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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

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

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**澳优·海普诺凯**  
**Ausnutria**  
**AUSNUTRIA DAIRY CORPORATION LTD**  
**澳優乳業股份有限公司**  
*(Incorporated in Cayman Islands with limited liability)*  
**(Stock Code: 1717)**

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION  
TO PROVISION OF FINANCIAL ASSISTANCE;  
(2) CONTINUING CONNECTED TRANSACTIONS;  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Financial Adviser to the Company**



**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board is set out on pages 7 to 18 of this circular. A notice convening an extraordinary general meeting of the Company to be held at 8/F, XinDaXin Building A, 168 Huangxing Middle Road, Changsha, Hunan Province, the PRC on 6 December 2013 at 2:30 p.m. is set out on pages 45 to 47 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 7 June 2013 in relation to, among others, the provision of the First Shareholder Loan
“associates”	has the meaning ascribed thereto in the Listing Rules
“Ausnutria (Dutch)”	Ausnutria Dairy (Dutch) Coöperatief U.A., an indirect wholly-owned subsidiary of the Company incorporated under the laws of the Netherlands, which is interested in 51% equity interests in Ausnutria Hyproca as at the Latest Practicable Date
“Ausnutria Hyproca”	Ausnutria Hyproca B.V. (formerly known as Hyproca Dairy Group B.V.), a private company with limited liability incorporated under the laws of the Netherlands and is owned as to 51% by Ausnutria (Dutch) and 49% by DDI as at the Latest Practicable Date
“Ausnutria Hyproca Group”	Ausnutria Hyproca and its subsidiaries
“Ausnutria Group”	the Group but excluding the Ausnutria Hyproca Group
“Board”	the board of Directors
“business day”	means a day other than a Saturday or a Sunday on which banks are open for the transaction of regular business in Amsterdam, the Netherlands, Hong Kong and Beijing, the People’s Republic China
“Call Option”	the call option granted by DDI to Ausnutria (Dutch) pursuant to the Call Option Agreement
“Call Option Agreement”	the call option agreement dated 7 June 2013 entered into, among others, Ausnutria (Dutch) and DDI in relation to the granting of the Call Option by DDI to Ausnutria (Dutch)
“CCT Period”	the duration of the Framework Supply Agreement, which shall commence on 1 November 2013 and shall remain in force until the earlier of (a) 31 December 2015 (both days inclusive); or (b) the date when Ausnutria Hyproca and its associates cease to be connected persons of the Company

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## DEFINITIONS

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“Company”	Ausnutria Dairy Corporation Ltd (澳優乳業股份有限公司), a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Framework Supply Agreement
“DDI”	Dutch Dairy Investments B.V., a private company with limited liability incorporated under the laws of the Netherlands, which is interested in 49% equity interests in Ausnutria Hyproca as at the Latest Practicable Date
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at 8/F, XinDaXin Building A, 168 Huangxing Middle Road, Changsha, Hunan Province, the PRC on 6 December 2013 at 2:30 p.m. for the Shareholders to consider and, if thought fit, approve the Second Shareholder Loan Agreement, the Framework Supply Agreement together with the transactions contemplated thereunder and the Proposed Annual Caps
“Elbe”	Elbe B.V., a private company with limited liability incorporated under the laws of the Netherlands and is interested in approximately 6.9% equity interests of DDI. Elbe is entirely owned by Mr. Ben Busser, who is also a director of certain subsidiaries of Ausnutria Hyproca
“EURO”	Euro, the legal currency of the member states of the European Union
“First Shareholder Loan”	the principal amount of EURO 7 million (equivalent to approximately HK\$74.9 million) granted by Ausnutria (Dutch) to Ausnutria Hyproca on 7 June 2013 pursuant to the First Shareholder Loan Agreement
“First Shareholder Loan Agreement”	the shareholder loan agreement dated 7 June 2013 entered into between Ausnutria (Dutch), Ausnutria Hyproca and DDI in relation to the First Shareholder Loan

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## DEFINITIONS

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“Framework Supply Agreement”	the framework supply agreement dated 1 November 2013 entered into between the Company and Ausnutria Hyproca in relation to the supply of paediatric milk formula products by the Ausnutria Hyproca Group to the Ausnutria Group
“Group”	the Company and its subsidiaries
“Halcyon”	Halcyon Capital Limited, a licensed corporation to carry out business in Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Second Shareholder Loan Agreement, the Framework Supply Agreement and the transactions contemplated thereunder and the Proposed Annual Caps
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Qiu Weifa, Mr. Jason Wan, Mr. Chan Yuk Tong
“Independent Shareholder(s)”	Shareholders other than DDI and its associates
“Latest Practicable Date”	15 November 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Manids”	Manids B.V., a private company with limited liability incorporated under the laws of the Netherlands and is interested in approximately 46.55% equity interests of DDI. Manids is entirely owned by Mr. Ignatius Petrus Jorna, who is also a former director and former chief executive officer of Ausnutria Hyproca
“Option Period”	twelve (12) months from 7 June 2013, the date of the Call Option Agreement, and in any case expiring at the earlier of (i) fifteen (15) business days from the date of fulfillment of the conditions in the paragraph “Conditions precedent of exercising the Call Option” in the Announcement; or (ii) a period of three (3) months after the Resumption

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## DEFINITIONS

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“Parties”	all the parties to the Call Option Agreement, the SHA, the SPA and the SSA, when applicable, namely DDI, Ausnutria (Dutch), the Company, Ausnutria Hyproca, PMH, Manids and Elbe
“PMH”	PMH Investments B.V. (also named as Participatiemaatschappij Heerenveen B.V.), a private company with limited liability incorporated under the laws of the Netherlands and is interested in approximately 46.55% equity interests of DDI. PMH is beneficially owned as to 85% by Mr. Bartle van der Meer and 15% by Mr. Durk Andries van der Meer, being the son of Mr. Bartle van der Meer
“Proposed Annual Cap(s)”	the maximum amount of paediatric milk formula products procured by any members of the Ausnutria Group from any members of the Ausnutria Hyproca Group under the Framework Supply Agreement for the period from the Commencement Date to 31 December 2013 and each of the two financial years ending 31 December 2015
“Proposed Transaction”	the proposed purchase of Shares from Brave Leader Limited, All Harmony International Limited, Silver Castle International Limited and Ausnutria Holdings Co. Ltd. (all being Shareholders and together hold in aggregate 581,646,000 Shares) by an independent third party purchaser, which has been disclosed in the Company’s announcements dated 18 September 2013, 17 October 2013 and 15 November 2013
“PRC”	the People’s Republic of China. For the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Resumption”	the resumption of trading in the Shares on the Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“Second Loan Long Stop Date”	being the expiry date of the term of the Second Shareholder Loan, which is twelve (12) months from the date of granting the Second Shareholder Loan, which can be further extended for twelve (12) months at the unilateral right of Ausnutria Hyproca within fifteen (15) business days prior to the expiry of the Second Shareholder Loan

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## DEFINITIONS

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“Second Shareholder Loan”	the principal amount of EURO 10 million (equivalent to approximately HK\$107.0 million) granted by Ausnutria (Dutch) to Ausnutria Hyproca on 1 November 2013 pursuant to the Second Shareholder Loan Agreement
“Second Shareholder Loan Agreement”	the shareholder loan agreement dated 1 November 2013 entered into between Ausnutria (Dutch), Ausnutria Hyproca and DDI in relation to the granting of the Second Shareholder Loan by Ausnutria (Dutch) to Ausnutria Hyproca
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SHA”	the shareholder’s agreement dated 19 July 2011 entered into by the relevant Parties to regulate the respective rights and obligations of the shareholders of Ausnutria Hyproca, namely DDI and Ausnutria (Dutch), in relation to Ausnutria Hyproca and as amended and supplemented by a supplemental agreement dated 1 November 2013
“Shareholder(s)”	the holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“SPA”	the share purchase agreement dated 19 July 2011 entered into by the relevant Parties in relation to the purchase of 284,000 shares of Ausnutria Hyproca by Ausnutria (Dutch) from DDI, representing approximately 31.56% of the enlarged issued share capital of Ausnutria Hyproca
“SSA”	the share subscription agreement dated 3 July 2011 entered into by the relevant Parties in relation to the subscription of 175,000 new shares of Ausnutria Hyproca by Ausnutria (Dutch), representing approximately 19.44% of the enlarged issued share capital of Ausnutria Hyproca
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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## DEFINITIONS

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*For the purpose of this circular, the exchange rates of EURO 1.00 = HK\$10.70 and RMB1.00 = HK\$1.274 have been used for currency conversions. This is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$, EURO and RMB have been, could have been or may be converted at such rate or any other exchange rate.*



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LETTER FROM THE BOARD

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**AUSNUTRIA DAIRY CORPORATION LTD**

**澳優乳業股份有限公司**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 1717)**

*Executive Directors*

Mr. Yan Weibin (*Chairman*)

Mr. Bartle van der Meer (*Chief Executive Officer*)

Ms. Ng Siu Hung

*Non-executive Director*

Mr. Dai Li

*Independent non-executive Directors*

Mr. Qiu Weifa

Mr. Jason Wan

Mr. Chan Yuk Tong

*Registered Office:*

Cricket Square

Hutchins Drive

P. O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Principal Place of business in*

*Hong Kong:*

Room 2101, Beautiful Group Tower

77 Connaught Road Central

Central

Hong Kong

18 November 2013

*To the Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION  
TO PROVISION OF FINANCIAL ASSISTANCE;  
(2) CONTINUING CONNECTED TRANSACTIONS;  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 5 November 2013, in which on 1 November 2013 (i) Ausnutria (Dutch), as the lender, and Ausnutria Hyproca, as the borrower, and DDI entered into the Second Shareholder Loan Agreement; and (ii) the Company and Ausnutria Hyproca entered into the Framework Supply Agreement in relation to the supply of paediatric milk formula products by the Ausnutria Hyproca Group to the Ausnutria Group.

Reference is also made to the Company's announcements date 18 September 2013, 17 October 2013 and 15 November 2013, in relation to, among others, the Proposed Transaction. The discussion relating to the Proposed Transaction has commenced before the

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## LETTER FROM THE BOARD

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entering into of the Framework Supply Agreement and the Second Shareholder Loan Agreement. Shareholders and potential investors of the Company shall be aware that no legally binding agreement has been entered into in respect of the Proposed Transaction. There is no assurance that the Proposed Transaction will either materialise or eventually be consummated, and the Proposed Transaction may or may not proceed with and the terms of the Proposed Transaction are subject to negotiations. As such, the discussion may or may not lead to the making of general offer for the Shares.

The purpose of this circular is to provide you with details of (i) the Second Shareholder Loan Agreement and the transactions contemplated thereunder; (ii) the Framework Supply Agreement and the transactions contemplated thereunder; and (iii) a notice of the EGM as set out on pages 45 to 47 of this circular.

### THE SECOND SHAREHOLDER LOAN AGREEMENT

Reference is made to the Announcement that, among other things, on 7 June 2013, Ausnutria (Dutch) (as the lender), Ausnutria Hyproca (as the borrower), and DDI entered into the First Shareholder Loan Agreement. The First Shareholder Loan was fully drawn down on 13 June 2013 and utilised for the capital expenditure on machinery in accordance with the planned uses as disclosed in the Announcement. As the relevant percentage ratios defined under Rule 14.07 of the Listing Rules in relation to the First Shareholder Loan are less than 5%, the provision of the First Shareholder Loan is exempt from the Independent Shareholders' approval requirements pursuant to Rule 14A.66(2)(a) of the Listing Rules.

To further meet the need of capital expenditure plan for expansion of the Ausnutria Hyproca Group's business and operation, on 1 November 2013, Ausnutria (Dutch), as the lender, and Ausnutria Hyproca, as the borrower, and DDI entered into the Second Shareholder Loan Agreement. Terms of the Second Shareholder Loan Agreement are substantially the same as those of the First Shareholder Loan Agreement except for the amount and the date of granting of the shareholder loan. Details of the Second Shareholder Loan Agreement are as follows:

Date	:	1 November 2013
Parties	:	Ausnutria (Dutch), as the lender Ausnutria Hyproca, as the borrower DDI
Principal amount of the Second Shareholder Loan	:	EURO 10 million (equivalent to approximately HK\$107.0 million)

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## LETTER FROM THE BOARD

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- Tenure : (a) the term of the Second Shareholder Loan is twelve (12) months from the date of granting the Second Shareholder Loan, which can be further extended for twelve (12) months at the unilateral right of Ausnutria Hyproca within fifteen (15) business days prior to the expiry of the Second Shareholder Loan, i.e. the Second Loan Long Stop Date. The expiration of the term of the Second Shareholder Loan does not mean that Ausnutria Hyproca shall be in default with the performance of its obligations in accordance with the Second Shareholder Loan;
- (b) upon the expiration of the term of the Second Shareholder Loan, including its extension (if applicable) as stated in (a) above, the terms in the below paragraph headed “Repayment” in this circular will come into force; and
- (c) the Second Shareholder Loan Agreement can only be extended (i) with same term of the Call Option Agreement in accordance with (a) and (b) above only if the parties to the Call Option Agreement agree to extend the Call Option Agreement according to the provisions therein; or (ii) if the Call Option is exercised in accordance with the terms in the Call Option Agreement.
- Condition Precedent : the compliance by the Company of all requirements under the Listing Rules applicable to the granting of the Second Shareholder Loan
- Advance : within ten (10) business days after the satisfaction of the condition precedent of the provision of the Second Shareholder Loan as stated above, Ausnutria (Dutch) shall advance the Second Shareholder Loan to Ausnutria Hyproca with internal available fund in accordance with the payment terms as set out in respective contracts/agreements for the capital expenditures
- Interest rate : 5% per annum payable half yearly in arrears

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## LETTER FROM THE BOARD

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- Repayment : Ausnutria Hyproca shall repay the Second Shareholder Loan upon the expiration of the term of the Second Shareholder Loan, i.e. the Second Loan Long Stop Date, including its extension (if applicable), in whole or in part, provided that upon repayment of the Second Shareholder Loan (standing alone or aggregated with the First Shareholder Loan), Ausnutria Hyproca will be able to meet the 30% solvency ratio as set out by the existing lending bank to the Ausnutria Hyproca Group which is commonly used in Europe and mainly refers to the size of the equity relative to the total assets (excluding goodwill, deferred tax and etc.)
- Covenants : Ausnutria Hyproca covenants and agrees with Ausnutria (Dutch) that as a result of the drawdown of the Second Shareholder Loan, Ausnutria Hyproca will not (i) be in breach with any financial covenants or cross-default covenants pursuant to the existing secured and unsecured loans granted by the existing lending bank to the Ausnutria Hyproca Group; and (ii) distribute any dividends to its shareholders before full repayment of the First Shareholder Loan, the Second Shareholder Loan and the accrued interests
- Ranking of the Second Shareholder Loan : the Second Shareholder Loan is subordinate to all the existing and future secured and unsecured loans as granted by its existing lending bank to the Ausnutria Hyproca Group, but ranks the same as the First Shareholder Loan
- Undertaking by Ausnutria Hyproca : Ausnutria Hyproca undertakes that the whole of the Second Shareholder Loan will be strictly applied towards funding of Ausnutria Hyproca's capital expenditure plan, including the acquisition of the Land (as defined herein below), as approved in the Board meeting held on 1 November 2013

The amount of the Second Shareholder Loan is determined with reference to the capital expenditure plan of the Ausnutria Hyproca Group. Ausnutria Hyproca intends to use the fund from the Second Shareholder Loan for financing its capital expenditure plan, including but not limited to the acquisition of about 140,000 square meters of land (the "**Land**") in the Netherlands for the intended construction of new production facilities and headquarters of the Ausnutria Hyproca Group and the purchase of new machineries, as approved by the Board on 1 November 2013.

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## LETTER FROM THE BOARD

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As of the Latest Practicable Date, the Company is still in the process of conducting the feasibility study in relation to the construction of new production facilities in the Netherlands and further details will be made when the master plan to construct the new production facilities is finalised.

### **FRAMEWORK SUPPLY AGREEMENT**

#### **Date**

1 November 2013

#### **Parties**

Ausnutria Hyproca, as the supplier; and  
the Company, as the purchaser.

#### **Principal terms**

Pursuant to the Framework Supply Agreement, it was agreed that any members of the Ausnutria Group and any members of the Ausnutria Hyproca Group may from time to time during the CCT Period enter into contracts and/or purchase orders setting out the detailed terms for the procurement of paediatric milk formula products by any members of the Ausnutria Group from any members of the Ausnutria Hyproca Group, provided that such detailed terms shall not be inconsistent with the terms and conditions of the Framework Supply Agreement.

The price at which the paediatric milk formula products are to be supplied by any members of the Ausnutria Hyproca Group to any members of the Ausnutria Group shall be at market price, or if the same is not available, a price which is no less favourable to the Ausnutria Group than the price at which the Group (other than Ausnutria Hyproca Group) purchases similar paediatric milk formula products from independent third parties.

The Framework Supply Agreement shall commence on 1 November 2013 (the “**Commencement Date**”) and shall remain in force until the earlier of: (1) 31 December 2015 (both days inclusive); or (2) the date when Ausnutria Hyproca and its associates cease to be connected persons of the Company.

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## LETTER FROM THE BOARD

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### Proposed Annual Caps and rationale

Set out below are the details of (i) the historical transaction amounts of the purchase of paediatric milk formula products from the Ausnutria Hyproca Group by the Ausnutria Group; and (ii) the Proposed Annual Caps for the CCT Period.

<b>Historical transaction amounts</b>		<b>Proposed Annual Caps</b>		
<b>For the year ended</b>	<b>For the period between</b>	<b>Commencement Date to</b>	<b>For the year ending</b>	<b>For the year ending</b>
<b>31 December 2012</b>	<b>1 January 2013 and 6 June 2013</b>	<b>31 December 2013</b>	<b>31 December 2014</b>	<b>31 December 2015</b>
<i>(EURO million)</i>	<i>(EURO million)</i>	<i>(EURO million)</i>	<i>(EURO million)</i>	<i>(EURO million)</i>
3.5	5.1	1.5	25.8	30.6
(equivalent to approximately HK\$37.5 million)	(equivalent to approximately HK\$54.6 million) <i>(Note)</i>	(equivalent to approximately HK\$16.1 million)	(equivalent to approximately HK\$276.1 million)	(equivalent to approximately HK\$327.4 million)

*Note:* The paediatric milk formula products which were ordered by the Ausnutria Group from the Ausnutria Hyproca Group before 7 June 2013 and have been or will be delivered after 7 June 2013 and have been or will be delivered after 7 June 2013 (the date Mr. Bartle van der Meer was appointed as an executive Director and chief executive officer of the Company) amounted to approximately EURO 1.9 million (equivalent to approximately HK\$20.3 million), which was included in the historical transaction amount for the period between 1 January 2013 and 6 June 2013. There were no supply orders placed or agreements entered into between the Ausnutria Hyproca Group and the Ausnutria Group during the period from 7 June 2013 to 31 October 2013, the date prior to the Commencement Date.

The Directors estimate that the Proposed Annual Caps for the period from the Commencement Date to 31 December 2013 and the two financial years ending 31 December 2015 are EURO 1.5 million, EURO 25.8 million and EURO 30.6 million (equivalent to approximately HK\$16.1 million, HK\$276.1 million, and HK\$327.4 million), respectively.

The Proposed Annual Caps have been determined by both parties to the Framework Supply Agreement with reference to the following factors:

- the anticipated increase in the production capacity of the Ausnutria Hyproca Group as a result of its capital expenditure plan;
- the introduction of a number of new brands by the Group since 2013 which at least three of those products have been supplied by the Ausnutria Hyproca Group;
- the shift of some of the paediatric milk formula products that were previously supplied by other suppliers to the Ausnutria Group as part of the integration plan since the acquisition of 51% equity interests in Ausnutria Hyproca by the Group in 2011; and
- the anticipated growth in market demand of the Ausnutria Group's products.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE PROVISION OF FINANCIAL ASSISTANCE

The Ausnutria Hyproca Group currently produces infant and toddler nutrition products for the Ausnutria Group under the brand name of the Group and also provides private label production and contract manufacturing services for infant and toddler nutrition products for its worldwide customers.

With the binding arrangement under the Call Option Agreement and, in the event the Call Option is exercised, the potential 100% control over Ausnutria Hyproca, the Company is willing to provide the First Shareholder Loan and the Second Shareholder Loan to Ausnutria Hyproca for its business expansion. In order to protect the interest of the Company and the Shareholders, the tenures of the First Shareholder Loan and the Second Shareholder Loan have been set to link with the Option Period and subject to mutual agreement, no dividend of Ausnutria Hyproca shall be distributed to its shareholders till the earlier of the expiry of the Option Period or the fulfillment of the relevant conditions precedent to the exercise of the Call Option and pursuant to the Second Shareholder Loan Agreement, no dividend of Ausnutria Hyproca shall be distributed to its shareholders before full repayment of the First Shareholder Loan, the Second Shareholder Loan and the accrued interests. If the Call Option cannot be exercised due to the failure to satisfy any of the conditions precedent of exercising the Call Option as stated in the paragraph headed “Conditions precedent of exercising the Call Option” in the Announcement, Ausnutria Hyproca shall repay the First Shareholder Loan, the Second Shareholder Loan and the accrued interest at 5% per annum to the Ausnutria (Dutch) in accordance with the repayment terms under the First Shareholder Loan Agreement and the Second Shareholder Loan Agreement. Therefore, the Directors (with Mr. Bartle van der Meer abstaining) are of the view that the interest of the Company and the Shareholders is protected.

As all the amount under the First Shareholder Loan has been fully utilised, in view of meeting the capital expenditure plan of the Ausnutria Hyproca Group for, amongst other things, the acquisition of the Land for the intended construction of new production facilities and headquarters of the Ausnutria Hyproca Group and the purchase of new machineries as approved by the Board on 1 November 2013, the Company is ready to provide the Second Shareholder Loan.

In order to meet the expansion of production capacity of the Ausnutria Hyproca Group, the Directors have considered, among others, (i) the bank deposit rates in the PRC, where most of the deposits of the Ausnutria Group are placed, and the prevailing bank borrowing costs in Europe; (ii) terms of the Second Shareholder Loan Agreement, which are substantially the same as those of the First Shareholder Loan Agreement, are not on worse terms to the Ausnutria Group; and (iii) the repayment ability of the Ausnutria Hyproca Group.

Similar to the financing arrangements under the First Shareholder Loan, the Ausnutria Group intends to finance the Second Shareholder Loan partly by pledge its RMB deposits in the PRC to obtain a back-to-back bank facility in Europe for an equivalent amount in EURO with the remaining balance by its internal available EURO-denominated bank balances in the Netherlands. The unaudited cash and bank balances (including bank time deposits) less bank

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## LETTER FROM THE BOARD

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loans and other borrowings of the Ausnutria Group amounted to approximately RMB677.2 million (equivalent to approximately HK\$862.8 million) as at 30 September 2013. Given the net cash position of the Ausnutria Group as at 30 September 2013 and the working capital requirements of the Ausnutria Group, the Directors consider that the granting of the Second Shareholder Loan will not have a significant impact on the working capital condition, net assets and profitability of the Group. Moreover, the provision of the Second Shareholder Loan to finance the Ausnutria Hyproca Group's expansion of production capacity will benefit the Group in the medium to long run.

The terms of the Second Shareholder Loan Agreement were determined after arm's length negotiation between the Company, Ausnutria (Dutch) and DDI. The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated thereunder are on normal commercial terms and that such terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

As disclosed in the circular of the Company dated 23 September 2011 in respect of the SSA, SHA and SPA, it is the Company's business strategy to invest in or acquire upstream milk powder related assets and operations, including investments in overseas cattle farms and/or milk powder producers in order to broaden the Ausnutria Group's milk powder supply sources to diversify the Ausnutria Group's risk in this aspect and to ensure a stable supply of milk powder to cope with the business growth.

Upon completion of the transactions contemplated under the SSA and the SHA, the Ausnutria Hyproca Group has been supplying the Ausnutria Group paediatric milk formula products under separate independent contracts or purchase orders ever since 2012, which is in the ordinary course of business of the Ausnutria Group and such transactions were exempted from reporting, announcement and Independent Shareholders' approval requirement pursuant to Rule 14A.31(1) of the Listing Rules after the appointment of Mr. Bartle van der Meer, who is indirectly interested in 49% equity interests in Ausnutria Hyproca, as an executive Director on 7 June 2013. Due to the increasing demand from the Ausnutria Group for the purchase of paediatric milk formula products from the Ausnutria Hyproca Group as a result of the anticipated growth in sales of the Ausnutria Group, the Directors estimate that the Proposed Annual Caps for the period from the Commencement Date to 31 December 2013 and each of the two years ending 31 December 2015 to be EURO 1.5 million, EURO 25.8 million and EURO 30.6 million (equivalent to approximately HK\$16.1 million, HK\$276.1 million and HK\$327.4 million), respectively.

The terms of the Framework Supply Agreement were determined based on market price, or if the same is not available, a price which is no less favourable to the Ausnutria Group than the price at which the Ausnutria Group purchases similar paediatric milk formula products from independent third parties. The Directors (including the independent non-executive Directors) are of the view that the Framework Supply Agreement together with the transactions contemplated thereunder and the Proposed Annual Caps are in ordinary and usual course of business on normal commercial terms and that such terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.



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## LETTER FROM THE BOARD

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### INFORMATION OF THE AUSNUTRIA GROUP, AUSNUTRIA (DUTCH) AND THE AUSNUTRIA HYPROCA GROUP

The Ausnutria Group is principally engaged in the production, marketing and distribution of paediatric nutrition products.

Ausnutria (Dutch) is an investment holding company indirectly wholly-owned by the Company and is interested in 51% equity interests in Ausnutria Hyproca as at the Latest Practicable Date.

Ausnutria Hyproca is an investment holding company with limited liability incorporated under the laws of the Netherlands and, together with its subsidiaries, is principally engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products. It also has its own formula milk powder productions and is a leading producer of goat milk powder in the world.

There are four principal operating subsidiaries of the Ausnutria Hyproca Group, namely Hyproca Dairy B.V. (“**Hyproca Dairy**”), Lypack Leeuwarden B.V. (formerly known as Lypack B.V.) (“**Lypack**”), Hyproca Nutrition B.V. (“**Hyproca Nutrition**”) and Lyempf Kampen B.V. (formerly known as Hyproca Lyempf B.V.) (“**Lyempf**”).

The history of Hyproca Dairy goes back to 1897 when its first factory was established. The factory of Hyproca Dairy forms the basis of the Ausnutria Hyproca Group. The factory of Hyproca Dairy started its first milk powder productions in 1928 and has been producing milk powders since then.

The factory of Lypack first started its production of baby formulae in 1938. Lypack and its subsidiaries are experienced and dedicated producers of a wide range of high quality infant formulae.

Hyproca Nutrition and its subsidiaries specialise in the complete chain of fresh Dutch goat milk from collection from farms to finished products.

Lyempf is a well-established dairy company in the Netherlands principally engaged in the production of liquid milk products, milk powders and a range of combined milk based powders, including infant formulae.

### INFORMATION OF DDI

DDI is an investment holding company with limited liability incorporated under the laws of the Netherlands and is interested in 49% equity interests in Ausnutria Hyproca as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATION

As at the Latest Practicable Date, DDI holds (i) 49% equity interests in Ausnutria Hyproca, which is an indirectly 51% owned subsidiary of the Company, and (ii) 11,000,000 Shares, representing approximately 1.11% of the issued Shares. In addition, Mr. Bartle van der Meer (together with his son) is indirectly interested in approximately 46.55% equity interests of DDI and is an executive Director and chief executive officer of the Company as at the Latest Practicable Date. Therefore Mr. Bartle van der Meer, DDI and Ausnutria Hyproca are connected persons of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Second Shareholder Loan Agreement constitute connected transactions of the Company under Rule 14A.13(2)(a) of the Listing Rules and the Framework Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the provision of financial assistance under the Second Shareholder Loan Agreement, on a standalone basis and when aggregated with that of the First Shareholder Loan under Rule 14A.25 of the Listing Rules, are more than 5% and the total loan amount is more than HK\$10,000,000, therefore the Second Shareholder Loan Agreement and the transactions contemplated thereunder are subject to reporting, announcement and the Independent Shareholders' approval requirements pursuant to Rule 14A.63 of the Listing Rules.

As the applicable percentage ratios in respect of the provision of financial assistance under the Second Shareholder Loan Agreement, on a standalone basis and when aggregated with those of the First Shareholder Loan under Rule 14.22 of the Listing Rules, are more than 5% but less than 25%, the Second Shareholder Loan Agreement and the transactions contemplated thereunder also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules, which is subject to reporting and announcement requirements.

As the applicable percentage ratios in respect of the Proposed Annual Caps are more than 25% and the annual considerations are more than HK\$10,000,000, the Continuing Connected Transactions are subject to announcement, reporting and the Independent Shareholder's approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, except for Mr. Bartle van der Meer, none of the Directors has a material interest in the Second Shareholder Loan Agreement and the Framework Supply Agreement and therefore, only Mr. Bartle van der Meer abstained from voting on the relevant Board resolutions in this aspect.

As DDI, being the 49% shareholder of Ausnutria Hyproca and a party to the Second Shareholder Loan Agreement, is interested in the Second Shareholder Loan Agreement and the Framework Supply Agreement, DDI and its associates will abstain from voting on the resolutions relating to the Second Shareholder Loan Agreement and the Framework Supply Agreement at the EGM.

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## LETTER FROM THE BOARD

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The Independent Board Committee (comprising all the independent non-executive Directors) has been established to advise the Shareholders in respect of the terms of the Second Shareholder Loan Agreement and the Framework Supply Agreements together with the transactions contemplated thereunder as well as the Proposed Annual Caps. Halcyon has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in this regard.

### EGM

The EGM will be convened and held at 8/F, XinDaXin Building A, 168 Huangxing Middle Road, Changsha, Hunan Province, the PRC on 6 December 2013 at 2:30 p.m., with a notice of the EGM is set out on pages 45 to 47 of this circular for the purpose of considering and, if thought fit, passing the resolution in respect of the Second Shareholder Loan Agreement and the Framework Supply Agreement and the transactions contemplated thereunder and the Proposed Annual Caps.

Whether or not you propose to attend the EGM, you are requested to complete the accompanying form of proxy for use at the EGM in accordance with the instructions printed thereon and return it to the Company's share registrar and transfer office in Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so desire and, in such event, the form of proxy shall be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution at the EGM will be voted on by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Halcyon, is of the view that (i) the entering into of the Framework Supply Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Second Shareholder Loan Agreement and the Framework Supply Agreement with the transactions contemplated thereunder are on normal commercial terms and, together with the bases of determining the Proposed Annual Caps, are fair and reasonable.

Having considered the factors contained in the section "Reasons for and benefits of the provision of financial assistance and the Continuing Connected Transactions" and the advices of Halcyon and the Independent Board Committee, the Board recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Second Shareholder Loan Agreement, the Framework Supply Agreement with the transactions contemplated thereunder and the Proposed Annual Caps.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendix to this circular.

### SUSPENSION OF TRADING

At the Company's request, trading in the Shares was suspended from 9:00 a.m. on 29 March 2012, and will remain suspended until further notice. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares. The publication of this circular does not warrant any approval from the Stock Exchange on the Resumption. The Company will keep the public informed of the latest development by making further announcements as and when appropriate.

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



**AUSNUTRIA DAIRY CORPORATION LTD**

**澳優乳業股份有限公司**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 1717)**

18 November 2013

Dear Independent Shareholders,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION  
TO PROVISION OF FINANCIAL ASSISTANCE  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 18 November 2013 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you regarding the fairness and reasonableness of the terms of the Second Shareholder Loan Agreement, the Framework Supply Agreement with the transactions contemplated thereunder and the Proposed Annual Caps. Halcyon has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having considered the terms of the Second Shareholder Loan Agreement, the Framework Supply Agreement with the transactions contemplated thereunder and the Proposed Annual Caps, and having taken into account the principal factors and reasons considered by, and the opinion of, Halcyon as stated in its letter dated 18 November 2013, we consider that (i) the entering into of the Framework Supply Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Second Shareholder Loan Agreement and the Framework Supply Agreement are on normal commercial terms and, together with the bases of determining the Proposed Annual Caps, are fair and reasonable. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions proposed at the EGM approving the Second Shareholder Loan Agreement, the Framework Supply Agreement with the transactions contemplated thereunder and the Proposed Annual Caps.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We also draw the attention of the Independent Shareholders to (i) the letter from the Board; (ii) the letter from Halcyon; and (iii) the appendix to the Circular.

Yours faithfully,

**Independent Board Committee**

**Mr. Jason Wan**

**Mr. Qiu Weifa**

**Mr. Chan Yuk Tong**

*Independent non-executive Directors*

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## LETTER FROM HALCYON

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*The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of the inclusion in this circular.*



**Halcyon Capital Limited**  
11/F, 8 Wyndham Street,  
Central, Hong Kong

18 November 2013

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO  
PROVISION OF FINANCIAL ASSISTANCE  
AND  
CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Second Shareholder Loan Agreement and the Framework Supply Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 18 November 2013 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 7 June 2013, the Board announced that Ausnutria (Dutch) has provided the First Shareholder Loan of EURO 7 million (equivalent to approximately HK\$74.9 million) to Ausnutria Hyproca for its capital expenditure plan pursuant to the First Shareholder Loan Agreement. On 1 November 2013, the Board announced that (i) Ausnutria (Dutch) will conditionally grant the Second Shareholder Loan of EURO 10 million (equivalent to approximately HK\$107.0 million) to Ausnutria Hyproca pursuant to the Second Shareholder Loan Agreement; and (ii) the Company and Ausnutria Hyproca entered into the Framework Supply Agreement in relation to the supply of paediatric milk formula products by any member of the Ausnutria Hyproca Group to any member of the Ausnutria Group.

As at the Latest Practicable Date, DDI holds (i) 49% equity interests in Ausnutria Hyproca, which is an indirectly 51% owned subsidiary of the Company, and (ii) 11,000,000 Shares, representing approximately 1.11% of the issued share capital of the Company. In addition, Mr. Bartle van der Meer (together with his son) is indirectly interested in approximately 46.55% equity interests in DDI and is an executive Director and chief executive officer of the Company (appointed on 7 June 2013) as at the Latest Practicable Date. As such, both Mr. Bartle van der Meer, DDI and Ausnutria Hyproca are connected persons of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Second Shareholder Loan Agreement constitute connected

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## LETTER FROM HALCYON

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transaction of the Company under Rule 14A.13(2)(a) of the Listing Rules and the Framework Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the provision of the Second Shareholder Loan under the Second Shareholder Loan Agreement, on a standalone basis and when aggregated with that of the First Shareholder Loan Agreement under Rule 14A.25 of the Listing Rules, are more than 5% and the total loan amount is more than HK\$10,000,000, therefore the Second Shareholder Loan Agreement and the transactions contemplated thereunder are subject to reporting, announcement and the Independent Shareholders' approval requirements pursuant to Rule 14A.63 of the Listing Rules. As the applicable percentage ratios in respect of the provision of the Second Shareholder Loan under the Second Shareholder Loan Agreement, on a standalone basis and when aggregated with that of the First Shareholder Loan Agreement under Rule 14.22 of the Listing Rules, are more than 5% but less than 25%, the Second Shareholder Loan Agreement and the transactions contemplated thereunder also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules, which are subject to reporting and announcement requirements.

As the applicable percentage ratios in respect of the Proposed Annual Caps are more than 25% and the annual considerations are more than HK\$10,000,000, the Framework Supply Agreement and the transactions contemplated thereunder are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As DDI, holder of the 49% equity interests in Ausnutria Hyproca and a party to the Second Shareholder Loan Agreement, is interested in the Second Shareholder Loan Agreement and the Framework Supply Agreement, DDI and its associates will abstain from voting on the resolutions relating to the Second Shareholder Loan Agreement and the Framework Supply Agreement at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. Qiu Weifa, Jason Wan and Chan Yuk Tong, has been established to advise the Independent Shareholders as to whether the terms of the Second Shareholder Loan Agreement and the Framework Supply Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, whether they are in the interest of the Company and the Independent Shareholders as a whole and how to vote on the relevant resolutions in the EGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the information, financial information and facts included in the Circular and supplied to us, and the representations expressed by the Directors and/or management of the Group, and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Circular, in all material aspects, were true, accurate and complete as at the time they were made and as at the Latest Practicable Date and made after due and



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## LETTER FROM HALCYON

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careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and representations provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Group including the announcements, annual and interim reports of the Company and the Circular. We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the transactions contemplated under the Second Shareholder Loan Agreement and the Framework Supply Agreement and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and supplied to us by the Directors and/or the management of the Group nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, internal control system, profitability or prospects of the Group, the Ausnutria Hyproca Group and each of their respective associates, and the parties involved in the transactions contemplated under the Second Shareholder Loan Agreement and the Framework Supply Agreement.

### **(I) PROVISION OF THE SECOND SHAREHOLDER LOAN**

#### **Principal factors and reasons considered**

In arriving at our recommendation in respect of the transactions contemplated under the Second Shareholder Loan Agreement, we have considered the following principal factors and reasons:

#### **1. *Background to and reasons for the entering into of the Second Shareholder Loan Agreement***

##### *Background information on the Group and the Ausnutria Hyproca Group*

The Group (other than the Ausnutria Hyproca Group) is principally engaged in the production, marketing and distribution of paediatric nutrition products and has been sourcing its paediatric milk formula products from Australia, Netherlands, France and Denmark. At the request of the Company, trading in its Shares on the Stock Exchange has been suspended since 9:00 a.m. on 29 March 2012 (the “**Suspension**”).

Ausnutria (Dutch) is an investment holding company indirectly wholly-owned by the Company and is interested in 51% equity interests in Ausnutria Hyproca as at the Latest Practicable Date.

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## LETTER FROM HALCYON

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Since the Suspension, the Company has issued a series of announcements to update the status in respect of the Suspension, including (i) an announcement dated 29 March 2012 in relation to the delay of the publication of the Company's annual results announcement and the despatch of the Company's annual report for the year ended 31 December 2011; (ii) an announcement dated 10 April 2012 in relation to the establishment of the special review committee of the Company in respect of the unresolved issues (the "**Unresolved Issues**") raised by the Company's auditors, Ernst & Young ("**EY**"); (iii) an announcement dated 7 May 2012 in relation to the appointment of the independent professional adviser and internal control consultant in respect of the Unresolved Issues; (iv) an announcement dated 3 July 2012 in relation to the conditions for the Resumption; (v) an announcement dated 30 August 2012 in relation to, among others, the delay of the publication of the Company's interim results announcement and the despatch of the Company's interim report for the six months ended 30 June 2012; (vi) announcements dated 4 October 2012, 16 November 2012, 27 December 2012 and 8 February 2013 in relation to updates on recent development of the Suspension; (vii) an announcement dated 28 March 2013 in relation to, among others, the delay of the publication of the Company's annual results announcement and the despatch of the Company's annual report for the year ended 31 December 2012; (viii) announcements dated 3 May 2013 and 27 May 2013 in relation to updates on recent development of the Suspension; (ix) an announcement dated 7 June 2013 in relation to the appointment of compliance adviser of the Company; (x) announcements dated 28 June 2013 and 31 July 2013 in relation to update and further details and progress of the investigation in respect of the Unresolved Issues by the special review committee of the Company; (xi) an announcement dated 18 August 2013 in relation to the key findings of the forensic review in respect of the Unresolved Issues, preliminary management responses and remedial actions taken or to be taken by the Company and recent developments of the Group; (xii) an announcement dated 30 August 2013 in relation to, among others, the delay of the publication of the Company's interim results announcement and the despatch of the Company's interim report for the six months ended 30 June 2013; (xiii) announcements dated 30 September 2013 and 31 October 2013 in relation to updates on recent development of the Suspension; and (xiv) an announcement dated 11 November 2013 in relation to update on internal control review in respect of the Unresolved Issues. Notwithstanding with the Suspension and the Unresolved Issues, we understand from the Directors that the daily business activities of the Group continued as usual. The Shareholders are strongly advised to read the aforementioned announcements carefully for more information on the Group's current status before making any voting or investment decision.

As set out in the Letter from the Board, Ausnutria Hyproca is an investment holding company with limited liability incorporated under the laws of the Netherlands and, together with its subsidiaries, are principally engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products. Ausnutria Hyproca also has its own formula milk powder productions and is a leading producer of goat milk powder in the world. The

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## LETTER FROM HALCYON

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Ausnutria Hyproca Group currently produces infant and toddler nutrition products for the Ausnutria Group under the brand name of the Ausnutria Group and also provides private label production and contract manufacturing services for infant and toddler nutrition products for its worldwide customers. There are four principal operating subsidiaries of the Ausnutria Hyproca Group, namely Hyproca Dairy B.V. (“**Hyproca Dairy**”), Lypack Leeuwarden B.V. (formerly known as Lypack B.V.) (“**Lypack**”), Hyproca Nutrition B.V. (“**Hyproca Nutrition**”) and Lyempf Kampen B.V. (formerly known as Hyproca Lyempf B.V.) (“**Lyempf**”). As set out in the Letter from the Board, the history of Hyproca Dairy goes back to 1897 when its first factory, which forms the basis of the Ausnutria Hyproca Group, was established. The factory of Hyproca Dairy started its first milk powder productions in 1928 and has been producing milk powders since then. The factory of Lypack first started its production of baby formulae in 1938. Lypack and its subsidiaries are experienced and dedicated producers of a wide range of high quality infant formulae. Hyproca Nutrition and its subsidiaries specialise in the complete chain of fresh Dutch goat milk from collection from farms to finished products. Lyempf is a well-established dairy company in the Netherlands and is principally engaged in the production of liquid milk products, milk powders and a range of combined milk based powders, including infant formulae.

As set out in the announcement of the Company dated 4 July 2011, the Company, through Ausnutria (Dutch), subscribed for approximately 19.44% equity interests in Ausnutria Hyproca at the consideration of EURO 6,282,500 (equivalent to approximately HK\$67.2 million) on 30 June 2011. On 19 July 2011, Ausnutria (Dutch) further purchased approximately 31.56% equity interests in Ausnutria Hyproca at the consideration of EURO 10,369,000 (equivalent to approximately HK\$110.9 million), details of which were set out in the announcement of the Company dated 20 July 2011. As advised by the management of the Group, the acquisition of shares in Ausnutria Hyproca was approved by the then Shareholders and completed in October 2011 and following which, the Company, through Ausnutria (Dutch), is interested in 51% equity interests in Ausnutria Hyproca.

On 7 June 2013, the Call Option Agreement was entered into between amongst others, DDI, the Company, and Ausnutria (Dutch), pursuant to which DDI has granted the Call Option to Ausnutria (Dutch) at a premium of HK\$1.00. Upon the exercise of the Call Option by Ausnutria (Dutch), Ausnutria (Dutch) will acquire the remaining 49% equity interests in Ausnutria Hyproca held by DDI, by the issuance of 202,125,000 new Shares (the “**Consideration Shares**”), representing approximately 20.5% of the existing issued share capital of the Company and approximately 17% of the enlarged issued share capital of the Company as at the Latest Practicable Date, as consideration. According to the terms of the Call Option Agreement, the exercise of the Call Option is conditional upon, among others, the Resumption will take place (details of which were set out in the paragraph headed “Conditions precedent of exercising the Call Option” in the Announcement). As set out in the announcement of the Company dated 7 June 2013, the Company has intended to further consolidate the business currently conducted by the Ausnutria Hyproca Group into the Group by acquiring the

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## LETTER FROM HALCYON

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remaining 49% equity interests in Ausnutria Hyproca from DDI and facilitate the business expansion of Ausnutria Hyproca. Pursuant to the negotiation with DDI, the consideration for the proposed acquisition of shares in Ausnutria Hyproca is to be solely satisfied by the Consideration Shares to be issued to DDI. As the trading in the Shares was suspended since 29 March 2012 and the listing approval for such new Shares will only be available until the Resumption, in order to secure the opportunity while to remain a flexibility to acquire shares in Ausnutria Hyproca, the Call Option Agreement was entered into among the parties.

On 7 June 2013, the Board also announced that Ausnutria (Dutch) has provided the First Shareholder Loan of EURO 7 million (equivalent to approximately HK\$74.9 million) to Ausnutria Hyproca pursuant to the First Shareholder Loan Agreement. As confirmed by the management of the Group, the First Shareholder Loan was fully drawn down on 13 June 2013 and has been fully utilised for the capital expenditure on machinery of the Ausnutria Hyproca Group in accordance with the planned uses as disclosed in the Announcement. In order to meet the need of the capital expenditure plan for expansion of the Ausnutria Hyproca Group's business and operation, on 1 November 2013, Ausnutria (Dutch), as the lender, Ausnutria Hyproca, as the borrower, and DDI entered into the Second Shareholder Loan Agreement, subject to the approval from the Independent Shareholders, pursuant to which Ausnutria (Dutch) will grant the Second Shareholder Loan of EURO 10 million (equivalent to approximately HK\$107.0 million) to Ausnutria Hyproca.

### *Reasons for the provision of the Second Shareholder Loan*

As set out in the announcement of the Company dated 24 April 2013 and as advised by the management of the Group, the Ausnutria Hyproca Group planned to acquire a plot of land in Heerenveen in the Netherlands and construct new production facilities and headquarters of the Ausnutria Hyproca Group thereon in order to increase the production capacity of infant and toddler nutrition products in anticipation of an increase in demand and a growing market for infant and toddler nutrition products worldwide. As set out in the Letter from the Board, the amount of the Second Shareholder Loan is determined with reference to the capital expenditure plan of the Ausnutria Hyproca Group, including but not limited to the acquisition of about 140,000 square meters of land (the "**Land**") in the Netherlands for the intended construction of new production facilities and headquarters of the Ausnutria Hyproca Group and the purchase of new machineries as approved by the Board on 1 November 2013. As of the Latest Practicable Date, the Company is still in the process of conducting the feasibility study in relation to the construction of new production facilities in the Netherlands. In order to meet the expansion of production capacity of the Ausnutria Hyproca Group, the Directors believe that, as the parent company of Ausnutria Hyproca, the provision of the Second Shareholder Loan to finance the Ausnutria Hyproca Group's expansion of production capacity will benefit the Group in the medium to long run.

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## LETTER FROM HALCYON

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As set out in the Letter from the Board, with the binding arrangement under the Call Option Agreement and, in the event the Call Option is exercised, the potential 100% control over Ausnutria Hyproca, the Company is willing to provide the First Shareholder Loan and the Second Shareholder Loan to Ausnutria Hyproca for its business expansion. In order to protect the interest of the Company and the Shareholders, the tenures of the First Shareholder Loan and the Second Shareholder Loan have been set to link with the Option Period and subject to mutual agreement, no dividend of Ausnutria Hyproca shall be distributed to its shareholders till the earlier of the expiry of the Option Period or the fulfillment of the relevant conditions precedent to the exercise of the Call Option and pursuant to the Second Shareholder Loan Agreement, no dividend of Ausnutria Hyproca shall be distributed to its shareholders before full repayment of the First Shareholder Loan, the Second Shareholder Loan and the accrued interest. If the Call Option cannot be exercised due to the failure to satisfy any of the conditions precedent of exercising the Call Option as stated in the paragraph headed "Conditions precedent of exercising the Call Option" in the Announcement, Ausnutria Hyproca shall repay the First Shareholder Loan and the Second Shareholder Loan and the accrued interest at 5% per annum to the Ausnutria (Dutch) in accordance with the repayment terms under the First Shareholder Loan Agreement and the Second Shareholder Loan Agreement. Therefore, the Directors are of the view that the interest of the Company and the Shareholders is protected.

As stated in the circular of the Company dated 23 September 2011, it is the Company's business strategy to invest in or acquire upstream milk powder related assets and operations, including investments in overseas cattle farms and/or milk powder producers in order to broaden the Group's milk powder supply sources to diversify the Group's risk in this aspect and to ensure a stable supply of milk powder to cope with its business growth. In addition, as stated in the interim report of the Company for the six months ended 30 June 2011 and as advised by the management of the Group, the Group believes that the acquisition of shares in Ausnutria Hyproca will bring potential synergistic effect to the businesses of the Group and the Ausnutria Hyproca Group and is beneficial to the future development of the Group in the long run.

Having considered (i) the 51% equity interests in Ausnutria Hyproca indirectly held by the Group; (ii) the intention of the Group to purchase all the remaining equity interests in Ausnutria Hyproca currently owned by DDI and to get 100% control over Ausnutria Hyproca; and (iii) the potential synergies among the businesses of the Group and those of the Ausnutria Hyproca Group and the production capacity expansion plan of the Ausnutria Hyproca Group is inline with the business strategy of the Group, we concur with the Directors that the provision of the Second Shareholder Loan on top of the First Shareholder Loan is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

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## LETTER FROM HALCYON

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### 2. *Principal terms of the Second Shareholder Loan Agreement*

Set out below are the major terms of the Second Shareholder Loan Agreement (further details are set out under section headed “The Second Shareholder Loan Agreement” in the Letter from the Board). Terms of the Second Shareholder Loan Agreement are substantially the same as the terms of the First Shareholder Loan Agreement except for the amount and the date of granting of the First Shareholder Loan, being EURO 7 million (equivalent to approximately HK\$74.9 million) and granted on 7 June 2013, respectively.

Date	:	1 November 2013
Parties	:	Ausnutria (Dutch), as the lender Ausnutria Hyproca, as the borrower DDI
Principal amount of the Second Shareholder Loan	:	EURO 10 million (equivalent to approximately HK\$107.0 million)
Tenure	:	(a) the term of the Second Shareholder Loan is twelve (12) months from the date of granting of the Second Shareholder Loan, which can be further extended for another twelve (12) months at the unilateral right of Ausnutria Hyproca within fifteen (15) business days prior to the expiry of the Second Shareholder Loan, i.e. the Second Loan Long Stop Date. The expiration of the term of the Second Shareholder Loan does not mean that Ausnutria Hyproca shall be in default with the performance of its obligations in accordance with the Second Shareholder Loan;  (b) upon the expiration of the term of the Second Shareholder Loan, including its extension (if applicable) as stated in (a) above, the terms in the below paragraph headed “Repayment” in this table will come into force; and  (c) the Second Shareholder Loan Agreement can only be extended (i) with same term of the Call Option Agreement in accordance with (a) and (b) above only if the parties to the Call Option Agreement agree to extend the Call Option Agreement according to the provisions therein; or (ii) if the Call Option is exercised in accordance with the terms in the Call Option Agreement.



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## LETTER FROM HALCYON

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- Interest rate : 5% per annum payable half yearly in arrears (the “**Interest Rate**”)
- Repayment : Ausnutria Hyproca shall repay the Second Shareholder Loan upon the expiration of the term of the Second Shareholder Loan, i.e. the Second Loan Long Stop Date, including its extension (if applicable), in whole or in part, provided that upon repayment of the Second Shareholder Loan (standing alone or aggregated with the First Shareholder Loan), Ausnutria Hyproca will be able to meet the 30% solvency ratio as set out by the existing lending bank to the Ausnutria Hyproca Group which is commonly used in Europe and mainly refers to the size of the equity relative to the total assets (excluding goodwill, deferred tax and etc.)
- Covenants : Ausnutria Hyproca covenants and agrees with Ausnutria (Dutch) that as a result of the drawdown of the Second Shareholder Loan, Ausnutria Hyproca will not (i) be in breach with any financial covenants or cross-default covenants pursuant to the existing secured and unsecured loans granted by the existing lending bank to the Ausnutria Hyproca Group; and (ii) distribute any dividends to its shareholders before full repayment of the First Shareholder Loan, the Second Shareholder Loan and the accrued interest
- Ranking : subordinate to all the existing and future secured and unsecured loans as granted by its existing lending bank to the Ausnutria Hyproca Group but ranks the same as the First Shareholder Loan
- Undertaking by Ausnutria Hyproca : Ausnutria Hyproca undertakes that the whole of the Second Shareholder Loan will be strictly applied towards funding of the Ausnutria Hyproca Group’s capital expenditure plan, including the acquisition of the Land as approved in the Board meeting held on 1 November 2013

As set out in the Letter from the Board, the terms of the Second Shareholder Loan Agreement were determined after arm’s length negotiation between the Company, Ausnutria (Dutch) and DDI. The Directors have considered, among others, (i) the bank deposit rates in the PRC, where most of the deposits of the Ausnutria Group are placed, and the prevailing bank borrowing costs in Europe; (ii) the terms of the Second Shareholder Loan Agreement, which are substantially the same as the terms of the First Shareholder Loan Agreement, are not on worse terms to the Ausnutria Group; and (iii) the repayment ability of the Ausnutria Hyproca Group.

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As mentioned above, in order to protect the interest of the Company and the Shareholders, the tenure of the Second Shareholder Loan has been set to link with the Option Period and pursuant to the Second Shareholder Loan Agreement, no dividend of Ausnutria Hyproca shall be distributed to its shareholders before full repayment of the First Shareholder Loan, the Second Shareholder Loan and the accrued interest. If the Call Option cannot be exercised due to the failure to satisfy any of the conditions precedent of exercising the Call Option, Ausnutria Hyproca shall repay the First Shareholder Loan, the Second Shareholder Loan and the accrued interest at 5% per annum to Ausnutria (Dutch) in accordance with the repayment term under the Second Shareholder Loan Agreement.

As advised by the management of the Group, in order to meet the 30% solvency ratio requirement which mainly refers to the size of the equity relative to the total assets of the Ausnutria Hyproca Group, as set out in a loan agreement dated 30 November 2012 entered into between the Ausnutria Hyproca Group and its existing lending bank, the First Shareholder Loan and the Second Shareholder Loan are subordinated to all the existing and future secured and unsecured loans as granted by the Ausnutria Hyproca Group's existing lending bank to the Ausnutria Hyproca Group with the Second Shareholder Loan ranks the same as the First Shareholder Loan.

As advised by the management of the Group, the Company received annual interest rates of 3.25% to 3.30% per annum from its existing bank deposits in the PRC, which is considerably lower than the Interest Rate of 5% per annum. The First Shareholder Loan was financed by a bank facility in an European bank by way of pledging an equivalent amount of RMB deposits in a licensed bank in the PRC. The Group intends to finance the Second Shareholder Loan partly by pledging its RMB deposits in the PRC to obtain a back-to-back bank facility in Europe for an equivalent amount in EURO and partly by internal available EURO-denominated bank balances in the Netherlands.

Based on the aforesaid, and considering (i) the tenure of the Second Shareholder Loan has been set to link with the Option Period and no dividend of Ausnutria Hyproca shall be distributed to its shareholders during the Option Period and before full repayment of the First Shareholder Loan, the Second Shareholder Loan and the accrued interest in order to protect the interest of the Company and the Shareholders; (ii) the Interest Rate is above the interest rates of all of the existing financial or treasury investments of the Ausnutria Group; (iii) the Second Shareholder Loan represents a better short-term investment for the Ausnutria Group's idle cash reserve; and (iv) it is important to observe the bank borrowing covenant requirements of the Ausnutria Hyproca Group, we concur with the Directors that the transactions contemplated under the Second Shareholder Loan Agreement are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

### ***3. Financial effects on the Second Shareholder Loan Agreement***

We were advised by the management of the Group that the results of Ausnutria Hyproca, being a subsidiary of the Company, shall be consolidated into the financial statements of the Group. Same as the First Shareholder Loan, the Second Shareholder Loan will be eliminated in the consolidated financial statements of the Group. The total assets and total liabilities of the Group are expected to increase by the bank facility to be obtained in Europe as a result of the granting of the Second Shareholder Loan. As



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set out in the Letter from the Board, the unaudited cash and bank balances (including bank time deposits) less bank loans and other borrowings of the Ausnutria Group amounted to approximately RMB677.2 million (equivalent to approximately HK\$862.8 million) as at 30 September 2013. Given the net cash position of the Ausnutria Group as at 30 September 2013 and the working capital requirements of the Ausnutria Group, the Directors consider that the granting of the Second Shareholder Loan will not have a significant impact on the working capital condition, net assets and profitability of the Group.

### (II) CONTINUING CONNECTED TRANSACTIONS

#### **Principal factors and reasons considered**

In arriving at our recommendation in respect of the transactions contemplated under the Framework Supply Agreement (including the Proposed Annual Caps), we have considered the following principal factors and reasons:

#### ***1. Background to and reasons for the entering into of the Framework Supply Agreement***

As set out under the paragraph headed “Background information on the Group and the Ausnutria Hyproca Group” under the section headed “Background to and reasons for the entering into of the Second Shareholder Loan Agreement” in this letter, the Ausnutria Hyproca Group is principally engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products. The Ausnutria Hyproca Group also has its own formula milk powder productions and is a leading producer of goat milk powder in the world. The Ausnutria Hyproca Group currently produces infant and toddler nutrition products for the Ausnutria Group under the brand name of the Ausnutria Group and also provides private label production and contract manufacturing services for infant and toddler nutrition products for its worldwide customers.

As set out in the Letter from the Board, upon completion of the transactions contemplated under the SSA and the SHA, the Ausnutria Hyproca Group has been supplying paediatric milk formula products to the Ausnutria Group under separate independent contracts or purchase orders since 2012, which is in the ordinary course of business of the Group. Mr. Bartle van der Meer, who is indirectly interested in 49% equity interests in Ausnutria Hyproca, was appointed as an executive Director and chief executive officer of the Company on 7 June 2013 and thus Ausnutria Hyproca becomes a connected person of the Company under Chapter 14A of the Listing Rules. As such, on 1 November 2013 (the “**Commencement Date**”), the Company entered into the Framework Supply Agreement (conditional upon the Independent Shareholder’s approval) with Ausnutria Hyproca in respect of the supply of paediatric milk formula products by the Ausnutria Hyproca Group to the Ausnutria Group during the CCT Period. On the same date, the parties to the SHA also entered into a supplemental agreement to the SHA, pursuant to which the parties agreed, the main supply conditions in respect of the supply of paediatric milk formula products by the Ausnutria Hyproca Group to the Ausnutria Group under the SHA shall be cancelled and the supply of paediatric milk formula products by the Ausnutria Hyproca Group to the Ausnutria Group shall be governed by the Framework Supply Agreement with effect from 1 November 2013.

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As stated in the announcement of the Company dated 18 August 2013 and as advised by the management of the Group, the Group's business in the production, marketing and distribution of paediatric nutrition products has a prosperous future and the entering into of the Framework Supply Agreement will allow a stable supply of milk powder to cope with the business growth of the Group under the anticipation of an increase in demand and a growing market for infant and toddler nutrition products worldwide. In addition, we have reviewed and noted in the SHA that subject to the existing agreements between the Group and its suppliers, the Group grants the Ausnutria Hyproca Group a preferred supplier position to supply products to the Group, provided that the Ausnutria Hyproca Group is able to supply its products on conditions and requirements satisfactory to the Group. In case the existing agreements between the Group and any of its current suppliers expire or can be duly terminated without costs or damages payable by the Group, the Group will use its best endeavours to transfer such business to the Ausnutria Hyproca Group, provided that the Ausnutria Hyproca Group is able to supply its products on conditions and requirements satisfactory to the Group.

Taken into account (i) the nature of the Continuing Connected Transactions is in line with the usual and ordinary course of business of the Group; (ii) the 51% equity interests in Ausnutria Hyproca indirectly held by the Group and the intention of the Group to further consolidate the business currently conducted by the Ausnutria Hyproca Group into the Group by acquiring the remaining 49% equity interests in Ausnutria Hyproca from DDI as set out under the paragraph headed "Background information on the Group and the Ausnutria Hyproca Group" under the section headed "Background to and reasons for the entering into of the Second Shareholder Loan Agreement" in this letter and the contribution generated from the Group's equity interests in the Ausnutria Hyproca Group; (iii) the Ausnutria Hyproca Group has been supplying paediatric milk formula products to the Ausnutria Group under separate independent contracts or purchase orders since 2012; and (iv) the Continuing Connected Transactions will be conducted on normal commercial terms and on terms no less favourable to the Ausnutria Group than terms available from independent third parties (as explained below), we consider that the entering into of the Framework Supply Agreement with Ausnutria Hyproca in respect of the supply of paediatric milk formula products by the Ausnutria Hyproca Group to the Ausnutria Group is in the ordinary and usual course of business of the Group and in the interest of the Company and the Independent Shareholders as a whole.

### ***2. Principal terms of the Framework Supply Agreement***

Pursuant to the Framework Supply Agreement, any member of the Ausnutria Group and any member of the Ausnutria Hyproca Group may from time to time enter into contracts and/or purchase orders setting out the detailed terms for the procurement of paediatric milk formula products by any member of the Ausnutria Group from any member of the Ausnutria Hyproca Group, provided that such detailed terms shall not be inconsistent with the terms and conditions of the Framework Supply Agreement.

The Framework Supply Agreement is for a term commencing from 1 November 2013 up to and including 31 December 2015 unless terminated earlier in accordance with the terms of the Framework Supply Agreement.

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Pursuant to the Framework Supply Agreement, the price at which the paediatric milk formula products to be supplied by any member of the Ausnutria Hyproca Group to any member of the Ausnutria Group shall be at market price, or if the same is not available, a price which is no less favourable to the Ausnutria Group than the price at which the Ausnutria Group purchases similar paediatric milk formula products from independent third parties (the “**Independent Suppliers**”).

The Ausnutria Hyproca Group has been supplying paediatric milk formula products to the Ausnutria Group under separate independent contracts or purchase orders since 2012. As confirmed by the Directors, such transactions were determined at arm’s length and on normal commercial terms. As advised by the management of the Group, the purchasing personnel of the Ausnutria Group keeps track of market prices of raw milk (which is the major component in deriving the cost of milk powder) in each of the countries where the Ausnutria Group’s suppliers are based and the Ausnutria Group would compare the prices as quoted by the Ausnutria Group’s suppliers with reference to the then market price of milk in respective countries together with the availability of the production capacity of the suppliers before placing the order. As ingredients differ among different series of paediatric milk formula products of the Ausnutria Group, the Ausnutria Group would make reference to the then market prices of ingredients (if available) and also prices of ingredients as quoted by other suppliers of the Ausnutria Group in order to determine whether quotes from suppliers as a whole are on an arm’s length basis. As confirmed by the Directors, such purchasing mechanism has been and will continue to be adopted by the Ausnutria Group to its suppliers, including the Ausnutria Hyproca Group, to ensure the price at which the paediatric milk formula products to be supplied by the Ausnutria Hyproca Group to the Ausnutria Group shall be at market price, or if the same is not available, a price which is no less favourable to the Ausnutria Group than the price at which the Ausnutria Group purchases similar paediatric milk formula products from the Independent Suppliers. In addition, by the commencement of the Framework Supply Agreement, the auditors of the Company (currently, EY) would provide a letter to the Company each year to confirm that the Continuing Connected Transactions have been entered into in accordance with the Framework Supply Agreement.

As advised by the management of the Group, the suppliers of the Ausnutria Group produce and manufacture the paediatric milk formula products according to the Ausnutria Group’s specifications and package the milk powder in either bulk-bag or finished form (in can form which can be readily on-sell to the consumers) before delivery to the Ausnutria Group. The milk powder which is purchased in bulk-bag form will be further processed at the production plant of the Ausnutria Group in the PRC. As ingredients differ among different series of paediatric milk formula products in can form and unless under special circumstances, once order for a specific paediatric milk formula product is placed to a particular supplier, the supply of such product will normally be maintained with the same supplier for a certain period of time (normally for at least one year). On the other hand, ingredients of milk powder in bulk-bag form purchased from different suppliers of the Ausnutria Group are similar and thus milk powder in bulk-bag form can always be interchanged subject to the price and the capacity of the suppliers of the Ausnutria Group.

We understand from the management of the Group that, the Ausnutria Group purchased the paediatric milk formula products in can form as well as in bulk-bag form from the Ausnutria Hyproca Group. As such, we have reviewed, on a sample basis, purchase contracts and invoices of the Ausnutria Group’s purchase of milk powder in

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bulk-bag form from the Independent Suppliers with ingredients similar to those supplied by the Ausnutria Hyproca Group and note that the prices of milk powder in bulk-bag form purchased from the Ausnutria Hyproca Group were comparable to the prices of milk powder in bulk-bag form purchased from the Independent Suppliers. We have also reviewed, on a sample basis, purchase contracts and invoices of the Ausnutria Group's purchase of a paediatric milk formula product in can form (the "**Comparable Product**") from an Independent Supplier with ingredients most comparable to the paediatric milk formula products in can form supplied by the Ausnutria Hyproca Group. As ingredients differ among different series of paediatric milk formula products in can form, we have discussed with the management of the Group and have reviewed a comparison of costs of ingredients and purchase price of the Comparable Product with those of the paediatric milk formula products supplied by the Ausnutria Hyproca Group. We note that, taken in consideration the mix of costs of ingredients, used in the Comparable Product and the paediatric milk formula products purchased from the Ausnutria Hyproca Group, as quoted by the Independent Suppliers, the prices of paediatric milk formula products purchased from the Ausnutria Hyproca Group were comparable to the price of the Comparable Product purchased from the Independent Supplier.

In addition, we noted that the Ausnutria Group made payment to the Independent Suppliers through letter of credit arrangement with the credit terms of 45 to 60 days from the date of delivery of products, while payments were made to the Ausnutria Hyproca Group by telegraphic transfer payable within 30 days from the date of delivery of products. Taken into account the cost incurred by the letter of credit arrangement and the settlement of the relevant purchases are on open account, we concur with the view of the Directors that the payment terms offered by the Ausnutria Hyproca Group were comparable to (if not better than) the Independent Suppliers.

In view of (i) the mechanism adopted and will continue to be adopted by the Ausnutria Group to ensure the prices at which the paediatric milk formula products to be supplied by the Ausnutria Hyproca Group to the Ausnutria Group shall be at market price, or if the same is not available, a price which is no less favourable to the Ausnutria Group than the price at which the Ausnutria Group purchases similar paediatric milk formula products from the Independent Suppliers; and (ii) our review of the sample purchase contracts and invoices and comparison of the historical purchase transactions with the Ausnutria Hyproca Group against the transactions with the Independent Suppliers as stated above, we consider that the terms of the Framework Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **3. *Basis of the Proposed Annual Caps***

Set out below are the details of (i) the historical transaction amounts of the purchase of paediatric milk formula products from the Ausnutria Hyproca Group by the Ausnutria Group; and (ii) the Proposed Annual Caps for the CCT Period.

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Historical transaction amounts		Proposed Annual Caps		
For the year ended 31 December 2012 <i>(EURO million)</i>	For the period between 1 January 2013 and 6 June 2013 <i>(EURO million)</i>	Commencement Date to 31 December 2013 <i>(EURO million)</i>	For the year ending 31 December 2014 <i>(EURO million)</i>	For the year ending 31 December 2015 <i>(EURO million)</i>
3.5	5.1	1.5	25.8	30.6
(equivalent to approximately HK\$37.5 million)	(equivalent to approximately HK\$54.6 million)	(equivalent to approximately HK\$16.1 million)	(equivalent to approximately HK\$276.1 million)	(equivalent to approximately HK\$327.4 million)
	<i>(Note)</i>			

*Note:* The paediatric milk formula products which were ordered by the Ausnutria Group from the Ausnutria Hyproca Group before 7 June 2013 and have been or will be delivered after 7 June 2013 (the date Mr. Bartle van der Meer was appointed as an executive Director and chief executive officer of the Company) amounted to approximately EURO 1.9 million (equivalent to approximately HK\$20.3 million), which was included in the historical transaction amount for the period between 1 January 2013 and 6 June 2013. There were no supply orders placed or agreements entered into between the Ausnutria Hyproca Group and the Ausnutria Group during the period between 7 June 2013 and 31 October 2013, the date prior to the Commencement Date.

As set out in the Letter from the Board, the Proposed Annual Caps have been determined by both parties to the Framework Supply Agreement with reference to (i) the anticipated increase in the production capacity of the Ausnutria Hyproca Group as a result of its capital expenditure plan; (ii) the introduction of a number of new brands by the Ausnutria Group since 2013 which at least three of those products have been supplied by the Ausnutria Hyproca Group; (iii) the shift of some of the paediatric milk formula products that were previously supplied by other suppliers to the Ausnutria Group as part of the integration plan since the acquisition of the 51% equity interests in Ausnutria Hyproca by the Group in 2011; and (iv) the anticipated growth in market demand of the Ausnutria Group's products. In assessing the fairness and reasonableness of the Proposed Annual Caps, we have reviewed the capital expenditure plan of the Ausnutria Hyproca Group for constructing new production facilities in order to increase the production capacity of the paediatric milk formula products of the Ausnutria Hyproca Group. As advised by the management of the Group, the production capacity of the Ausnutria Hyproca Group for milk powder in bulk-bag form will be increased from existing 10,000 tonnes to 30,000 tonnes by second quarter of 2014. In addition, as mentioned above, under the SHA, the Ausnutria Group grants the Ausnutria Hyproca Group a preferred supplier position to supply products to the Ausnutria Group subject to the existing agreements between the Ausnutria Group and its suppliers. In case the existing agreements between the Ausnutria Group and any of its current suppliers expire or can be duly terminated without costs or damages payable by the Ausnutria Group, the Ausnutria Group will use its best endeavours to transfer such business to the Ausnutria Hyproca Group. We note that the proposed annual cap for the year ending 31 December 2014 represents a significant increase as compared to the amount of orders placed during the period between 1 January 2013 and 6 June 2013. We understand from the management of the Group that the total purchase of milk powder in bulk-bag form of the Ausnutria Group from the Ausnutria Hyproca Group amounted

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to approximately 10.8% of the estimated total purchase of milk powder in bulk-bag form of the Ausnutria Group for the year ending 31 December 2013. The Ausnutria Group intends to increase its total purchase of milk powder in bulk-bag form from the Ausnutria Hyproca Group to approximately 60.0% of its total purchase of milk powder in bulk-bag form for each of the two years ending 31 December 2015.

We understand that the Group has made reference to the anticipated growth in market demand of the Ausnutria Group's products in the course of determining the Proposed Annual Caps. According to a report published on 25 July 2013 by Huidian Research, an industry consulting and market survey firm in China, the estimated scale of China's infant food market was approximately RMB60 billion (equivalent to approximately HK\$76.4 billion) in 2012, among which, the formula milk powder market amounted to approximately RMB51 billion (equivalent to approximately HK\$65.0 billion). It is estimated that the scale of China's formula milk powder market will reach approximately RMB80 billion (equivalent to approximately HK\$101.9 billion) by 2015. We noted that the Group has also made reference to the respective historical transaction amounts of the purchase of paediatric milk formula products in can form from the Ausnutria Hyproca Group and the Independent Suppliers in determining the Proposed Annual Caps, including (i) a paediatric milk formula product that has been supplying by the Ausnutria Hyproca Group since 2012; (ii) three of the new brands launched by the Ausnutria Group in mid of 2013, which have been supplying by the Ausnutria Hyproca Group; and (iii) two paediatric milk formula products which were previously supplied by the Independent Suppliers and are intended to be supplied by the Ausnutria Hyproca Group from 2014 onwards.

We have also reviewed the information provided by the management of the Group including, (i) the Ausnutria Group's historical purchase prices of the paediatric milk formula products for the first eight months of 2013; and (ii) the estimated increment of cost of paediatric milk formula products during the CCT Period, which we consider to be reasonable given that the annual growth rate of the estimated purchasing price of paediatric milk formula products during the CCT Period is in line with the inflation rate in the Netherlands of 2.4% in September of 2013 as reported by the Statistics Netherlands, we concur with the view of the Directors that the basis in determining the Proposed Annual Caps is reasonable based on the above information.

#### ***4. Reporting requirements and conditions of the Continuing Connected Transactions***

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that Continuing Connected Transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;



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- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
  - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company (currently, EY) must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming that the Continuing Connected Transactions:
- (i) have received the approval of the Board;
  - (ii) are in accordance with the pricing policies of the Group (if applicable);
  - (iii) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
  - (iv) have not exceeded the Proposed Annual Caps;
- (c) the Company shall allow, and shall procure the relevant counterparties to the Continuing Connected Transactions to allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Proposed Annual Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Continuing Connected Transactions, we are of the view that appropriate measures will be in place to monitor the conduct of the Continuing Connected Transactions and assist to safeguard the interests of the Independent Shareholders.

### RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the terms of the Second Shareholder Loan Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole; and (ii) the entering into of the

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Framework Supply Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole, the terms of the Framework Supply Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the basis for determining the Proposed Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM in respect of the Second Shareholder Loan Agreement and the Framework Supply Agreement.

Yours faithfully,  
For and on behalf of  
**Halcyon Capital Limited**  
**Terry Chu**  
*Managing Director*



**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein misleading.

**SHARE CAPITAL**

The authorised and issued share capital of the Company as at the Latest Practicable Date was as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>1,500,000,000</u>	Shares (of HK\$ 0.1 each)	<u>150,000,000</u>
 <i>Issued and fully paid or credited as fully paid:</i>		
<u>986,843,000</u>	Shares in issue as at the Latest Practicable Date	<u>98,684,300</u>
<u>986,843,000</u>		<u>98,684,300</u>

**DISCLOSURE OF DIRECTOR'S INTERESTS AND SHORT POSITION IN THE COMPANY**

As at the Latest Practicable Date, the interests and short positions of each Director in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Yan Weibin (“ <b>Mr. Yan</b> ”) ( <i>Note 1</i> )	Interest of a controlled corporation	474,646,000	48.50%

Name of Directors	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Bartle van der Meer (Note 2)	Interest of a controlled corporation	213,125,000	21.60%

*Notes:*

- (1) Of these Shares, 214,646,000, 60,000,000 and 200,000,000 Shares were respectively beneficially held by Brave Leader Limited (“**Brave Leader**”), Silver Castle International Limited (“**Silver Castle**”) and Ausnutria Holding Co. Ltd (“**Ausnutria BVI**”). Brave Leader, Silver Castle and Ausnutria BVI were beneficially held as to 9.76%, 9.76% and 30% respectively by Mr. Yan. The above disclosure of interests in the Company is made based on the voluntary declaration submitted by Mr. Yan although Mr. Yan beneficially controls less than one third of interests in each of Brave Leader, Silver Castle and Ausnutria BVI.
- (2) Of these Shares, 11,000,000 Shares were beneficially held by DDI as at the Latest Practicable Date and 202,125,000 Shares are to be issued by the Company to DDI as the consideration shares upon the exercise of the Call Option pursuant to the Call Option Agreement dated 7 June 2013. DDI is owned as to 46.55% by PMH, 46.55% by Manids and 6.9% by Elbe. PMH is beneficially owned as to 85% by Mr. Bartle van der Meer and 15% by Mr. Durk Andries van der Meer, being the son of Mr. Bartle van der Meer. Manids is entirely owned by Mr. Ignatius Petrus Jorna. Elbe is entirely owned by Mr. Ben Busser.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Other than the disclosure above, as disclosed in the Company’s announcement dated 18 September 2013, Brave Leader, Silver Castle, Ausnutria BVI, and All Harmony International Limited (“**All Harmony**”) (together, being the “**Vendors**”), entered into a non-binding letter of intent (the “**LOI**”) with an independent third party purchaser (the “**Purchaser**”) on 17 September 2013, pursuant to which the Vendors intend to sell and the Purchaser intends to purchase from the Vendors a portion of the Shares held by the Vendors.

#### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the directors and

chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Capacity	Number of shares and underlying shares held	Percentage of shareholding
All Harmony ( <i>Note 1</i> )	Beneficial owner	107,000,000	10.84%
Brave Leader ( <i>Note 2</i> )	Beneficial owner	214,646,000	21.75%
Silver Castle ( <i>Note 3</i> )	Beneficial owner	60,000,000	6.08%
Ausnutria BVI ( <i>Note 4</i> )	Beneficial owner	200,000,000	20.27%
Xiong Fanyi (“ <b>Ms. Xiong</b> ”) ( <i>Note 5</i> )	Interest of spouse	474,646,000	48.10%
DDI ( <i>Note 6</i> )	Beneficial owner	213,125,000	21.60%

*Notes:*

- (1) This company is owned as to 49.22% by Mr. Chen Yuanrong, who is the former executive Director having resigned on 7 June 2013, and 50.78% by 20 former and present employees of the Group.
- (2) This company is owned as to 59.57% by Mr. Wu Yueshi (“**Mr. Wu**”), who is the former executive Director having resigned on 7 June 2013, 30.67% by Ms. Wu Xing Xing (“**Ms. X Wu**”, the elder sister of Mr. Wu) and 9.76% by Mr. Yan.
- (3) This company is owned as to 59.57% by Mr. Wu, 30.67% by Ms. X Wu and 9.76% by Mr. Yan.
- (4) This company is owned as to 60% by Mr. Wu, 30% by Mr. Yan and 10% by Ms. Xiong.
- (5) Ms. Xiong is the wife of Mr. Wu and is therefore deemed to be interested in the shares in which Mr. Wu is interested as disclosed in notes (2), (3) and (4) above.
- (6) Of these Shares, 11,000,000 Shares were beneficially held by DDI as at the Latest Practicable Date and 202,125,000 Shares are to be issued by the Company to DDI as the consideration shares upon the exercise of the Call Option pursuant to the Call Option Agreement dated 7 June 2013. DDI is owned as to 46.55% by PMH, 46.55% by Manids and 6.9% by Elbe. PMH is beneficially owned as to 85% by Mr. Bartle van der Meer and 15% by Mr. Durk Andries van der Meer, being the son of Mr. Bartle van der Meer. Manids is entirely owned by Mr. Ignatius Petrus Jorna. Elbe is entirely owned by Mr. Ben Busser.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company were not aware of any other persons (other than the Directors and chief executives of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would require to be disclosed to the Company pursuant to Part XV of the SFO; or which were recorded in the register required to be kept under Section 336 of the SFO.

Other than the disclosure above, as disclosed in the Company's announcement dated 18 September 2013, the Vendors entered into the LOI with the Purchaser on 17 September 2013, pursuant to which the Vendors intend to sell and the Purchaser intends to purchase from the Vendors a portion of the Shares held by the Vendors.

#### **DIRECTORS' INTEREST IN ASSETS AND/OR ARRANGEMENT**

The Group acquired the 51% equity interests in Ausnutria Hyproca by subscribing 175,000 shares of Ausnutria Hyproca in June 2011 and purchasing 284,000 shares of Ausnutria Hyproca from DDI in July 2011, respectively. Further, pursuant to the call option agreement entered into, among others, DDI, the Company and Ausnutria (Dutch) on 7 June 2013, Ausnutria (Dutch) has the sole discretion to purchase from DDI the remaining 49% equity interests in Ausnutria Hyproca. Prior to these, the above Ausnutria Hyproca was a wholly-owned subsidiary of DDI, a company in which Mr. Bartle van der Meer (together with his son) is indirectly interested in approximately 46.55% equity interests.

Save as disclosed above, as at the Latest Practicable Date, none of the other Directors, directly or indirectly, had any interest in any assets which had since 31 December 2010 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

#### **COMPETING BUSINESS INTERESTS OF DIRECTORS**

As at the Latest Practicable Date, the Ausnutria Hyproca Group does not only supply paediatric milk formula products to the Group but also other distributors in the PRC. Further, the Ausnutria Hyproca Group also distributes dairy products worldwide including the PRC under its separate brand. As such, Mr. Bartle van der Meer, being an associate of Ausnutria Hyproca, is deemed to have a competing interest with the business of the Ausnutria Group by such reason.

Save as disclosed above, none of the other Directors nor their respective associates had any businesses or interests that competes or might compete with the business of the Group or any other conflict of interests with the Group.

#### **SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

#### **MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Group were made up.

**THE EXPERT AND CONSENT**

The following is the qualification of the expert who has given opinion and advice, which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Halcyon Capital Limited	a licensed corporation to carry out business in Type 6 (advising on corporate finance) regulated activity under the SFO

Halcyon has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 18 November 2013 and references to its name in the form and context in which it appears. As at the Latest Practicable Date, Halcyon:

- (1) did not have any shareholding in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (2) did not have any direct or indirect interest in any assets which have been, since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

- (1) the Call Option Agreement dated 7 June 2013 entered into, among others, Ausnutria (Dutch) and DDI in relation to the granting of the Call Option by DDI to Ausnutria (Dutch);
- (2) the First Shareholder Loan Agreement dated 7 June 2013 entered into between Ausnutria (Dutch), Ausnutria Hyproca and DDI in relation to the provision of the First Shareholder Loan by Ausnutria (Dutch) to Ausnutria Hyproca;
- (3) the Second Shareholder Loan Agreement dated 1 November 2013 entered into between Ausnutria (Dutch), Ausnutria Hyproca and DDI in relation to the provision of the Second Shareholder Loan by Ausnutria (Dutch) to Ausnutria Hyproca;
- (4) the Framework Supply Agreement dated 1 November 2013 entered into between the Company and Ausnutria Hyproca in relation to the supply of paediatric milk formula products by the Ausnutria Hyproca Group to the Ausnutria Group;

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong from the Latest Practicable Date and up to and including the date of the EGM:

- (a) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (b) the letter of recommendation from the Independent Board Committee dated 18 November 2013;
- (c) the letter of advice issued by Halcyon to the Independent Board Committee and the Shareholders dated 18 November 2013;
- (d) the written consent given by Halcyon as referred to in the paragraph headed "EXPERT QUALIFICATION AND CONSENT" of this appendix; and
- (e) this circular.

**MISCELLANEOUS**

In the event of inconsistency, the English version of this circular shall prevail over the Chinese text.

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## NOTICE OF THE EGM

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### AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

*(Incorporated in Cayman Islands with limited liability)*

(Stock Code: 1717)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of Ausnutria Dairy Corporation Ltd (the “Company”) will be held at 8/F, XinDaXin Building A, 168 Huangxing Middle Road, Changsha, Hunan Province, the PRC on 6 December 2013 at 2:30 p.m. to consider and, if thought fit, pass the following resolution as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. **“THAT:**

- (A) the second shareholder loan agreement (the “**Second Shareholder Loan Agreement**”) (a copy of which has been produced to the meeting marked “**A**” and initialed by the chairman of the meeting for the purpose of identification) dated 1 November 2013 and entered into among Ausnutria Dairy (Dutch) Coöperatief U.A. (“**Ausnutria Dutch**”), as the lender, Ausnutria Hyproca B.V. (“**Ausnutria Hyproca**”), as the borrower, and Dutch Dairy Investments B.V. in respect of a loan in the principal amount of EURO 10 million granted by Ausnutria Dutch to Ausnutria Hyproca, together with all transactions contemplated under the Second Shareholder Loan Agreement be and are hereby approved, confirmed and ratified; and
- (B) the directors of the Company (the “**Directors**”) be and are hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Second Shareholder Loan Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents) as are, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

2. **“THAT:**

- (A) the framework supply agreement (the “**Framework Supply Agreement**”) (a copy of which has been produced to the meeting marked “**B**” and initialed by the chairman of the meeting for the purpose of identification) dated 1

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## NOTICE OF THE EGM

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November 2013 and entered into between the Company, as the purchaser, and Ausnutria Hyproca, as the supplier, in respect of the procurement of paediatric milk formula products, together with all transactions contemplated under the Framework Supply Agreement and the proposed annual caps for the period from 1 November 2013 to 31 December 2013 and the two years ending 31 December 2015 for the transactions contemplated under the Framework Supply Agreement be and are hereby approved, confirmed and ratified; and

- (B) the Directors be and are hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Framework Supply Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents) as are, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

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

Changsha, China, 18 November 2013

*Registered office:*

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

*Principal Place of Business in Hong Kong:*

Room 2101  
Beautiful Group Tower  
77 Connaught Road Central  
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more person(s) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power of attorney, must be deposited not less than 48 hours before the time appointed for the holding of the above meeting at the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
3. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the above meeting if the member so desires, and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of a poll.



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## NOTICE OF THE EGM

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*As at the date of hereof, the board of directors of the Company comprises three executive directors, namely, Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung, one non-executive director, namely, Mr. Dai Li, and three independent non-executive directors, namely, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.*