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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)**

### **KEY FINDINGS OF THE PHASE 2 INDEPENDENT REVIEW**

The Company is pleased to announce that Phase 2 of the Independent Review has been completed and the Independent Consultant has issued the Final Report on 28 October 2019.

Based on the work performed and information obtained up to the date of the Final Report, below are the key findings of the Independent Consultant for the remaining Allegations which have not been covered in the Status Report:

#### **ALLEGATION 4**

- None of the Group's Marketing Statements reviewed by the Independent Consultant contradicted with any of the key statements made in the Research Documents.
- The Independent Consultant noted from the PRC Legal Opinion, the US Legal Opinion and the EU Legal Opinion that the legal advisers opined the labeling of *Kabrita's* products has complied with the disclosure requirements under the relevant rules and regulations in each respective jurisdictions.
- The Independent Consultant considers the incidents leading to mis-descriptions of *Kabrita's* products have been rectified.
- The Independent Consultant considers that these incidents did not appear to be intentional nor mean to deceive or mislead customers.

#### **ALLEGATION 5**

- The Independent Consultant has not identified any evidence supporting Blue Orca's claim that the Named Distributors were "secretly" controlled by current or former executive of the Group.
- The Independent Consultant noted that Mr. Dai was not the former CFO implicated in the corporate scandal referred to in the Short Seller Reports.

- The Independent Consultant noted that among over 2,000 distributors of the Group, the aggregated transaction amount for the Relevant Distributors accounted for less than 5% of the Group's total revenue for each of the Relevant Periods.
- The Independent Consultant noted that the IRC has enquired the Company's Advisers to assess the possible disclosure requirements in relation to the Company's transactions with the Named Persons and the Relevant Distributors. After taking into consideration of relevant facts and relationships the Independent Consultant presented to the IRC, the Company's Advisers are of the view that the Company's transactions with the Named Persons and the Relevant Distributors for the Relevant Periods are either not subject to or fully exempted from the connected transaction disclosure requirements under the Listing Rules.

#### **ALLEGATION 6**

- The Independent Consultant noted that the Updated ESG data was reproduced with the assistance of the ESG Consultant, and the Recompilation Differences were noted when compared with the data published in the ESG Reports during the self-review and recompilation process conducted by the Company.
- The Independent Consultant understood the Recompilation Differences were mainly due to misunderstanding of environmental performance units and unintentional human errors, but found no evidence indicating that the total revenue of the Group was overstated.
- The Independent Consultant noted that, based on the Updated ESG Data, the Group's consumption of packaging materials, energy and water is generally consistent with the trend of its total revenue and production volume for the years ended 31 December 2016, 2017 and 2018.

#### **OVERALL VIEWS OF THE IRC**

The IRC has reviewed and accepted the key findings of the Independent Consultant in the Independent Review Reports. The IRC considers all the Allegations are unfounded and not substantiated.

The IRC noted from the Independent Review that there are certain areas for improvements including (i) the preparation of marketing information; (ii) the collaboration with its distributors; and (iii) the preparation of ESG Reports. Notwithstanding such shortcomings, the IRC noted that the Company has duly taken initiative to address the matters concerned. The IRC considers the shortcomings which led to the Allegations are unintentional incidents and do not mean to deceive or mislead customers, and the IRC has made recommendations to the Board to prevent the reoccurrence of the matters concerned.

References are made to the Company's announcements dated 15 August 2019, 16 August 2019, 19 August 2019 and 16 September 2019 (collectively, the "**Announcements**"). Unless otherwise defined, terms used herein shall have the same respective meanings as those defined in the Announcements.

## SUMMARY OF KEY FINDINGS OF PHASE 2 INDEPENDENT REVIEW

The Company is pleased to announce that Phase 2 of the Independent Review has been completed and the Independent Consultant has submitted a final report for the remaining Allegations, which have not been covered in the Status Report (the “**Final Report**”, together with the Status Report dated 12 September 2019, the “**Independent Review Reports**”) to the IRC on 28 October 2019, and the IRC has subsequently reported the same to the Board. A summary of the key findings of Phase 2 of the Independent Review is as follows:

### (i) Allegation 4 – the marketing information on the Group’s goat milk infant formula

#### *Blue Orca’s allegation*

It is alleged that the marketing information of the Group’s goat milk infant formula given to Chinese consumers was misleading and inconsistent with the warnings and disclosures given to European and American consumers. In particular, Blue Orca cited information disclosed (a) on the *Kabrita*’s official website in the PRC (the “**Kabrita Website**”); (b) on the European and American websites of *Kabrita*; and (c) in e-commerce stores regarding the ingredients of the Group’s *Kabrita* products.

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

##### (a) *Efficacies of goat milk infant formula*

With a view to understand Blue Orca’s allegation, the Independent Consultant browsed the *Kabrita* Website and the European and American websites of *Kabrita*, and discussed with the personnel of the marketing department of the Company who expressed that the four main marketing statements for *Kabrita*’s goat milk infant formula include: (i) it contains 100% pure goat milk protein; (ii) it is easier to be digested than cow milk formula; (iii) it contains much lower level of alphas1-Casein (being a kind of proteins commonly found in mammalian milk which was proven to be the main source of allergy for infants) than cow milk; and (iv) it has lower allergic reactions than cow milk formula (collectively, the “**Group’s Marketing Statements**”).

To understand the basis of the Group’s Marketing Statements, the Independent Consultant obtained (i) the report in relation to clinical trials in relation to effects of formulas with different animal sources on allergies, immunity and absorption of infants conducted by Peking University (the “**Clinical Report**”); (ii) the scientific research summary with reference to 14 public scientific researches in relation to the benefits of goat milk provided by Dr. Alfred Haandrikman, the Group’s global chief scientific officer (the “**Research Summary**”); and (iii) the opinion letters from Mr. Song Kungang (宋昆岡), the China Nutrition and Health Food Association (中國營養保健食品協會) (the “**CNHFA**”) and China Dairy Industry Association (中國乳製品工業協會) (the “**CDIA**”) dated 16 September 2019, 6 October 2019 and 8 October 2019 respectively (the “**Opinion Letters**”) (collectively, the “**Research Documents**”).

The Independent Consultant summarised the key statements made in the Research Documents, including (i) the infant formula milk is designed to simulate the nutrient composition of human milk, therefore infant formulas with cow or goat milk must adjust their protein structure and increase the lactose content; (ii) lactose is merely a kind of carbohydrate and an energy source, but not a protein, and it is identical in both functional and molecular terms regardless of its source; (iii) alphas1-Casein, an allergenic protein, was proven to be a source of allergy for infants in cow milk; (iv) goat milk contains much lower level of alphas1-Casein than cow milk; and (v) goat milk is easier to digest when compared with cow milk. Having reviewed the Group's Marketing Statements and the Research Documents, the Independent Consultant considers that none of the Group's Marketing Statements contradicted with any of the key statements made in the Research Documents.

The Independent Consultant read the qualifications of both Dr. Alfred Haandrikman and Mr. Song Kungang, and learnt that they are experienced market practitioners in dairy industry. The Independent Consultant also read the background of the CNHFA and the CDIA, and was advised that both are authoritative organisations in the dairy-related industry in the PRC.

(b) *Disclosure of marketing information*

*Disclosure requirements under relevant rules and regulations*

The Independent Consultant was advised that the Company considered the PRC, the United States (the "US") and the European Union (the "EU") as principal markets of *Kabrita's* goat milk formula products. The Independent Consultant was further advised that the alleged differences in marketing information arose from the different disclosure requirements in different jurisdictions, including the PRC, the US and the EU. As such, the IRC has instructed the Company to obtain legal opinions on the disclosure requirement matters in relation to the dairy products from legal advisers in the PRC (the "**PRC Legal Opinion**"), the US (the "**US Legal Opinion**") and the EU (the "**EU Legal Opinion**") respectively, with a view to considering whether *Kabrita's* products comply with the disclosure requirements in their respective jurisdictions.

The Independent Consultant read the PRC Legal Opinion and noted that, pursuant to the PRC Legal Opinion, *Kabrita* goat milk formulas has fully complied with the rules and regulations under the Food Safety Law of the PRC and the Administrative Measures. The Independent Consultant further noted that, pursuant to the PRC Legal Opinion, the "*Administrative Measures for Product Formula Registration of Infants and Young Children Formula Milk Powder*" (《嬰幼兒配方乳粉產品配方註冊管理辦法》) (the "**Administrative Measures**") and the "*Items and Requirements of Application Materials for Registration of Infants and Young Children Milk Powder Formula Recipes (Trial) (2017 Revised Edition)*" (《嬰幼兒配方乳粉產品配方註冊申請材料項目與要求(試行)(2017修訂版)》) published by the National Medical Products Administration (國家藥品監督管理局) (the "**NMPA**", formerly known as China Food and Drug Administration) respectively on 6 June 2016 and 25 May 2017 both stated that "where the product name indicates it is originated from animals, the animal origin of dairy raw materials used, including raw milk, milk powder, and whey (protein) powder, shall be indicated in the list of ingredients based on product formula", while neither of the regulations requires the milk products to indicate the animal source of lactose. In addition, pursuant to the frequently asked question titled "*What percentage of goat dairy product raw materials (such as raw milk, milk powder, whey (protein) powder, etc.) should be used in the product formula to be marked as goat milk powder in the product name? Is the animal source of lactose required to be disclosed?*" (《羊來源的生乳、乳粉、乳清(蛋白)粉等乳製品原料在產品配方中所佔比例應達到多少才能在產品名稱中標註為羊奶粉? 乳糖是否需要標註動物性來源?》) published on 10 October 2017 by the Center for Food Evaluation of the State Administration for Market Regulation (國家市場監督管理總局) (the "**SAMR**") (國家市場監督管理總局食品審評中心), it is clearly stated that the animal source of the raw milk and milk powder in a goat milk formula should be 100% from goat, and the proportion of various animal sources of its whey (protein) powder should be clearly indicated, while the animal source of lactose is not required to be disclosed.

Further, pursuant to the PRC Legal Opinion, the Group has obtained the registration certificates for *Kabrita* goat milk formulas (the “**Registration Certificates**”) from the NMPA and the SAMR during the period from November 2017 to March 2019. Pursuant to the PRC Legal Opinion, it is confirmed in the Registration Certificates that *Kabrita* goat milk formulas has complied with the relevant rules and regulations under the Food Safety Law of the PRC and the Administrative Measures.

The Independent Consultant further read the US Legal Opinion and the EU Legal Opinion. Pursuant to the US Legal Opinion, both goat milk and lactose have long been recognised as safe ingredients in food because they have an exceptionally long history of safe consumption by people of all ages, and the regulations in the US do not require identification of the sources of lactose other than describing it “the carbohydrate normally obtained from whey”. Therefore, so long as the ingredient meets the standard of identity, it may be referred to as lactose. Further, the Independent Consultant noted from the legal opinions that there is no regulation in both the US and the EU stipulating that the source of the lactose should be disclosed and/or labeled and hence there is no regulatory obligation to identify the source of the lactose as part of the ingredient list on the food label. Accordingly, it is concluded in both the US Legal Opinion and the EU Legal Opinion that the inclusion of goat milk and lactose in the Group’s goat milk formulas and the labelling of such products complied with the disclosure requirements under the relevant rules and regulations in the US and the EU.

#### Disclosures on *Kabrita* Website

The Independent Consultant was advised by the marketing personnel (the “**Marketing Personnel**”) of Hyproca Nutrition Co. Ltd. (being the Company’s subsidiary responsible for the marketing and sales of goat milk infant formula of *Kabrita* in the PRC) (“**HNC**”) that prior to 1 August 2019, any users of the *Kabrita* Website could leave their comments, and the comments would be displayed on the *Kabrita* Website without any pre-screening (the “**IT Deficiency**”).

With a view to obtain an understanding on the information displayed on *Kabrita* Website, the Independent Consultant checked the backend system of *Kabrita* Website with the assistance of the Marketing Personnel and noted that among the five posts quoted in the Short Seller Reports, (i) two posts are categorised under “Trial Activity Feedback”(the “**Feedback Posts**”); (ii) two posts are categorised under “Goat Milk Feeding Knowledge”(the “**Feeding Knowledge Posts**”); and (iii) the remaining one is no longer in existence. The Independent Consultant was advised by the Company that the commentaries alleged were not made by the personnel of the Group, in particular, the Feedback Posts are the feedbacks left by customers who signed up for a trial of the Group’s products, which were directly quoted on *Kabrita* Website, while the Feeding Knowledge Posts were internet sources.

The Independent Consultant was further advised that the *Kabrita* Website has been revamped and the individual users’ commenting function has been disabled since 1 August 2019. Besides, to enhance the quality of information to be made available to users of the *Kabrita* Website, all future corporate statements to be posted on *Kabrita* Website are required to be screened by relevant departments of the Group and HNC. In view of this, the Independent Consultant tested the revamped website and confirmed that no public comments can be made on the *Kabrita* Website and no IT Deficiency was observed. Accordingly, the Independent Consultant considers the IT Deficiency has been rectified.

(c) *Product descriptions in e-commerce stores*

In order to understand the labels of *Kabrita*'s goat milk infant formula products as alleged in the Short Seller Reports, the Independent Consultant interviewed the general manager and the department head of e-commerce of HNC (the "**HNC Management**") and was advised that there are three versions of *Kabrita* products sold in the PRC, including: (i) a pan-European version with labels in English; (ii) a bilingual version with labels in both Dutch and French; and (iii) a bilingual version with labels in both Chinese and English. The Independent Consultant was advised that as the label on the physical product of the pan-European version is in English; and the Dutch and French version is in Dutch and French, the labels for these versions were translated into Chinese for visual online labels in e-commerce stores for Chinese customers' reference, and the ingredient "lactose (milk)" on English labels or "lactose (melk)" in Dutch or "lactose (lait)" in French was mistakenly translated as "乳糖(羊奶)" (lactose (goat milk)) in Chinese instead of "乳糖(奶)" (lactose (milk)) for the pan-European and Dutch and French versions sold in *Kabrita*'s e-commerce stores (the "**Translation Error**"). As advised by the HNC Management, the Translation Error has been rectified since the release of the first Short Seller Report and the HNC management had since imposed more stringent measures to monitor the online products information. Having reviewed all 14 official e-commerce stores (including nine e-commerce stores referred in the Short Seller Reports) selling *Kabrita* products, the Independent Consultant had not noticed any further Translation Error and accordingly the Translation Error has been rectified.

The Independent Consultant was advised that packaging of infant formulas products can only be launched to the market upon relevant approvals obtained from the SAMR, therefore the Group only arranges mass production of the packaging materials after obtaining approvals from the SAMR. To confirm whether the Translation Error exists on the physical products, the Independent Consultant further obtained the electronic copies of the approved packaging via the infant formula products formula registration application online system (嬰幼兒配方乳粉產品配方註冊申請系統) of the SAMR (the "**Approved Packaging**") and no Translation Error was observed. The Independent Consultant inspected all Registration Certificates and the corresponding Approved Packaging, and noted that the labels on the Approved Packaging and the Registration Certificates are consistent with each other, both without any disclosure on the animal source of lactose.

To address the issue in relation to the inaccurate claims on the source of lactose made by the customer representatives of e-commerce stores (the "**Customer Representatives' Misunderstanding**"), the Independent Consultant was advised by the HNC Management that mandatory trainings in relation to product knowledge (including but not limited to the source of ingredients such as lactose) have been attended by customer representatives in August and September 2019. The Independent Consultant has obtained and reviewed the training attendance record and training materials. Without prior notice to the Company, the Independent Consultant has randomly selected 14 customer representatives of e-commerce stores and enquired them on their knowledge on source of lactose, none of them made incorrect claims. Accordingly, the Independent Consultant considers that the Customer Representatives' Misunderstanding has been rectified.

Based on the work performed and the information obtained, the Independent Consultant noted that the legal advisers in the PRC, the US and the EU engaged by the Company opined the labeling of *Kabrita*'s goat milk formulas products complies with the disclosure requirements under relevant rules and regulations in the principal markets of the *Kabrita* products. The Independent Consultant has not observed the reoccurrence of the incidents leading to mis-descriptions of *Kabrita*'s products, namely IT Deficiency on the *Kabrita* Website, the Translation Error in e-commerce stores and the Customer Representatives' Misunderstanding, and accordingly considers the aforementioned incidents have been rectified. Furthermore, the Independent Consultant considers such incidents did not appear to be intentional nor mean to deceive or mislead customers.

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

The IRC has reviewed and accepted the key findings by the Independent Consultant on Allegation 4.

Further, Mr. Jason Wan, being a member of the IRC and an independent non-executive Director of the Company, is an expert who has extensive knowledge and expertise in the area of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products. Having reviewed the Research Summary and the Opinion Letters, Mr. Jason Wan considers that the Research Summary and the Opinion Letters support the Group's Marketing Statements.

Based on the findings in the Independent Review Report, the IRC considers the allegation that the Group's purported exaggeration of the efficacies of its product to mislead Chinese consumers is not substantiated and is deduced based on incomplete information. The IRC also considers the IT Deficiency on the *Kabrita* Website, the Translation Error in e-commerce stores and the Customer Representatives' Misunderstanding have been duly addressed.

The IRC also noted that the perceived inconsistency in certain marketing information in different jurisdictions may cause confusion or misunderstanding to potential customers on the efficacies of the Group's products. In view of the above, the IRC has provided recommendations to the Board to ensure the accuracy and consistency in relevant marketing information, details of which are set out in the section "Recommendations from the IRC" in this announcement.

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

The Company would like to emphasise that the alleged misleading marketing information was purely caused by the differences in disclosure requirements in different jurisdictions, the IT Deficiency, the Translation Error and the Customer Representatives' Misunderstanding, which do not have a material impact on the description of *Kabrita*'s goat infant formula products. The Company considers this reputation damaging Allegation is incorrect and is concluded based on incomplete information.

The Group is dedicated to improving its product quality and safety and ensures it complies with the relevant laws and regulations. Complemented by high manufacturing standards to ensure product safety as well as strong research and development capability to deliver premium quality, all products of the Group comply with the stringent regulatory requirements and pass all related quality control tests.

In addition, the Group's Marketing Statements are backed by sufficient scientific researches and buttressed by industry experts. The Company considers the Group's Marketing Statements fairly present the efficacies of *Kabrita's* goat infant formula products. Contents of these marketing materials are subject to a set of strict internal review procedures whereby designated and experienced staff members in sales and marketing review and ensure that the marketing materials comply with applicable laws and regulations governing advertising and labeling enacted by the relevant government authorities, before the marketing materials are to be officially used.

The Group also recognises the importance of compliance with the relevant regulatory requirements. The Company is of the view that the alleged differences in marketing information arose from the different disclosure regulatory requirements in different jurisdictions to cater diverse market needs in different regions. The regulations on food safety, in particular on infant formulas, have tightened significantly in the PRC over the past decade. The PRC government has implemented broader and more stringent food safety regulations, covering from manufacturing, registration, to advertising of infant formulas. The Group has always been adhering strictly to the ever-changing rules and regulations in the jurisdictions where it operates.

Regarding the incidents leading to mis-descriptions of *Kabrita's* products, namely the IT Deficiency, the Translation Error and the Customer Representatives' Misunderstanding, the Company has immediately taken rectifications to prevent the reoccurrence of similar incidents. The Company strives to enhance its internal control systems in monitoring marketing materials and strengthen the product knowledge of its customer representatives through continuous training.

The Group has been meticulously monitoring the product supply management, safety and quality control, and customer service quality so as to ensure that its products are always up to the highest level in terms of safety and quality.

**(ii) Allegation 5 – the alleged undisclosed related party transactions**

***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 former executives.

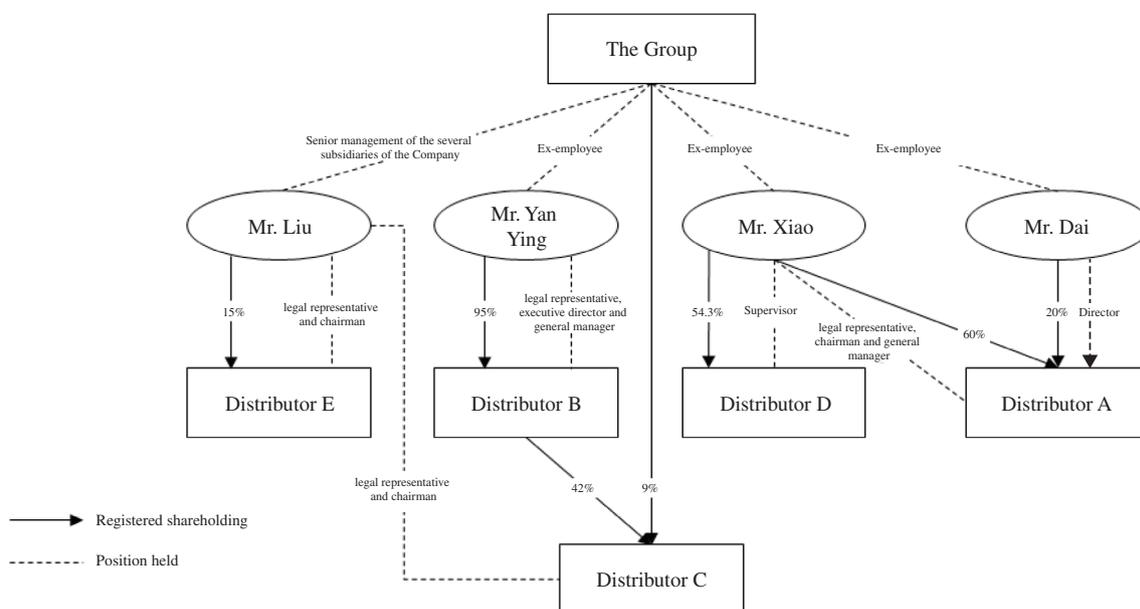
## Works performed by the Independent Consultant and its key findings

### (a) Relationships between the Group and each of the purported related distributors

To understand the alleged relationships between the Group and each of the three named distributors, namely Mygood Dairy (Hunan) Co., Ltd.\* (美優高乳業(湖南)有限公司) (“**Distributor A**”), Hunan Aolian Hemei Foods Co. Ltd.\* (湖南澳聯和美食品有限公司) (“**Distributor B**”), and Guiyang Milk Supply Co., Ltd.\* (貴陽市奶品供應有限公司) (“**Distributor C**”) (collectively, the “**Named Distributors**”), which are allegedly controlled by the four named current or former executives of the Group, including Mr. Xiao Shihu (肖詩弧) (“**Mr. Xiao**”), Mr. Dai Lianyu (戴聯宇) (“**Mr. Dai**”), Mr. Yan Ying (顏穎) and Mr. Liu Yuehui (劉躍輝) (“**Mr. Liu**”) (collectively, the “**Named Persons**”), the Independent Consultant performed the following procedures:

- conducted interviews with the Named Persons and the relevant personnel of the Group;
- performed background, litigation and media searches on the Named Persons, the Named Distributors and two additional relevant distributors, namely Distributor D and Distributor E (together with the Named Distributors, the “**Relevant Distributors**”);
- obtained and reviewed the articles of associations of the Named Distributors, which has been filed to the State Administration for Industry and Commerce;
- obtained and reviewed the available employment contracts, profiles and payroll records of the Named Persons during their period of employment with the Group;
- obtained and reviewed the respective distribution agreements entered into by the Group with each of the Relevant Distributors; and
- checked the respective transaction amounts of each of the Relevant Distributors for the years ended 31 December 2016 and 2017 (the “**Relevant Periods**”) with the Group’s internal information management system.

Based on the above procedures performed, the Independent Consultant summarised the relationships of the Group with the Named Persons and the Relevant Distributors as follows:



Set out below shows the detailed relationship among the Group, the Named Persons and the Relevant Distributors:

Named Persons	Relationship with the Group	Relationship with the Relevant Distributors
<b>Mr. Xiao</b>	<ul style="list-style-type: none"> <li>Ex-employee who resigned in April 2013 with the last position held as senior executive in charge of <i>Allnutria</i> (能力多) in the marketing department of Ausnutria China</li> </ul>	<p><b>Distributor A</b></p> <ul style="list-style-type: none"> <li>Legal representative, chairman and general manager</li> <li>Registered holder of 60% ordinary shares (according to the Articles of Association of Distributor A)</li> </ul> <p><b>Distributor D</b></p> <ul style="list-style-type: none"> <li>Supervisor</li> <li>Registered holder of 54.3% ordinary shares</li> </ul>
<b>Mr. Dai</b>	<ul style="list-style-type: none"> <li>Ex-employee who resigned in June 2013 with last position held as vice president of Ausnutria China</li> </ul>	<p><b>Distributor A</b></p> <ul style="list-style-type: none"> <li>Registered holder of 20% ordinary shares (according to the Articles of Association of Distributor A)</li> </ul>
<b>Mr. Yan Ying</b>	<ul style="list-style-type: none"> <li>Ex-employee who resigned in January 2017 with last position held as staff of key account department of Ausnutria China</li> </ul>	<p><b>Distributor B</b></p> <ul style="list-style-type: none"> <li>Legal representative, executive director and general manager</li> <li>Registered holder of 95% ordinary shares</li> </ul>
<b>Mr. Liu</b>	<ul style="list-style-type: none"> <li>Chief supervisor of certain subsidiaries of the Group in the PRC, party secretary, and chairman of the labor union of the Group in the PRC business</li> </ul>	<p><b>Distributor C</b></p> <ul style="list-style-type: none"> <li>Legal representative and chairman</li> </ul> <p><b>Distributor E</b></p> <ul style="list-style-type: none"> <li>Legal representative and chairman</li> <li>Registered holder of 15% ordinary shares</li> </ul>

The Independent Consultant was advised that since the cessation of employment with the Group, each of Mr. Xiao, Mr. Dai and Mr. Yan Ying did not intervene in or control/influence the Group's business operations nor did they receive any remuneration from the Group.

<b>Relevant Distributors</b>	<b>Relationship with the Group</b>	<b>Relationship with the Named Persons/ other Relevant Distributors</b>
<b>Distributor A</b>	<ul style="list-style-type: none"> <li>• One of the two distributors for <i>Mygood</i> brand products</li> <li>• An investee of Ausnutria China via issuance of preference shares with nominal value of RMB1.5 million</li> </ul>	<p><b>Mr. Xiao</b></p> <ul style="list-style-type: none"> <li>• Legal representative, chairman and general manager</li> <li>• Registered holder of 60% ordinary shares (according to the Articles of Association of Distributor A)</li> </ul> <p><b>Mr. Dai</b></p> <ul style="list-style-type: none"> <li>• Director</li> <li>• Registered holder of 20% ordinary shares (according to the Articles of Association of Distributor A)</li> </ul>
<b>Distributor B</b>	<ul style="list-style-type: none"> <li>• The sole distributor of adult formula products under <i>Hollisure</i> brand products</li> </ul>	<p><b>Mr. Yan Ying</b></p> <ul style="list-style-type: none"> <li>• Legal representative, executive director and general manager</li> <li>• Registered holder of 95% ordinary shares</li> </ul> <p><b>Distributor C</b></p> <ul style="list-style-type: none"> <li>• Owned by Distributor B as to 42%</li> </ul>
<b>Distributor C</b>	<ul style="list-style-type: none"> <li>• One of the distributors for <i>Kabrita</i>, <i>Puredo</i> and <i>Allnutria</i> products in Guizhou Province, the PRC</li> <li>• Ausnutria China is the registered holder of 9% ordinary shares</li> </ul>	<p><b>Mr. Liu</b></p> <ul style="list-style-type: none"> <li>• Legal representative and chairman</li> </ul> <p><b>Distributor B</b></p> <ul style="list-style-type: none"> <li>• Registered holder of 42% ordinary shares of Distributor C.</li> </ul>
<b>Distributor D</b>	<ul style="list-style-type: none"> <li>• One of the two distributors for <i>Mygood</i> brand products</li> </ul>	<p><b>Mr. Xiao</b></p> <ul style="list-style-type: none"> <li>• Supervisor</li> <li>• Registered holder of 54.3% ordinary shares</li> </ul>
<b>Distributor E</b> <i>(Notes 1 &amp; 2)</i>	<ul style="list-style-type: none"> <li>• One of the distributors for <i>Kabrita</i>, <i>Puredo</i> and <i>Allnutria</i> products in Guizhou Province, the PRC</li> <li>• Previously owned by Ausnutria China as to 20% until February 2018</li> </ul>	<p><b>Mr. Liu</b></p> <ul style="list-style-type: none"> <li>• Legal representative and chairman</li> <li>• Registered holder of 15% ordinary shares</li> </ul>

*Notes:*

1. Distributor E consists of same management team as Distributor C.
2. The Independent Consultant was advised by the Chairman (as defined below) and the CFO that Ausnutria China has exited its investment in Distributor E in February 2018. However, the shareholding registration records of Distributor E, which currently shows that Distributor E is owned by Ausnutria China as to 20%, have not been updated to reflect such divestment.

The Independent Consultant was advised by the Company that, notwithstanding the distributorships and shareholdings in certain Relevant Distributors, the Group had never intervened in or controlled/influenced the business operation of the Named Distributors.

The Independent Consultant also noted that the Group has more than 2,000 distributors and the aggregated transaction amount for the Relevant Distributors accounted for less than 5% of the Group's total revenue for each of the Relevant Periods.

The Independent Consultant understood that the Company has performed assessments on the relationships of the Group with its business partners and distributors, which includes the Named Persons and the Relevant Distributors from time to time. The IRC has also enquired the Company's financial adviser and legal adviser (collectively, the "**Company's Advisers**") to assess the possible disclosure requirements in relation to the Company's transactions with the Named Persons and the Relevant Distributors. Notwithstanding the business connection with the Named Persons and the Relevant Distributors, after taking into consideration of relevant facts and relationships the Independent Consultant presented to the IRC, the Company's Advisers are of the view that the Company's transactions with the Named Persons and the Relevant Distributors for the Relevant Periods are either not subject to or fully exempted from the connected transaction disclosure requirements under the Listing Rules.

Further, the Independent Consultant understood that the IRC has performed assessment on the relationship between the Group and each of the Named Persons and the Relevant Distributors under *International Accounting Standard 24 – Related Party Disclosure* ("**IAS 24**"). Having reviewed (i) the relevant facts as set out in the Final Report; (ii) disclosures in the Company's previously published financial statements; and (iii) the fact that the IRC 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, the IRC, after their consideration of collective facts of all relative matters and their implications, is of the view that the Named Persons or the Relevant Distributors are either not considered to be a related party (within the meanings specified in IAS 24) or not required to be disclosed under the relevant accounting standard given the insignificant influence and transaction amounts between the Company and these distributors.

*(b) Other matters mentioned in the Short Seller Reports*

*Nominal position of an ex-employee*

The Independent Consultant was advised that Mr. Xiao was allowed to use the title as the vice president of Ausnutria China since the cessation of employment with the Group, to facilitate his distribution business, and hence develop the business of the Group's brand "Mygood". The Independent Consultant was advised that Mr. Xiao did not intervene or control/influence the Group's business operations with his nominal position. The Independent Consultant was also advised by the Company that the Group has verbally requested Mr. Xiao to cease the relevant practice to minimise any mis-conceptions to customers since the release of the Short Seller Reports.

### Shareholding of Ausnutria China in Distributor A

According to the public records, Distributor A is owned by Ausnutria China as to 30%. However, according to the articles of associations of Distributor A, the shares held by Ausnutria China are preference shares, which (i) shall be entitled to 10% fixed annual dividend; and (ii) do not carry voting rights, election rights, right to be elected nor right to operate.

The Independent Consultant was advised by the CFO that the investment in Distributor A was meant to facilitate its business development and Ausnutria China and that the Company (i) has yet injected the concerned capital into Distributor A to date; (ii) has not received any dividend from Distributor A; and (iii) has never been involved in the business operation of Distributor A.

### Use of corporate name by distributors

Blue Orca tried to substantiate its allegation against the Company's undisclosed related party distributors by referring to the usage of corporate email by the distributors. With a view to understand the distributors' usage of email address with the same domain as the Group, the Independent Consultant enquired the relevant personnel in charge of the Group's email system, the COO, and Mr. Yan Weibin (the chairman of the Company) (the "**Chairman**"), and was advised that the Named Persons each maintains an email account with domain names "@ausnutria" or "@myougood" in the Group's email system, and Distributor B and Distributor A were allowed to use Ausnutria China's email system to facilitate their business development and help them promote Ausnutria brands in the market. However, as advised by the COO and the Chairman, notwithstanding the foregoing, the Group had never intervened in or controlled/influenced the business operation of the Named Distributors, and the Company decided to cease the relevant practice to minimise any mis-conceptions to customers since the release of the Short Seller Reports.

### Allegations in relation to Mr. Dai

Blue Orca also alleged Mr. Dai appeared to be involved in the wrongdoings which led to the suspension of the Company's shares for two years until 2014. To understand Mr. Dai's involvement in the referred corporate scandal in the Short Seller Reports, the Independent Consultant obtained a document titled "Report on Accounting Matters"\* (關於會計問題的報告) issued by Ausnutria China and addressed to Hunan Provincial Finance Bureau\* (湖南省財政廳) dated 12 April 2013, it was noted that the reported person who instructed and arranged fabrication of financial records in 2011 was a former senior management of the Group instead of Mr. Dai. In addition, based on the discussion with Mr. Dai and the information disclosed in the Company's annual report 2011, Mr. Dai was the chief financial officer of Ausnutria China between February 2006 and December 2010, and he subsequently transferred to another business unit as vice president until he left the Group in 2013. Further, based on the interviews conducted by the Independent Consultant, the Independent Consultant was advised that the resignation of Mr. Dai from his position with Ausnutria China in 2013 were completely unrelated to the purported involvement in irregularities. Accordingly, the Independent Consultant concluded that Mr. Dai was not the former CFO implicated in the corporate scandal referred to in the Short Seller Reports.

Based on the work performed and the information obtained, the Independent Consultant could not find any evidence supporting Blue Orca's claim that the Named Distributors and the Named Persons were "secretly" controlled by current or former executive of the Company.

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

The IRC has reviewed and accepted the key findings by the Independent Consultant on Allegation 5.

The IRC is of the view that assessment on the connectedness and related parties relationship should be based on collective facts of all relative matters and their implication under relevant rules and standards, rather than piecemeal information available.

Having considered all factual information gathered by the Independent Consultant and opinions obtained from the Company's Advisers, nothing has come to the IRC's attention which indicated that any transactions between the Group and the Relevant Distributors were required to be disclosed under the Listing Rules or relevant accounting standards. Accordingly, Allegation 5 is not substantiated.

The IRC also noted that, notwithstanding the good-faith intentions to facilitate promotion of the Group's businesses, some representations made by the Named Persons and the Relevant Distributors, and the sharing of certain corporate resources with the Relevant Distributors, may cause mis-conceptions to potential customers that the Named Persons (excluding Mr. Liu, who is a current employee of the Group) and the Named Distributors are part of the Group. In view of the above, the IRC has provided recommendations to the Board to minimise any mis-conceptions to the public, details of which are set out in the section "Recommendations from the IRC" in this announcement.

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

The Company considers Allegation 5 is incorrect and based on incomplete information and strongly refutes this allegation.

The Company would like to emphasise that the issues which lead to the suspension of its Shares back in 2012 had been resolved completely, and trading in its Shares was resumed in 2014. Neither Mr. Dai nor Mr. Xiao was implicated in the relevant issues, and therefore the allegation of their involvement in the wrongdoings which led to the aforesaid suspension by Blue Orca is devoid of any substance. It should be further noted that the reasons for their departure were completely unrelated to the alleged involvement in the irregularities.

Based on the Board's assessments, the alleged transactions mentioned in the Short Seller Reports, to the extent they indeed exist, (i) are either not subject to or fully exempted from the connected transaction requirements under Listing Rules; and (ii) do not constitute a transaction under Chapter 14 of the Listing Rules. Further, the Company is of the view that among over 2,000 distributors of the Group, the transaction amounts between the Group and the Relevant Distributors, which constituted less than 5% of the Group's total revenue in the Relevant Periods, are not significant.

Notwithstanding the Company's indirect minority interests in certain distributors, they are either not considered to be a related party (within the meanings specified in IAS 24) or not required to be disclosed under the relevant accounting standard given the insignificant influence and transaction amounts between the Company and these distributors, which is consistent with the disclosure as set out in its previously published financial statements. 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.

The Company has implemented certain internal control measures in order to identify the connected transactions and related party transactions and ensure it has complied with the relevant Listing Rules requirements and accounting standards.

**(iii) Allegation 6 – the discrepancy between the trend in the Group's packaging materials usage and resources consumption and the infant formula revenue**

***Blue Orca's allegation***

It is alleged that the amounts of packaging materials and resources consumption published in the 2016 and 2017 environmental, social and governance ("ESG") report of the Company (the "ESG Report(s)") did not increase correspondingly to the growth in infant formula revenue stream.

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

In order to understand Allegation 6, the Independent Consultant was advised that the Company, with the assistance of the Company's external ESG consultant, being one of the big four accounting firms (the "ESG Consultant") and the Group's employees who are responsible for facilitating the ESG data collection process (the "Designated Persons"), conducted a self-review and recompilation of the ESG data for the years ended 31 December 2016, 2017 and 2018, details of which are disclosed in the paragraphs under the section headed "Recompilation and restatement of data in the ESG Reports" below in this announcement.

The Independent Consultant noted that a set of updated ESG data (the "Updated ESG Data") was reproduced and certain differences (the "Recompilation Differences") were noted when compared to the data published in the ESG Reports during the Company's self-review and recompilation process. In view of such, the Independent Consultant's work in relation to Allegation 6 focused on (i) understanding the recompilation process the Company undertook; (ii) reviewing the Updated ESG Data to confirm whether the Updated ESG Data is consistent with the relevant revenue stream; and (iii) understanding and analysing the cause of the Recompilation Differences.

To understand the causes of the Recompilation Differences, the Independent Consultant conducted interviews with the representatives of the ESG Consultant and the Designated Persons, which include employees from different geographical regions including the PRC, the Netherlands and Australia for data collection. In the interviews, the Independent Consultant was advised that the Recompilation Differences were mainly due to (i) misunderstanding of environmental performance units; and (ii) unintentional human errors. From the procedures they conducted, the Independent Consultant is not aware of any information that contradicts with explanations given by the Group's personnel and representatives of the ESG Consultant.

As part of its review, the Independent Consultant performed trend analysis, based on the Updated ESG Data, on the Group's consumption of packaging material, energy and water and the corresponding growth of the Group's total revenue and production volume for the years ended 31 December 2016, 2017 and 2018. Based on the analysis it performed, the Independent Consultant concluded that the Group's consumption of packaging material, energy and water is generally consistent with the trend of its total revenue and production volume for the years ended 31 December 2016, 2017 and 2018.

Based on the work performed and information they obtained, the Independent Consultant has not identified any evidence indicating that the total revenue of the Group was overstated.

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

The IRC has reviewed and accepted the key findings by the Independent Consultant on Allegation 6. In its review of the Final Report, the IRC noted that the Independent Consultant, after conducting their review and analysis, considers the Updated ESG Data is generally consistent with the Group's financial information reported in the Group's annual reports for the respective years. Further, the IRC, based on its review of the Final Report, information available to it and its communication with the ESG Consultant, concurs with the Group's explanations as to the causes of the Recompilation Differences. In view of the above, the IRC considers the allegation of overstating revenue in the Group's consolidated financial statements is not substantiated.

The IRC noted that the Recompilation Differences were found in the recompilation process and understood that they were mainly due to the misunderstanding of environmental performance units and unintentional human errors. In view of the above, the IRC has provided recommendations to the Board to improve the ESG Report compilation process, details of which are set out in the section "Recommendations from the IRC" below.

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

Based on the Updated ESG Data, the Company is of the view that Group's consumption of packaging materials, energy and water is generally consistent with the trend of its total revenue and production volume from 2016 to 2018.

As disclosed in the paragraphs under the section headed "Recompilation and restatement of data in the ESG Report" below, with an aim to promote a higher level of compliance, the Company has engaged the ESG Consultant in the preparation of the ESG Report since the newly implemented requirements became effective in 2016. As a rectification to the errors in the previously published ESG Reports, the Company will restate the Updated ESG Data in the forthcoming ESG Report. To further enhance the credibility of published ESG information, the Company has also decided to engage a third party consultant to validate the ESG data in the forthcoming ESG Report. The Company would like to clarify that the Recompilation Differences were mainly due to the misunderstanding of environmental performance units and unintentional human errors. The Company would also like to reiterate that it has always been committed to provide credible and accurate information to the public and its shareholders, and the incorrect data contained in the ESG Reports were unintentional incidents.

## RECOMPILATION AND RESTATEMENT OF DATA IN ESG REPORTS

Effective from the financial year starting 1 January 2016, the Listing Rules requires the Company to publish ESG Report under certain guidance. To promote a high level of compliance to this newly implemented rule, the Company has engaged the ESG Consultant as the external consultant in the preparation of the ESG Report since 2016. The ESG Consultant is responsible for, among other things, providing guidance in developing tools for the collection of ESG data of the Group and throughout the ESG data collection and compilation process. In the meantime, the Company assigned the Designated Persons to facilitate the ESG data collection process.

As a self-review measure, the Designated Persons, with the assistance from the ESG Consultant, had recompiled the Group's ESG data for the years ended 31 December 2016, 2017 and 2018. Through the recompilation process, the Updated ESG Data was obtained, and the Recompilation Differences were noted. The Updated ESG Data is as follows:

Environmental performance indicator	Unit	For the year ended 31 December		
		2016	2017	2018
Paper and wood	Tonne	3,093	3,043	4,448
Tin Metal	Tonne	6,807	7,463	9,550
Plastic	Tonne	1,236	1,346	2,223
Electricity and renewable energy	kWh	21,322,311	21,868,595	27,284,394
Natural gas	m <sup>3</sup>	10,956,679	10,951,725	11,297,029
Water	m <sup>3</sup>	590,315	632,405	781,765

To provide the shareholders and the potential investors of the Company with the Updated ESG Data, the figures published in the ESG Reports from 2016 to 2018 will be restated in the forthcoming ESG report for the year ending 31 December 2019.

## OVERALL VIEWS OF THE IRC

The IRC has reviewed and accepted the key findings of the Independent Consultant in the Independent Review Reports. Accordingly, the IRC considers all the Allegations are unfounded and not substantiated.

The IRC noted from the Independent Review that there are certain areas for improvements of the Company (i) in the preparation of marketing information; (ii) in the collaboration with its distributors; and (iii) in the preparation of ESG Reports. Notwithstanding such shortcomings, the IRC noted that the Company has duly taken initiatives to address the matters concerned. The IRC considers the shortcomings which led to the Allegations are unintentional incidents and do not mean to deceive or mislead customers, and the IRC has made recommendations to the Board to prevent the reoccurrence of the matters concerned.

## RECOMMENDATIONS FROM THE IRC

Having reviewed and considered the Independent Review Reports, the IRC has recommended that the Board to take the following actions:

- (1) The Company should revisit and optimise the classification of expenses items for the preparation of the notes to financial statements in the Company's annual report in order to enhance its disclosure to shareholders and potential investors of the Company;

- (2) The Company should conduct regular review of the contents of the Group's marketing materials, including but not limited to the Group's official websites, to ensure the accuracy and consistency of products' marketing information and compliance with applicable legislative requirements;
- (3) The Company should closely monitor the marketing materials relating to the Group's products prepared by the e-commerce stores and distributors to ensure a consistent approach and effective marketing strategy of the Group from brand level down to the retail operations managed by distributors and their franchisees;
- (4) The Company should arrange regular training in relation to the Group's products to all relevant staff to keep them abreast of up-to-date product knowledge;
- (5) The Group should minimise the sharing of the use of corporate resources by the distributors which might cause confusion or misunderstanding by the public on the Group's relationship with its distributors;
- (6) The Company should standardise the ESG compilation processes by setting up formal written data collection procedures and implementing data validation procedures to enhance the data accuracy of ESG Reports; and
- (7) The Company should arrange regular training in relation to the preparation of ESG Reports to the Designated Persons in order to consolidate their understandings in future ESG Reports compilation.

## **OVERALL RESPONSES OF THE COMPANY**

The Company will adopt all recommendations as set out in the section headed "Recommendations from the IRC".

The Company would like to reiterate that it has always been committed to comply with the Listing Rules and relevant regulatory requirements. The Company would also like to emphasise that the matters which lead to the suspension back in 2012 had been resolved completely, and trading in its shares was resumed in 2014. Since then, the Board has appointed Directors with diverse professional experience and background and who would bring substantial management and operational expertise to the Company. To achieve the goal of ensuring long-term success and safeguarding the interests of the Shareholders, the Company has been maintaining a high standard of good corporate governance and internal control system.

The Company welcomes proper scrutiny from the Shareholders, regulators and other stakeholders over the Company's business operations, however, any outright malicious attack which attempts to undermine confidence in the Company's management, financial performance and corporate governance will not be condoned. The Company reserves its rights to take legal actions against Blue Orca and/or those responsible for the relevant allegations.

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

The PRC, 30 October 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.*

\* *for identification purpose only*