and there is no reasonable doubt that the revenue derived from the estimated import volume of infant milk products was incorrect.

The Company also strongly disagrees with the computation basis of the purported revenue and wishes to highlight that the computation of purported revenue in the Short Seller Reports is biased and misleading. Firstly, instead of applying the actual import value, the computation was merely based on the purported estimated import value, which was derived by the number of shipments of the referred import agents in the Short Seller Reports. Secondly, the purported estimated cost of inventories sold in the PRC was arrived after deducting the Group's increase in inventory level at consolidated level in the relevant period. The Company considers even if the computation is justified, the increase in the Group's inventory level in the PRC should be adopted instead. Thirdly, in arriving at the purported estimated cost of inventories sold in the PRC, other factors such as overhead costs incurred, purchase costs from local importers and value-added costs incurred have been omitted in the Short Seller Reports.

The Company would also like to reiterate that the previously published consolidated financial statements of the Company have been audited by the Company's auditors. As at the date of this announcement, the Company is not aware of any indication or intention of the Company's auditor to modify or withdraw their audit opinions in the Company's previously published financial statements.

**(ii) Allegation 2 – the Group's labour costs**

***Blue Orca's allegation***

It is alleged that the Company has understated its labour and staff costs and that the Company was substantially less profitable than reflected in the Company's consolidated financial statements for the years ended 31 December 2016 and 2017.

Blue Orca referred to the labour costs disclosed in the regulatory filings (the "**Regulatory Filings**") of one of the Company's subsidiaries – Ausnutria B.V. (together with its subsidiaries, the "**Ausnutria B.V. Subsidiaries**") and the note headed "profit before tax" of the Group's annual reports (the "**AR Note(s)**"). It is alleged that while Ausnutria B.V. Subsidiaries accounted for only 40% of the Company's full time employees, the Ausnutria B.V. Subsidiaries accounted for 96% and 94% of the Company's total consolidated salaries, pension, and related labour costs for the two years ended 31 December 2016 and 2017 respectively.

Blue Orca also referred to two isolated PRC litigation cases (the "**Lawsuits**") involving two purported employees (the "**Plaintiffs**") of Globlait Nutrition (Changsha) Co., Ltd ("**Globlait Nutrition**"), being a non-wholly-owned subsidiary of the Company, against a then distributor of Globlait Nutrition (the "**Defendant**"). It is alleged that the Company kept some employees expenses off the Company's records.

## ***Works performed by the Independent Consultant and its key findings***

### *(a) Disclosure difference*

In order to understand the nature of the labour costs disclosed in the Regulatory Filings and the AR Note, the Independent Consultant discussed with the financial controller of the Group (the “**Financial Controller**”), and understood that note “wages, salaries and social security charges” (the “**Regulatory Filing Note**”) in the Regulatory Filings and the AR Notes cover different scopes. In particular, the “wages, salaries and social security charges” disclosed in the Regulatory Filings comprise six items, namely (1) wages and salaries; (2) management fee; (3) pension costs; (4) social security charges; (5) temporary personnel; and (6) other expenses, while the “employee benefit expenses” disclosed in the Group’s annual reports (the “**AR Employee Expenses**”) comprises only three items, namely (1) wages, salaries and staff welfare; (2) equity share option expense; and (3) pension scheme contributions.

To examine whether the items disclosed in the Regulatory Filings Note were reflected in the AR Note, the Independent Consultant further traced the items disclosed in the Regulatory Filing Notes to the AR Notes of the Group’s annual reports for 2016 and 2017. Based on the breakdown of the AR Notes provided by the Financial Controller, the Independent Consultant noted that (1) “wages and salaries” and “management fees” in the Regulatory Filing Note are grouped and referred to as “wages, salaries and staff welfare” in the AR Note; (2) “pension costs” in the Regulatory Filing Note is referred to as “pension scheme contributions” in the AR Note; and (3) “social security charges”, “temporary personnel” and “other expenses” in the Regulatory Filing Note are included in the Groups’ profit and loss accounts but not disclosed in the AR Note. The Independent Consultant considered that the employee-related expenses reported in the Regulatory Filings had been fully included in the compilation of Group’s 2016 and 2017 consolidated profit and loss account.

With the above understanding of the scope of the Regulatory Filing Note and the AR Note, the Independent Consultant performed a like-for-like comparison of these disclosures under the same sub-categories. The Independent Consultant compared the aggregate sum of the items “wages and salaries”, “management fees” and “pension costs” in the Regulatory Filing Note (“**Ausnutria B.V. Employee Expenses**”) with the AR Employee Expenses. The comparison shows that the Ausnutria B.V. Employee Expenses accounted for 57.6% and 52.9% of the AR Employee Expenses in 2016 and 2017, respectively, rather than 96% and 94% as alleged in the Short Seller Reports.

With a view to understanding the methodology for determining the items disclosed in the AR Note, the Independent Consultant discussed with the Financial Controller and was advised that information disclosed in the AR Notes of the Group’s annual report 2016 and 2017 is generally consistent with prior years, unless there are new disclosure requirements. The Independent Consultant further reviewed the AR Notes in the Group’s annual reports from 2010 to 2018, and considered that the employee-related expenses disclosed are generally consistent across the period.

(b) *Reconciliation of profit and loss accounts between the Regulatory Filing and reporting packages for Group consolidation*

To understand the consolidation and financial reporting process of the Group, the Independent Consultant discussed with the Financial Controller and was advised that subsidiaries of the Company would prepare and submit a reporting package based on their management accounts on a quarterly basis.

With the above understanding, in order to examine whether the profit and loss accounts reported for Regulatory Filings were included in the compilation of the Group's 2016 and 2017 consolidated profit and loss accounts, the Independent Consultant obtained the reporting packages of the Ausnutria B.V. Subsidiaries (collectively the "**Reporting Packages**"), which were used for consolidation into the Group's consolidated financial statements for 2016 and 2017. The Independent Consultant performed reconciliation between the Reporting Packages and the profit and loss accounts for 2016 and 2017 as per Regulatory Filings and found that the Ausnutria B.V. Employee Expenses in both 2016 and 2017 had been fully included in the compilation of Group's 2016 and 2017 consolidated profit and loss accounts.

Based on the work performed and the information obtained, the Independent Consultant considered that the profit and loss accounts reported for Regulatory Filings had been fully included in the compilation of Group's 2016 and 2017 consolidated profit and loss accounts.

(c) *The isolated litigation cases*

In order to have a comprehensive understanding on the Lawsuits referred in the Short Seller Reports, the Independent Consultant obtained and reviewed the civil judgements of the first and second trial of the Lawsuits (the "**Judgements**") from the China Judgement Online, being an official platform to obtain court judgements in the PRC.

The Independent Consultant perused the Judgements and had the following observations:–

- In these trials, the two purported employees, being the Plaintiffs, did not (1) allege to be employees of Globlait Nutrition; and (2) seek any compensations from Globlait Nutrition;
- The second trials were initiated by the Plaintiffs as both of them disagreed with the Judgments of the first trials. The Independent Consultant noted from the Judgments of the second trials, both dated 12 March 2019, that the Plaintiffs appealed to seek a ruling confirming their employment relationship with the Defendant, being a then distributor of Globlait Nutrition; and
- In the second trials, the Court ruled that the Defendant had established employment relationships with the Plaintiffs.

In view of the above, the Independent Consultant found that certain facts stated in the Judgements had been omitted in the Short Seller Reports. The Independent Consultant considered that such omissions rendered the allegations in relation to the Lawsuits contained in the Short Seller Reports incomplete.

The Independent Consultant has reviewed the distributorship agreement between Globlait Nutrition and the Defendant which expired on 31 December 2017. The Independent Consultant was advised that the distributorship with the Defendant was not renewed.

The Independent Consultant was advised that Globlait Nutrition has ceased operation since 2018 and is currently undergoing a dissolution of business due to its unsatisfactory financial performance.

During the course of work, the Independent Consultant attempted to meet the Defendant, representatives of Globlait Nutrition and the Plaintiffs. Yet, their attempts were in vain partly due to the fact that Globlait Nutrition has ceased operation and the distributorship has expired. In view of such, the Independent Consultant considered their work to understand the possibility of shifting the employee benefit related expenses to the distributor's payroll, as alleged in the Short Seller Reports, has been limited in the Phase 1 of the Independent Review. As such, the Independent Consultant considered that they were unable to gather relevant factual information to draw conclusion on this allegation.

### ***View of the IRC***

The IRC has reviewed and accepted the key findings by the Independent Consultant on Allegation 2. Based on the findings in the Status Report, the IRC is of the view that (i) the Ausnutria B.V. Subsidiaries financial statements have been fully consolidated into the Group's consolidated financial statements; and (ii) basis of Allegation 2 is not substantiated in view of the deficiencies in the arguments made by Blue Orca in the Short Seller Reports. Accordingly, the allegation of understating labour costs in the Group's consolidated financial statements is unfounded.

### ***View of the Company***

The Company considers Allegation 2 is incorrect and concluded based on incomplete information, and robustly denies such allegation. As stated in its announcement dated 16 August 2019 that the purported understatement in staff costs was mainly due to differences in disclosure of the employees expenses between the consolidated financial statements of the Company and the Ausnutria B.V. Subsidiaries and hence there was only a pure disclosure matter involved.

The Company wishes to highlight that the Lawsuits were isolated cases and the Judgements are misquoted, taken out of context and misunderstood by Blue Orca. Accordingly, the purported understatement of labour costs based on the Lawsuits is resolutely unfounded.

The Company would also like to reiterate that the previously published consolidated financial statements of the Company have been audited by the Company's auditors. As at the date of this announcement, the Company is not aware of any indication or intention of the Company's auditor to modify or withdraw their audit opinions in the Company's previously published financial statements.

## **(iii) Allegation 3 – the acquisition of 40% shareholding interests in 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 the CFO. It is further alleged that the acquisition of the 40% shareholding interests in Nutriunion HK conducted in July 2019 was a sham transaction to unjustly enrich insiders.

## ***Works performed by the Independent Consultant and its key findings***

### ***(a) Trust arrangements***

The Independent Consultant retrieved the corporate records of Nutriunion HK from the Hong Kong Companies Registry and noted that the CFO was the registered sole shareholder of Nutriunion HK at all relevant times from the date of incorporation. The Independent Consultant was also given to understand that there were trust arrangements between the CFO and the then beneficial owners of Nutriunion HK, namely (i) Ausnutria China; (ii) Mr. Zhao Li (“**Mr. Zhao**”) and Mr. Lin Wei (“**Mr. Lin**”); and (iii) Mr. Qu Yunlai (“**Mr. Qu**”) (collectively, the “**Beneficial Owners**”) since the date of incorporation of Nutriunion HK.

In order to understand the trust arrangements, the Independent Consultant obtained and reviewed the deeds of trust all dated 23 May 2016 (being the incorporation date of Nutriunion HK) executed by the CFO and the Beneficial Owners. Pursuant to the deeds of trust, (i) Ausnutria China; (ii) Mr. Zhao and Mr. Lin; and (iii) Mr. Qu, being the beneficiaries of the trust, separately appointed the CFO as trustee to hold 60%, 30% and 10% of the shareholding interests in Nutriunion HK on their behalf.

The Independent Consultant conducted interviews with the Company’s relevant personnel to enquire into the background and rationale of the trust arrangements. In the interviews, the relevant parties confirmed that (i) the CFO was merely a nominee shareholder since the date of incorporation of Nutriunion HK; (ii) the CFO had never been the beneficial owner of any of the shares in Nutriunion HK; and (iii) the trust arrangements were made to streamline the establishment and routine administration of Nutriunion HK through a senior executive’s presence in Hong Kong.

As Blue Orca tried to substantiate its allegation against the Company’s disclosure in relation to Nutriunion HK by referring to Nutriunion HK’s corporate registry filings, the Independent Consultant was advised that the Company consulted its legal advisers in charge of the Company’s acquisition of 40% shareholding interests in Nutriunion HK (the “**Legal Advisers**”) on the relevant reporting requirements. The Company was given to understand that (i) neither Nutriunion HK nor the Beneficial Owners to the trust arrangements are required by the laws of Hong Kong to report the trust arrangements depicted above in Nutriunion HK’s filings with the Hong Kong Companies Registry; (ii) shareholding information contained in Nutriunion HK’s annual returns filed with the Hong Kong Companies Registry conforms with the relevant legal requirements as it is only required to disclose its registered shareholder(s) as at the return date of each such return; (iii) an annual return filed by Nutriunion HK does not reflect beneficial ownership in its shares as at any point of the time, nor does it reflect registered holding of its shares, as at any point of time other than the relevant return date, which is 23 May (being the anniversary of the date of incorporation of Nutriunion HK) of each year; and (iv) no other forms prescribed by the Hong Kong Companies Registry provide a way to reflect any transfer of shares.

The Independent Consultant was further advised that the Company enquired the Legal Advisers on the shareholding registry filing matter, in particular for a Hong Kong private company such as Nutriunion HK, registered shareholding is based on the records in its register of members, which is maintained by the company rather than the Hong Kong Companies Registry, not based on any annual return filed by the company. The Company was given to understand that the register of members is not required to enter any notice of any trust, whether express, implied or constructive.

(b) *Cessation of trust arrangements*

The Independent Consultant was advised that the trust arrangements ceased on 3 July 2019 when the CFO transferred the legal title of the shares back to certain transferees designated by the respective Beneficial Owners for the purpose of facilitating the acquisition of 40% shareholding interests of Nutriunion HK by the Group from Mr. Zhao, Mr. Lin and Mr. Qu.

In respect of the said cessation of trust arrangements, the Independent Consultant was advised that the Company has consulted the Legal Advisers and understood that the trust arrangements ceased automatically when the CFO transferred the shares back to the Beneficial Owners (or their designated transferees).

The Independent Consultant obtained the minutes of a board meeting of Nutriunion HK dated 2 July 2019 to understand the cessation. It is noted that the board of directors of Nutriunion HK approved the transfer of 60%, 30% and 10% of shareholding interests of Nutriunion HK held by the CFO to the three transferees, which were set up by the Beneficial Owners, namely Superior Winner Investment Limited (“**Superior Winner**”), Marvel Champion Asia Limited (“**Marvel Champion**”) and Prime Marvel Holdings Limited (“**Prime Marvel**”) respectively (the “**Designated Transferees**”).

In order to prove the execution of the cessation, the Independent Consultant further obtained and reviewed the bought and sold notes that were prepared by the Legal Advisers dated 3 July 2019 pertaining to the share transferred from the CFO to the Designated Transferees (the “**Bought and Sold Notes**”). The Independent Consultant noted that relevant stamp duty charges were paid to the Inland Revenue Department of Hong Kong on 3 July 2019. The Independent Consultant inspected the shareholder register and the original share certificates of Nutriunion HK and confirmed that the shareholding structure was updated accordingly.

Based on the above, the Independent Consultant was advised that the trust arrangement was terminated following the completion of the aforementioned transfer on 3 July 2019, and the CFO is no longer the trustee holding the entire shareholding interests of Nutriunion HK accordingly.

(c) *Transfer of 40% shareholding interests in Nutriunion HK*

In addition to the review of the Bought and Sold Notes and inspection of shareholder register and the original share certificates, the Independent Consultant reviewed the certificates of incumbency of the Designated Transferees, which show that (i) Superior Winner, a company incorporated under the laws of the British Virgin Islands (“**BVI**”) with limited liability, is an indirect wholly-owned subsidiary of the Company; (ii) Marvel Champion, a company incorporated under the laws of the BVI with limited liability, is beneficially owned as to 44.0%, 29.0% and 27.0% by Mr. Zhao, Mr. Lin and three individuals respectively; and (iii) Prime Marvel, a company incorporated under the laws of the BVI with limited liability, is beneficially wholly-owned by Mr. Qu. Such records show that the transfer of 40% shareholding interests in Nutriunion HK beneficially held by Mr. Zhao, Mr. Lin and Mr. Qu to the respective designated transferees was completed on 3 July 2019.

The Independent Consultant understands from official website of the Hong Kong Companies Registry in relation to the filing for shareholder changes. Nutriunion HK is expected to reflect the shareholding changes to the Hong Kong Companies Registry in its annual return made up to the next anniversary of its date of incorporation, i.e. 23 May 2020. As such, and in view of the matters as mentioned in section

headed “(a) Trust arrangements” above, the Independent Consultant was given to understand that Nutriunion HK is not in a position to update the Hong Kong Companies Registry of its shareholding changes until the filing of its next annual return.

In summary, the Independent Consultant considered that (i) the CFO was merely a nominee shareholder of Nutriunion HK under the trust arrangements; and (ii) the ownership of the shares had been returned to the Beneficial Owners prior to the Company’s acquisition of the 40% shareholding interests. Therefore, based on the work performed and information obtained, the Independent Consultant has not identified any direct evidence indicating that the Company’s acquisition of the 40% shareholding interests in Nutriunion HK was a sham transaction. Accordingly, Allegation 3 is not substantiated.

### ***View of the IRC***

The IRC has reviewed and accepted the key findings by the Independent Consultant on Allegation 3. Based on the findings in the Status Report, the IRC considers Allegation 3 is not substantiated and completely baseless.

### ***View of the Company***

The Company considers Allegation 3 is completely baseless and vigorously denies such allegation. As stated in its announcement dated 16 August 2019 that the CFO was merely a nominee shareholder appointed by the Company and the vendor of the 40% shareholding interests in Nutriunion HK and had never been the beneficial owner of any of the shares in Nutriunion HK held by him.

The Company is of the view that its announcement dated 8 July 2019 in relation to, among others, the acquisition of the remaining 40% shareholding interests in Nutriunion HK, 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.

The IRC is considering the additional procedures suggested by the Independent Consultant in the Status Report and will assess whether they are required. As at the date of this announcement, Phase 2 of the Independent Review has commenced. The IRC will further review the findings of the Independent Review upon completion of Phase 2 and accordingly make recommendations, if any, to the Board on appropriate actions to be taken.

Further announcement(s) will be made by the Company to update the Shareholders and potential investors the progress and findings of Phase 2 of the Independent Review in due course.

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

The PRC, 16 September 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.*