
THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of the Offers, this Composite Document and/or the accompanying Form(s) of Acceptance or the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Ausnutria Dairy Corporation Ltd, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) and transferee(s). This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms of the Offers contained herein.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form(s) of Acceptance, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form(s) of Acceptance.



HONGKONG JINGANG TRADE HOLDING CO., LIMITED
香港金港商貿控股有限公司
(Incorporated in Hong Kong with limited liability)



AUSNUTRIA DAIRY CORPORATION LTD
澳優乳業股份有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1717)

**COMPOSITE DOCUMENT IN RELATION TO
MANDATORY CONDITIONAL CASH OFFERS
BY CLSA LIMITED FOR AND ON BEHALF OF
HONGKONG JINGANG TRADE HOLDING CO., LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
AUSNUTRIA DAIRY CORPORATION LTD
(OTHER THAN THOSE ALREADY OWNED AND/OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR
THE PARTIES ACTING IN CONCERT WITH IT) AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF
AUSNUTRIA DAIRY CORPORATION LTD**

Exclusive financial adviser to
Hongkong Jingang Trade Holding Co., Limited



Sole financial adviser to
Ausnutria Dairy Corporation Ltd



**Independent Financial Adviser to the Independent Board Committee of
Ausnutria Dairy Corporation Ltd**



Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from CLSA Limited containing, among other things, the details of the terms and conditions of the Offers is set out on pages 12 to 25 of this Composite Document. A letter from the Board is set out on pages 26 to 29 of this Composite Document. A letter from the Independent Board Committee containing its recommendation in respect of the Offers to the Offer Shareholders and the Optionholders is set out on pages 30 to 31 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offers is set out on pages 32 to 60 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out on pages I-1 to I-11 in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Form(s) of Acceptances of the Offers should be received by the Registrar or the company secretary of the Company (as the case may be) by no later than 4:00 p.m. (Hong Kong time) on Thursday, 3 March 2022 or such later time and/or date as the Offeror may determine and the Offeror and the Company may jointly announce with the consent of the Executive and in accordance with the Takeovers Code.

Any persons including, without limitation, custodians, nominees and trustees who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form(s) of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the sections headed "Overseas Shareholders and Overseas Optionholders" in the "Letter from CLSA Limited" and Appendix I to this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder and Overseas Optionholder wishing to accept the Offers to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due from such Overseas Shareholder or Overseas Optionholder in respect of such jurisdiction. Overseas Shareholders and Overseas Optionholders are advised to seek professional advice on deciding whether to accept the Offers.

This Composite Document is issued jointly by the Offeror and the Company. The English texts of this Composite Document and the accompanying Form(s) of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

This Composite Document will remain on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ausnutria.com.hk) as long as the Offers remain open.

10 February 2022

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EXPECTED TIMETABLE

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company by way of announcements as soon as possible. Unless otherwise specified, all time and date references contained in this Composite Document and the accompanying Form(s) of Acceptance refer to Hong Kong time and dates.

Event	Date
Despatch date of this Composite Document and the accompanying Form(s) of Acceptance and commencement of the Offers (<i>Note 1</i>)	10 February 2022
Offers open for acceptance (<i>Note 1</i>)	10 February 2022
First Closing Date (<i>Note 2</i>)	3 March 2022
Latest time and date for acceptance of the Offers on the First Closing Date (<i>Notes 3 and 6</i>)	4:00 p.m. on 3 March 2022
Announcement of the results of the Offers as at the First Closing Date to be posted on the website of the Stock Exchange	by 7:00 p.m. on 3 March 2022
Latest date for posting of remittances for the amount due in respect of valid acceptances received under the Offers on or before 4:00 p.m. on the First Closing Date (assuming the Offers become or are declared unconditional on the First Closing Date) (<i>Notes 4 and 6</i>)	14 March 2022
Latest time and date for the Offers remaining open for acceptance on the final Closing Date (assuming the Offers become or are declared unconditional on the First Closing Date) (<i>Notes 3 and 6</i>)	4:00 p.m. on 17 March 2022
Announcement of the results of the Offers as at the final Closing Date to be posted on the website of the Stock Exchange	by 7:00 p.m. on 17 March 2022
Latest date for posting of remittances for the amount due in respect of valid acceptances received under the Offers on or before 4:00 p.m. on the final Closing Date (assuming the Offers become or are declared unconditional in all respects on the First Closing Date) (<i>Notes 4 and 6</i>)	28 March 2022
Latest time and date by which the Offers can become or be declared unconditional as to acceptances (<i>Note 7</i>)	by 7:00 p.m. on 11 April 2022

EXPECTED TIMETABLE

Notes:

1. The Offers, which are conditional, are made on the date of posting of this Composite Document, and are capable of acceptance on and from that date until 4:00 p.m. on the Closing Date.
2. The Offers will initially remain open for acceptances until 4:00 p.m. on 3 March 2022 unless the Offeror extends the Offers in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). In accordance with the Takeovers Code, an announcement must be issued on the website of the Stock Exchange no later than 7:00 p.m. on 3 March 2022 stating either the next Closing Date or that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Offers closed to Offer Shareholders and Optionholders who have not accepted the Offers.
3. Beneficial owners of Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

Acceptances of the Offers are irrevocable and are not capable of being withdrawn, except in the circumstances as set out in the section headed "VII. RIGHT OF WITHDRAWAL" in Appendix I to this Composite Document.

4. Subject to the Offers becoming unconditional, payment of the consideration (after deducting the seller's ad valorem stamp duty) for the Offer Shares tendered for acceptance under the Share Offer will be made in cheque to the Offer Shareholders (to the address specified on the **WHITE** Form of Share Offer Acceptance) accepting the Offers by ordinary post at his/her/ its own risk, and payment of the consideration for the Options surrendered for cancellation under the Option Offer will be made to the Company as the agent of the Optionholders, by cheque(s) drawn in the name of the Company, or at the election of the Offeror, by wire transfer to the bank account of the Company. The Company will transfer any payment received to the respective Optionholders by issue of cheque or wire transfer. Payment to Offer Shareholders by the Offeror and payment to Optionholders by the Company will be made as soon as possible, but in any event within seven (7) business days following later of (i) the date on which the Offers become, or are declared, unconditional and (ii) the date of receipt by the Registrar (in the case of the Share Offer) and/or the company secretary of the Company (in the case of Option Offer) of the duly completed Form(s) of Acceptance together with all relevant documents required to render such acceptance under the Offers complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code.
5. In any event, in accordance with the Takeovers Code, when the Offers become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Offers closed to those Offer Shareholders and Optionholders who have not accepted the Offers. The Offeror has the right, subject to the Takeover Code, to extend the Offers until such date as it may determine or as permitted by the Executive.
6. If there is a tropical cyclone warning signal number 8 or above or a black rainstorm warning:
 - (i) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances, the latest time for acceptance of the Offers will remain at 4:00 p.m. on the same business day and the latest date for posting of remittances will also remain on the same business day; or
 - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers or the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances, the latest time for acceptance of the Offers will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m. and the latest date for posting of remittances will also be next following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..
7. In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or be declared unconditional as to acceptances after 7:00 p.m. on the sixtieth (60th) day after the day this Composite Document is posted, which is 11 April 2022. Accordingly, unless the Offers have previously become unconditional as to acceptances, the Offers will lapse on 11 April 2022 unless extended with the consent of the Executive and in accordance with the Takeovers Code. Therefore, the last day by which the Offers can become or declared unconditional as to acceptance is 11 April 2022.

DEFINITIONS

In this Composite Document, unless the context otherwise requires. The following terms shall have the following meanings:

“acting in concert”	has the same meaning ascribed to it in the Takeovers Code;
“associate”	has the same meaning ascribed to it in the Takeovers Code;
“Asian Capital”	means Asian Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the sole financial adviser to the Company in respect of the Offers;
“Bartle Irrevocable Undertaking”	means the irrevocable undertaking dated 27 October 2021 given by Mr. Bartle van der Meer in favour of the Offeror that he will not, <i>inter alia</i> , accept the Offers with respect to 1,509,000 Shares directly owned by him, DDI Remaining Shares and 1,000,000 Options granted to him;
“Board”	means the board of Directors;
“business day”	means a day on which the Stock Exchange is open for the transaction of business;
“CAF”	means CITIC Agri Fund Management Co., Ltd., a company established under the laws of the PRC;
“CAF Remaining Shares”	means 92,400,738 Shares held by Citagri Easter Limited, representing approximately 5.11% of the issued share capital of the Company as at the Latest Practicable Date;
“CCASS”	means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;
“CEL Irrevocable Undertaking”	means the irrevocable undertaking dated 27 October 2021 given by Citagri Easter Limited in favour of the Offeror that it will not, <i>inter alia</i> , accept the Share Offer with respect to CAF Remaining Shares;
“Circular”	means the circular dated 15 December 2021 issued by the Company in relation to, among others, the Share Subscription;
“CL Irrevocable Undertaking”	means the irrevocable undertaking dated 27 October 2021 given by CL Seller (CenterLab) in favour of the Offeror that it will not, <i>inter alia</i> , accept the Share Offer with respect to CL Remaining Shares;

DEFINITIONS

- “CL Remaining Shares” means 130,706,271 Shares held by CL Seller (CenterLab), representing approximately 7.23% of the issued share capital of the Company as at the Latest Practicable Date;
- “CL Seller (BioEngine)” means BioEngine Capital Inc., a company incorporated under the laws of Taiwan, which is owned as to approximately 58.60% by CL Seller (CenterLab);
- “CL Seller (CenterLab)” means Center Laboratories, Inc., a company incorporated under the laws of Taiwan, shares of which are listed on the Taipei Exchange in Taiwan (stock code: 4123) without having any controlling shareholder (as defined in the Listing Rules), and is the controlling shareholder of CL Seller (BioEngine);
- “Closing Date” means the date to be stated in this Composite Document as the First Closing Date, which is 21 calendar days after the posting of this Composite Document, or any subsequent closing date as and may be extended in accordance with the Takeovers Code;
- “CLSA Capital Markets” means CLSA Capital Markets Limited, a corporation licensed to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the exclusive financial adviser to the Offeror in respect of the Offers, an indirectly wholly-owned subsidiary of CITIC Securities Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6030);
- “CLSA Limited” means CLSA Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 7 (providing automated trading services) regulated activities under the SFO, being the agent making the Offers on behalf of the Offeror, an indirectly wholly owned subsidiary of CITIC Securities Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6030);
- “Committed Facilities” means the bank facilities under (1) a facility agreement dated on 26 October 2021 between the Offeror, Yili Industrial, Australia and New Zealand Banking Group Limited, Coöperatieve Rabobank U.A., Hong Kong Branch and Standard Chartered Bank (Hong Kong) Limited, and with respect to a facility of U.S.\$1,000,000,000 to the Offeror; and (2) a facility agreement dated on 26 October 2021 between the Offeror and China Merchants Bank Co., Ltd. with respect to a facility of U.S.\$900,000,000 to the Offeror, for the purposes of funding its payment obligations in connection with the purchase of the Sale Shares, subscription for the Subscription Shares, and the Offers;

DEFINITIONS

“Company”	means Ausnutria Dairy Corporation Ltd, a company incorporated under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1717);
“Completion”	means both the Share Purchase Completion and the Subscription Completion, which took place simultaneously;
“Composite Document”	means this composite offer and response document jointly issued by the Offeror and the Company to all the Shareholders and the Optionholders in accordance with the Takeovers Code, setting out, among others, details of the Offers;
“DDI”	means the DDI Seller and DDI Seller Parent;
“DDI Remaining Shares”	means 93,205,230 Shares held by DDI Seller, of which the ultimate beneficial shareholder is Mr. Bartle van der Meer, representing approximately 5.15% of the issued share capital of the Company as at the Latest Practicable Date;
“DDI Seller”	means Dutch Dairy Investments HK Limited, a company incorporated under the laws of Hong Kong, of which the ultimate beneficial shareholder is Mr. Bartle van der Meer;
“DDI Seller Parent”	means Dutch Dairy Investments B.V., a company incorporated under the laws of Netherlands and the controlling shareholder of DDI Seller, of which the ultimate beneficial shareholder is Mr. Bartle van der Meer;
“Director(s)”	means director(s) of the Company;
“EGM”	means the extraordinary general meeting convened on 31 December 2021 by the Company approving, among others, the Share Subscription;
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“First Closing Date”	means the first closing date of the Offers, being 3 March 2022, which is 21 calendar days after the posting of this Composite Document;
“Form(s) of Acceptance”	means the WHITE Form of Share Offer Acceptance and the PINK Form of Option Offer Acceptance, and “Form of Acceptance” means either of them;
“Group”	means the Company and its subsidiaries from time to time;

DEFINITIONS

“HKD or HK\$”	means Hong Kong Dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	means an independent committee of the Board comprising all independent non-executive Directors, namely Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman established for the purpose of providing recommendations in respect of (i) the Subscription Agreement and transactions contemplated thereunder, and (ii) the Offers, in particular as to whether the terms of the Offers are fair and reasonable and as to acceptance of the Offers pursuant to Rule 2.1 of the Takeovers Code;
“Independent Financial Adviser” or “Optima Capital”	means Optima Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee to advise (i) the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder; and (ii) the Independent Board Committee in respect of the Offers, in particular, as to whether the terms of the Offers are fair and reasonable and as to acceptance of the Offers pursuant to Rule 2.1 of the Takeovers Code;
“Independent Shareholders”	means Shareholders other than the Vendor Group, the Offeror, their respective associates and parties acting in concert with them;
“Irrevocable Undertaking(s)”	means CEL Irrevocable Undertaking, CL Irrevocable Undertaking, Yan Irrevocable Undertaking and Bartle Irrevocable Undertaking;
“Last Trading Day”	means 11 October 2021, being the last trading day of the Shares on the Stock Exchange before the publication of the Rule 3.5 Announcement;
“Latest Practicable Date”	means 7 February 2022, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“NDRC”	means the National Development and Reform Commission of the PRC;

DEFINITIONS

“Netherland”	mean Kingdom of the Netherlands;
“Offer Period”	means the period from 27 October 2021, being the date of the Rule 3.5 Announcement, to the Closing Date;
“Offer Share(s)”	means any and all the Shares (other than those already owned and/or agreed to be acquired by the Offeror);
“Offer Shareholder(s)”	means holder(s) of Share(s), other than the Offeror and parties acting in concert with it;
“Offeror” or “Jingang Trade”	means Hongkong Jingang Trade Holding Co., Limited, which is wholly and beneficially owned by Yili Industrial;
“Offers”	means the Share Offer and the Option Offer collectively;
“Option(s)”	means outstanding share options granted by the Company pursuant to the Share Option Scheme;
“Option Offer”	means the mandatory conditional cash offer made by CLSA Limited, for and on behalf of the Offeror, for the cancellation of all the outstanding options of the Company;
“Option Offer Price”	means the price at which the Option Offer is made, being HK\$0.06 per Option;
“Optionholder(s)”	means holders of Option(s);
“Overseas Optionholder(s)”	means Optionholder(s) whose address(es), as shown on the register of Optionholders of the Company, is/are outside Hong Kong;
“Overseas Shareholder(s)”	means Offer Shareholder(s) whose address(es), as shown on the register of members of the Company, is or are outside Hong Kong;
“ PINK Form of Option Offer Acceptance”	means the PINK form of acceptance in respect of the Option Offer accompanying this Composite Document;
“PRC” or “China”	means the People’s Republic of China, for the purpose of this Composite Document, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Registrar”	means Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company;

DEFINITIONS

“Relevant Period”	means the period from 27 April 2021, being the date falling six months prior to 27 October 2021 (the date of the commencement of the Offer Period) and ending on and including the Latest Practicable Date;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Rule 3.5 Announcement”	means the joint announcement dated 27 October 2021 issued jointly by the Offeror and the Company;
“SAFE”	means the State Administration of Foreign Exchange of the PRC;
“Sale Shares”	means any and all of 530,824,763 Shares acquired by the Offeror from the Vendors pursuant to the Share Purchase Agreement, representing approximately 29.35% of the total issued share capital of the Company as at the Latest Practicable Date;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	means the ordinary share(s) of HK\$0.1 each in the issued share capital of the Company as at the date of this Composite Document;
“Share Offer”	means the mandatory conditional cash offer made by CLSA Limited, for and on behalf of the Offeror, to acquire all the issued Shares not already owned and/or agreed to be acquired by the Offeror in accordance with the Takeovers Code;
“Share Offer Price”	means the price at which the Share Offer is made, being HK\$10.06 per Share;
“Share Option Scheme”	means the share option scheme adopted by the Company on 19 September 2009, as amended from time to time;
“Share Purchase Agreement”	means the share purchase agreement dated 27 October 2021 entered into between the Vendor Group and the Offeror in respect of the sale and purchase of the Sale Shares;
“Share Purchase Completion”	means completion of the purchase of the Sale Shares by the Offeror in accordance with the terms and conditions of the Share Purchase Agreement;

DEFINITIONS

“Share Subscription”	means the subscription of the Subscription Shares by the Offeror on the terms and subject to the conditions of the Subscription Agreement;
“Shareholder(s)”	means holder(s) of the Share(s);
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Subscription Agreement”	means the subscription agreement dated 27 October 2021 entered into between the Offeror and the Company in respect of the Share Subscription;
“Subscription Completion”	means completion of the Share Subscription in accordance with the terms and conditions of the Subscription Agreement;
“Subscription Shares”	means 90,000,000 Shares subscribed by the Offeror on the terms and subject to the conditions of the Subscription Agreement;
“Takeovers Code”	means the Code on Takeovers and Mergers of Hong Kong;
“U.S.” or “US” or “United States”	means the United States of America;
“U.S. Exchange Act”	means the U.S. Securities Exchange Act of 1934, as amended;
“U.S\$”	means United States dollars, the lawful currency of the United States;
“Vendor(s)”	means Citagri Easter Limited, CL Seller (BioEngine), CL Seller (CenterLab) and DDI Seller, and for more details, please refer to the Rule 3.5 Announcement;
“Vendor Group”	CAFM and DDI Seller Parent, together with the Vendors;
“ WHITE Form of Share Offer Acceptance”	means the WHITE form of acceptance and transfer in respect of the Share Offer accompanying this Composite Document;
“Yan Irrevocable Undertaking”	means the irrevocable undertaking dated 27 October 2021 given by Mr. Yan Weibin in favour of the Offeror that he will not, <i>inter alia</i> , accept the Offers with respect to 120,439,085 Shares owned by him and 1,000,000 Options granted to him;
“Yili Industrial”	means Inner Mongolia Yili Industrial Group Co., Ltd (內蒙古伊利實業集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange of the PRC (stock code: 600887); and
“%”	means per cent.

Unless the content states otherwise, conversion between RMB and HK\$ is calculated at the exchange rate of HK\$1 to RMB0.82.

IMPORTANT NOTICES

NOTICE TO US INVESTORS

The Share Offer will be made for the securities of a Cayman Islands company and is subject to Hong Kong disclosure and other procedural requirements, which are different from those of the United States securities laws. In addition, US holders of Shares should be aware that this document has been prepared in accordance with Hong Kong format and style, which differs from United States format and style. The Share Offer will be extended into the United States pursuant to the applicable US tender offer rules or an available exemption therefrom and otherwise in accordance with the requirements of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong). Accordingly, the Share Offer will be subject to Hong Kong disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments, which differ from those applicable under US domestic tender offer procedures and law.

The receipt of cash pursuant to the Share Offer by a US holder of Shares may be a taxable transaction for US federal income tax laws purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of acceptance of the Share Offer.

It may be difficult for US holders of Shares to enforce their rights and any claims arising out of the US federal securities laws, since the Offeror and the Company are located in a country other than the United States, and some or all of their respective officers and directors may be residents of a country other than the United States. In addition, most of the assets of the Offeror and the Group are located outside the United States. US holders of Shares may not be able to sue a non-US company or its officers or directors in a non-US court for any violations of the securities laws of the United States. Further, it may be difficult for US holders of Shares to effect service of process within the United States upon the Offeror or the Company or their respective officers or directors or to enforce against them a judgment of a US court predicated upon the federal or state securities laws of the United States.

In accordance with the normal Hong Kong practice and pursuant to Rule 14e-5(b) of the US Exchange Act, the Offeror hereby discloses that it or its affiliates or its nominees, or their respective brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, other than pursuant to the Share Offer, before or during the period in which the Share Offer remains open for acceptance. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices provided that any such purchase or arrangement complies with applicable law and regulations including the Takeovers Code and is made outside the United States. The Offeror will not increase the Share Offer Price for the Offer Shares as set out in this Composite Document and will not make any purchase of Shares above the Share Offer Price. Any information about such purchases will be reported to the SFC and, to the extent required to be publicly disclosed under the Takeovers Code, will be available on the SFC website at <http://www.sfc.hk/> and <https://www.hkexnews.hk/>.

IMPORTANT NOTICES

NOTICE TO OVERSEAS SHAREHOLDERS (OTHER THAN U.S. SHAREHOLDERS) AND OVERSEAS OPTIONHOLDERS

The making of (i) the Share Offer to Offer Shareholders; and (ii) the Option Offer to Optionholders, who are citizens, residents or nationals of jurisdictions outside Hong Kong may be subject to the laws of the relevant jurisdictions. Such Overseas Shareholders and Overseas Optionholders may be prohibited or affected by the laws and regulations of the relevant jurisdictions and it is the responsibility of each such Overseas Shareholder who wishes to accept the Share Offer and each such Overseas Optionholder who wishes to accept the Option Offer to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents, or filing and registration requirements which may be required to comply with all necessary formalities or legal or regulatory requirements and the payment of any transfer or other taxes due from such Overseas Shareholder or Overseas Optionholder in such relevant jurisdictions.

Any acceptance by such Overseas Shareholders or Overseas Optionholders will be deemed to constitute a representation and warranty from such persons to the Company, the Offeror, and their respective advisers, including the financial adviser, that those local laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

For further discussion, please refer to the sections headed “Overseas Shareholders and Overseas Optionholders” in the letter from CLSA Limited and Appendix I to this Composite Document.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as “**believe**”, “**expect**”, “**anticipate**”, “**intend**”, “**plan**”, “**seek**”, “**estimate**”, “**will**”, “**would**” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Offeror and the Company assume no obligation and do not intend to update these forward-looking statements, except as required pursuant to applicable laws and regulations, including the Takeovers Code.

LETTER FROM CLSA LIMITED



10 February 2022

To the Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS
BY CLSA LIMITED FOR AND ON BEHALF OF
HONGKONG JINGANG TRADE HOLDING CO., LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
AUSNUTRIA DAIRY CORPORATION LTD
(OTHER THAN THOSE ALREADY OWNED AND/OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR
THE PARTIES ACTING IN CONCERT WITH IT) AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF
AUSNUTRIA DAIRY CORPORATION LTD**

I. INTRODUCTION

Reference is made to (i) the Rule 3.5 Announcement, (ii) the Circular, and (iii) the announcement dated 28 January 2022 made jointly by the Offeror and the Company in relation to the Completion.

The Share Purchase Completion and the Subscription Completion took place at the same time on 28 January 2022. Immediately prior to the Completion, the Offeror was not interested in any Shares. As the Completion has taken place, as at the Latest Practicable Date, the Offeror owned an aggregate of 620,824,763 Shares, representing approximately 34.33% of the issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make the Share Offer for all issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and/or the parties acting in concert with it). The Offeror is also required to make a comparable offer to the Optionholders pursuant to Rule 13.5 of the Takeovers Code to cancel all the Options.

The Share Offer will be conditional upon the Offeror having received (and, where permitted, such acceptances not having been withdrawn), at or before 4:00 p.m. on the First Closing Date (or such other time as the Offeror may, subject to Takeovers Code, decide), valid acceptances in respect of the Shares which, together with Sale Shares and Subscription Shares, will result in the Offeror and any person acting in concert with it holding more than 50% of the voting rights of the Company. The Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

LETTER FROM CLSA LIMITED

This letter forms part of this Composite Document and sets out, among others, details of the Offers, certain background information of the Offeror, the reasons for making the Offers and the intention of the Offeror in relation to the Company. Further details on the terms and the procedures for acceptance of the Offers are set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

Your attention is also drawn to the letter from the Board on pages 26 to 29, the letter from the Independent Board Committee on pages 30 to 31 and the letter from the Independent Financial Adviser on pages 32 to 60 of this Composite Document.

As at the Latest Practicable Date, the Company has (i) a total of 1,808,545,841 Shares in issue; and (ii) 37,499,334 Options, which may be exercised for an issue of 37,499,334 additional Shares at a price of HK\$10.00 per Option by the Optionholders. Save as disclosed above, the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

II. THE OFFERS

CLSA Limited is making the Offers, for and on behalf of the Offeror, in compliance with the Takeovers Code on the following basis:

The Share Offer

For each Offer Share HK\$10.06 in cash

The Share Offer Price of HK\$10.06 equals to the per Sale Share consideration under the Share Purchase Agreement and the subscription price of the Subscription Shares under the Subscription Agreement. The Offer Shares to be acquired under the Share Offer shall be fully paid and clear of any lien and together with all rights and interests attaching thereto, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of the despatch of this Composite Document. The Company has no intention to make any distribution or declare dividends before the Closing Date and there is no unpaid dividend as at the Latest Practicable Date.

The Offeror will not increase the Share Offer Price for the Offer Shares as set out above. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Share Offer Price and the Offeror does not reserve the right to increase the Share Offer Price.

The Share Offer Price of HK\$10.06 per Offer Share represents:

- (a) a premium of approximately 13.67% over the closing price of HK\$8.85 per Share as quoted on the Stock Exchange on 11 October 2021, being the Last Trading Day;

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- (b) a premium of approximately 17.11% over the average closing price of approximately HK\$8.59 per Share based on the daily closing prices as quoted on the Stock Exchange for five (5) consecutive trading days immediately prior to and including the Last Trading Day;
- (c) a premium of approximately 24.20% over the average closing price of approximately HK\$8.10 per Share based on the daily closing prices as quoted on the Stock Exchange for ten (10) consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 33.42% over the average closing price of approximately HK\$7.54 per Share based on the daily closing prices as quoted on the Stock Exchange for thirty (30) consecutive trading days immediately prior to and including the Last Trading Day;
- (e) a premium of approximately 1.51% over the closing price of HK\$9.91 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (f) a premium of approximately 188.50% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$3.487 per Share as at 31 December 2020, calculated by dividing the Group's audited consolidated net assets attributable to the Shareholders of approximately RMB5,171.37 million (equivalent to approximately HK\$6,306.55 million) as at 31 December 2020 by 1,808,545,841 Shares in issue as at the Latest Practicable Date; and
- (g) a premium of approximately 185.39% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$3.525 per Share as at 30 June 2021, calculated by dividing the Group's unaudited consolidated net assets attributable to the Shareholders of approximately RMB5,227.05 million (equivalent to approximately HK\$6,374.45 million) as at 30 June 2021 by 1,808,545,841 Shares in issue as at the Latest Practicable Date.

The Option Offer

For the cancellation of each of Options HK\$0.06 in cash

Pursuant to Rule 13 and Practice Note 6 of the Takeovers Code, the Option Offer Price would normally represent the difference between the exercise price of the Options and the Share Offer Price. Under the Option Offer, given that the exercise price of the Options, being HK\$10.00, is below the Share Offer Price of HK\$10.06, the Options are in-the-money and the Option Offer Price is set at the see-through price of HK\$0.06.

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Conditions to the Offers

The Share Offer is conditional only on valid acceptances being received in respect of such number of Offer Shares, which together with Shares owned, acquired or agreed to be acquired by the Offeror and parties acting in concert with it before or during the Share Offer, will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in the Company. The Option Offer will be conditional on the Share Offer becoming or being declared unconditional in all respects.

Subject to the Option Offer becoming unconditional and following acceptance of the Option Offer, the relevant Options tendered in acceptance of the Option Offer will be cancelled, and all Options which have not been exercised or tendered in acceptance of the Option Offer by 4:00 p.m. on the Closing Date will lapse (following which the holder of such Options will not be able to accept the Option Offer in respect of such Options).

Further announcement(s) in relation to the extension or lapse of the Offers or the fulfillment of the conditions of the Offers shall be made in accordance with the Takeovers Code and Listing Rules in due course.

Highest and Lowest Closing Price of the Shares

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$12.96 per Share (on 13 May 2021) and HK\$6.59 per Share (on 24 September 2021), respectively.

Irrevocable Undertakings not to Accept the Share Offer and the Option Offer

Certain Shareholders have given the following undertakings in favour of the Offeror:

- (i) Citagri Easter Limited has given the CEL Irrevocable Undertaking in favour of the Offeror, pursuant to which, CEL has undertaken that it shall (a) not accept the Share Offer in respect of CAF Remaining Shares and any other Shares of which it may become the registered holder or beneficial owner or in which it may become so interested after the date of the CEL Irrevocable Undertaking, and (b) not dispose of, charge, pledge or otherwise encumber or grant any option or other right over or otherwise deal in any of relevant Shares mentioned above or any interest in them (whether conditionally or unconditionally) or enter into any transaction having a similar economic effect;

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- (ii) CL Seller (CenterLab) has given the CL Irrevocable Undertaking in favour of the Offeror, pursuant to which, CL Seller (CenterLab) has undertaken that it shall (a) not accept the Share Offer in respect of CL Remaining Shares and any other Shares of which it may become the registered holder or beneficial owner or in which it may become so interested after the date of the CL Irrevocable Undertaking, and (b) not dispose of, charge, pledge or otherwise encumber or grant any option or other right over or otherwise deal in any of relevant Shares mentioned above or any interest in them (whether conditionally or unconditionally) or enter into any transaction having a similar economic effect;
- (iii) Mr. Yan Weibin has given the Yan Irrevocable Undertaking in favour of the Offeror, pursuant to which, Mr. Yan Weibin has undertaken that he shall (a) not accept the Share Offer in respect of 120,439,085 Shares, directly and indirectly through Ausnutria Holding Co Ltd, a company wholly owned by Mr. Yan Weibin, held by him and any other Shares of which he may become the registered holder or beneficial owner or in which it may become so interested after the date of the Yan Irrevocable Undertaking, (b) not exercise or accept the Option Offer in respect of 1,000,000 outstanding Options granted to him or any Options of which he may become the registered holder or beneficial owner or in which it may become so interested after the date of the Yan Irrevocable Undertaking, and (c) not dispose of, charge, pledge or otherwise encumber or grant any option or other right over or otherwise deal in any of Shares or Options mentioned above or any interest in them (whether conditionally or unconditionally) or enter into any transaction having a similar economic effect; and
- (iv) Mr. Bartle van der Meer has given the Bartle Irrevocable Undertaking in favour of the Offeror, pursuant to which, Mr. Bartle van der Meer has undertaken that he shall (a) not accept the Share Offer in respect of 1,509,000 Shares directly owned by him, DDI Remaining Shares and any other Shares of which he may become the registered holder or beneficial owner or in which it may become so interested after the date of the Bartle Irrevocable Undertaking, (b) not exercise or accept the Option Offer in respect of 1,000,000 outstanding Options granted to him or any Options of which he may become the registered holder or beneficial owner or in which it may become so interested after the date of the Bartle Irrevocable Undertaking, and (c) not dispose of, charge, pledge or otherwise encumber or grant any option or other right over or otherwise deal in any of Shares or Options mentioned above or any interest in them (whether conditionally or unconditionally) or enter into any transaction having a similar economic effect.

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The Irrevocable Undertakings shall terminate immediately if the Offers close, lapse or are withdrawn.

Value of the Offers

As at the Latest Practicable Date, there are 1,808,545,841 Shares in issue. On the basis of the Share Offer Price of HK\$10.06 per Share, the entire issued ordinary share capital of the Company would be valued at HK\$18,193,971,160.

Assuming that there is no change in the issued share capital of the Company, taking into account the Irrevocable Undertakings, and assuming that the Share Offer is accepted in full (other than in respect of Shares subject to Irrevocable Undertakings), the total consideration payable by the Offeror for the Share Offer will be approximately HK\$7,540 million.

As at the Latest Practicable Date, under the Share Option Scheme, there are 37,499,334 Options granted, of which 26,666,667 Options are currently unvested, and will automatically vest if the Share Offer is made and becomes unconditional.

If none of the Options are exercised before the closing of the Offers, taking into account the Irrevocable Undertakings and assuming full acceptance of the Offers, the consideration payable under the Share Offer will be approximately HK\$7,540 million and the consideration for the cancellation of all Options under the Option Offer will amount to approximately HK\$2 million. The maximum value of the Offers will amount to approximately HK\$7,542 million.

If all Options (including the currently unvested Options and excluding Options subject to Yan Irrevocable Undertaking and Bartle Irrevocable Undertaking) are exercised prior to the closing of the Offers, taking into account the Irrevocable Undertakings, the Company will have to issue 35,499,334 new Shares, representing approximately 1.96% of the issued share capital of the Company as at the Latest Practicable Date. Assuming that the Share Offer is then accepted in full (including all Shares issued and allotted as a result of the exercise of the Options, other than (i) a total of 223,107,009 Shares held by Citagri Easter Limited and CL Seller (CenterLab); and (ii) Mr. Yan Weibin and Mr. Bartle van der Meer in respect of a total of 215,153,315 Shares and 2,000,000 Options, in respect of which each of them has given an undertaking not to accept the Offers), the maximum value of the Share Offer will increase to approximately HK\$7,897 million. In that case, no amount will be payable by the Offeror under the Option Offer and the Company will receive an aggregate subscription price of approximately HK\$355 million from the exercise of all of the Options (including the currently unvested Options and excluding Options subject to Yan Irrevocable Undertaking and Bartle Irrevocable Undertaking).

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Confirmation of Financial Resources

The Offeror intends to finance the maximum consideration payable under the Offers (assuming all Optionholders convert their Options into Shares and accept the Share Offer, other than (i) a total of 223,107,009 Shares held by Citagri Easter Limited and CL Seller (CenterLab); and (ii) Mr. Yan Weibin and Mr. Bartle van der Meer in respect of a total of 215,153,315 Shares and 2,000,000 Options, in respect of which each of them has given an undertaking not to accept the Offers) (i.e. approximately HK\$14,142 million) with the Committed Facilities. The funds under the Committed Facilities are either available in Hong Kong or are not subject to NDRC and/or SAFE approvals before remittance of the same to Hong Kong.

CLSA Capital Markets, the exclusive financial adviser to the Offeror in respect of the Offers, is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy the maximum consideration payable under the Offers.

The payment of interest on, repayment of or security for any liability (contingent or otherwise) in relation to the abovementioned Committed Facilities will not depend on a significant extent on the business of the Group.

Effect of Accepting the Offers

Acceptance of the Share Offer by any Offer Shareholders will constitute a warranty by such person that all Offer Shares to be sold by such person under the Share Offer are fully paid and free and clear of all lien whatsoever together with all rights and interests attaching thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date of this Composite Document.

By validly accepting the Option Offer, the Options tendered by the Optionholders will be cancelled, together with all rights and interests attaching thereto.

Acceptance of the Offers would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Payment

Subject to the Offers having become, or have been declared, unconditional in all respects, payment in cash in respect of acceptances of the Offers will be made as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) following the later of the date of receipt of a duly completed acceptance of the Offers, or the date on which the Offers become or are declared unconditional in all aspects. Relevant documents evidencing title must be received by the Offeror (or its agent) to render such acceptance of the Offers complete and valid.

No fractions of a cent will be payable and the amount of the consideration payable to an Offer Shareholder or an Optionholder who accepts the Offers will be rounded up to the nearest cent.

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Overseas Shareholders and Overseas Optionholders

The Offeror intends to make the Offers available to all Offer Shareholders and Optionholders, including the Overseas Shareholders and Overseas Optionholders. However, the Offers to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident. The making of the offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or limited by the laws or regulations of the relevant jurisdictions. Overseas Shareholders and/or Overseas Optionholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek independent legal advice. It is the responsibility of Overseas Shareholders and the Overseas Optionholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due from the accepting Overseas Shareholders and Overseas Optionholders in respect of such jurisdictions).

According to the register of member and Optionholders of the Company as the Latest Practicable Date, there were Overseas Shareholders and Overseas Optionholders with registered address located in Australia, the United States, Taiwan, the Netherland and the PRC. The Offeror was advised by relevant legal advisers that there is no restriction for the Offeror to despatch this Composite Document and Form(s) of Acceptance and to make the Offers to the Overseas Shareholders and Overseas Optionholders. The Offeror will therefore despatch this Composite Document and Form(s) of Acceptance to Overseas Shareholders and Overseas Optionholders. This Composite Document will not be filed, nor approved for its issuance sought, under the applicable securities or equivalent legislation or rules of any jurisdiction other than Hong Kong. Whether or not this Composite Document is sent to the Overseas Shareholders, this Composite Document will be published on the websites of the Company and the Stock Exchange, and will be available for collection in the office of the Registrar.

Any acceptance of the Offers by any Overseas Shareholder and/or Overseas Optionholder will be deemed to constitute a representation and warranty from such Overseas Shareholder and/or Overseas Optionholder to the Offeror that the local laws and requirements have been complied with. Overseas Shareholders and Overseas Optionholders should consult their professional advisers if in doubt.

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Hong Kong Stamp Duty

Offer Shareholders' Hong Kong ad valorem stamp duty arising in connection with acceptance of the Share Offer at a rate of 0.13% of the consideration payable in respect of the relevant acceptances, or (if higher) the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the amount payable to the Offer Shareholders who accept the Share Offer. The Offeror will then arrange for payment of the stamp duty on behalf of those Offer Shareholders who accepted the Share Offer. The Offeror will bear the Offeror's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Offer Shares.

No stamp duty is payable in connection with the acceptance of the Option Offer.

Tax Advice

Offer Shareholders and Optionholders are recommended to consult their own professional advisers as to the taxation implications, which may be applicable in relevant jurisdictions, of accepting or rejecting the Offers. It is emphasized that none of the Company, the Offeror or parties acting in concert with it or any of their respective directors, officers or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

Extension of the Offer Period

The Offeror will issue an announcement in relation to the extension, expiry or unconditionality of the Offers in accordance with the Takeovers Code and the Listing Rules by 7:00 p.m. on the Closing Date.

Procedures for Acceptance

Your attention is drawn to "Further Terms of Acceptance of the Offers" as set out in Appendix I to this Composite Document and the accompanying **WHITE** Form of Share Offer Acceptance and **PINK** Form of Option Offer Acceptance.

Compulsory Acquisition

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offers.

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III. INFORMATION ON THE OFFEROR

Jingang Trade is a company incorporated in Hong Kong, primarily engaged in investment and trading businesses. As at the Latest Practicable Date, Jingang Trade was wholly and beneficially owned by Yili Industrial, and the board of Jingang Trade comprised Mr. Pan Gang, Mr. Wang Xiaogang, Ms. Yuan Ping and Ms. Jiang Yuanzi.

Yili Industrial is a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange of the PRC (stock code: 600887). Yili Industrial is principally engaged in the business of processing and manufacturing dairy products in the PRC. As at the Latest Practicable Date, the board of Yili Industrial comprised Mr. Pan Gang, Ms. Zhao Chengxia, Mr. Wang Xiaogang, Ms. Zhao Ying, Ms. Wang Aiqing, Mr. Zhang Junping, Mr. Lv Gang, Mr. Peng Heping, Ms. Ji Shao, Mr. Cai Yuanming, and Ms. Shi Fang. And as at the Latest Practicable Date, Yili Industrial did not have any controlling shareholder (as defined in the Listing Rules) and the largest shareholder of Yili Industrial was Huhhot Investment Company Limited* (呼和浩特投資有限責任公司) with a shareholding of approximately 8.41%. Huhhot Investment Company Limited is a company incorporated in the PRC, which is owned as to 81% by Inner Mongolia Financial Investment Group Co., Ltd.* (內蒙古金融投資集團有限公司) and 19% by Shanghai Electric Qingcheng Inner Mongolia Industrial Co., Ltd.* (上海電氣內蒙古青城實業有限公司). Inner Mongolia Financial Investment Group Co., Ltd.* is a company incorporated in the PRC, which is owned as to 89.96% by Huhhot State-owned Assets Supervision and Administration Commission* (呼和浩特國有資產監督管理委員會), 9.99% by Inner Mongolia State-owned Assets Management Co., Ltd.* (內蒙古國有資產運營有限公司) and 0.05% by Huhhot Investment Company Limited*.

IV. INTENTION OF THE OFFEROR REGARDING THE GROUP

The Offeror identifies with the strategy, culture, team and business of the Company and will continue to support the independent operation of the Company and maintain the Company's listing status in the Hong Kong capital market. It is the intention of the Offeror that the Company will continue to focus on the development of its existing businesses. The Offeror does not intend to introduce any major changes to the existing operations and business of the Group upon the close of the Offers.

Following the closing of the Offers, the Offeror will conduct a review and outlook on the strategy, operations and financial position of the Group, taking into account the net proceeds of HK\$904,900,000 received by the Company through Share Subscription, for the purpose of formulating business plans and strategies for the Group's long-term business development, leverage the synergies between the Offeror and the Group and explore other business opportunities for the Group. Subject to the results of the review, should suitable investment or business opportunities arise, the Offeror may consider for purpose of enhancing the growth of the Group.

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The Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for a proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code or such later time as the Offeror considers to be appropriate as further disclosed in the paragraph headed “Proposed Change to the Board Composition” below) or to dispose of or re-allocate the Group’s fixed assets which relate to the ordinary and usual course of business of the Group as a result of completion of the Offers. However, the Offeror reserves the right to make such changes that it deems necessary or appropriate to the Group’s business and operations to optimize the value of the Group.

As at the Latest Practicable Date, no material investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group.

V. PROPOSED CHANGE TO THE BOARD COMPOSITION

As at the Latest Practicable Date, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; three non-executive Directors, namely Mr. Shi Liang (Vice-Chairman), Mr. Qiao Baijun and Mr. Tsai Chang-Hai; and three independent non-executive Directors, namely Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman.

Mr. Shi Liang and Mr. Tsai Chang-Hai (both being nominated by the Vendors to the Board) have tendered resignation from their offices as a non-executive Director and a member of Nomination Committee and Remuneration Committee of the Company to take effect from the day after the Closing Date. Mr. Shi Liang will also cease to be the Vice Chairman of the Board on even date. The Offeror intends to nominate Mr. Sun Donghong and Mr. Zhang Zhanqiang as new non-executive Directors, and such proposed appointment is subject to approval of the Board and expected to take effect from the day after the Closing Date. The biographical details of Mr. Sun Donghong and Mr. Zhang Zhanqiang are set out below:

Mr. Sun Donghong, aged 49, graduated from Inner Mongolia University of Technology with a bachelor’s degree in engineering in 1994. He has 27 years of experience in the dairy industry and has been successively engaged in production technology, production management, business operation management, strategic operations and etc. He joined Inner Mongolia Yili Industrial Group Co., Ltd. (a company established under Chinese laws and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887)) in 1994. He has been the assistant president of the company since 2017 and is in charge of the group’s milk powder business department, yogurt business department, cheese business department, dairy technology research institute and such other new businesses of the group.

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Mr. Zhang Zhanqiang, aged 53, graduated from Inner Mongolia School of Finance and Economics in 1991 with a major in corporate finance, from Inner Mongolia University of Finance and Economics with a major in accounting in 1995, and from Central University of Finance and Economics with a bachelor's degree in management in 2007 respectively. He is a certified public accountant in the PRC, a certified tax agent in the PRC, and is qualified to practice accounting in the PRC. He joined Inner Mongolia Yili Industrial Group Co., Ltd. (a company established under Chinese laws and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887)) in January 2007, and has been the assistant to the president of the group since 2019. Prior to that, he also served as the deputy general manager of the liquid milk business department and the general manager of the financial management department of the company. Prior to joining Inner Mongolia Yili Industrial Group Co., Ltd., he was primarily engaged in the accounting industry and served as a partner in Beijing Zhongtian Huazheng Accountancy Firm.

Besides, to the extent existing independent non-executive Directors resign from or cease to hold their respective positions, the Offeror intends to nominate new independent non-executive Directors to the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors intend to resign from his/her offices as a Director. Further announcement(s) will be made upon any changes to the composition to the Board in compliance with the Takeovers Code and/or the Listing Rules as and when appropriate.

VI. PUBLIC FLOAT AND LISTING STATUS OF THE COMPANY

The Offeror has no intention to privatize the Company and intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public at all times, or if the Stock Exchange believes that:

- (a) false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the Shares until the prescribed level of public float is restored.

The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror and the new Directors to be appointed to the Board (if any) will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares, which may include but not limited to placing down of sufficient number of accepted Shares by the Offeror and/or issue of additional Shares by the Company for this purpose. No arrangements have been confirmed or put in place as at the Latest Practicable Date. Further announcement(s) will be made in accordance with the requirements of the Listing Rules and the Takeovers Code as and when appropriate.

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VII. GENERAL

This Composite Document has been prepared for the purpose of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules. The information disclosed in it may not be the same as that which would have been disclosed if this Composite Document had been prepared in accordance with the laws or rules of jurisdictions outside Hong Kong.

To ensure equality of treatment of all Shareholders and Optionholders, those Shareholders and Optionholders who hold Shares and Options as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares and Options whose investments are registered in the names of nominees to provide instructions to their nominees of their intention with regard to the Offers.

The attention of Overseas Shareholders and Overseas Optionholders is drawn to the paragraph headed “Overseas Shareholders and Overseas Optionholders” in Appendix I to this Composite Document.

All documents to be sent to the Shareholders will be sent to them by ordinary post at their own risk to their respective addresses as they appear in the register of the members of the Company or, in the case of joint holders, to such holder whose name appears first in the register of members. Payment of the consideration (after deducting the seller’s ad valorem stamp duty) for the Offer Shares tendered for acceptance under the Share Offer will be made in cheque to the Offer Shareholders (to the address specified on the **WHITE** Form(s) of Share Offer Acceptance) accepting the Offers by ordinary post at his/her/its own risk.

All documents to be sent to the Optionholders will be sent to them by ordinary post at their own risk to their respective addresses as they appear in the register of Optionholders. Payment of the consideration for the Options surrendered for cancellation under the Option Offer will be made to the Company as the agent of the Optionholders, by cheque(s) drawn in the name of the Company or, at the election of the Offeror, by wire transfer to the bank account of the Company. The Company will transfer such payment received to the respective Optionholders by issue of cheque or wire transfer within seven (7) business days following later of (i) the date on which the Option Offer becomes, or is declared, unconditional and (ii) the date of receipt by the company secretary of the Company of the duly completed **PINK** Form of Option Offer Acceptance together with all relevant documents required to render such acceptance under the Option Offer complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code. The Offeror and parties acting in concert with it, the Company, CLSA Limited, the Registrar and their respective ultimate beneficial owners, directors, officers, agents, advisers and associates or any other parties involved in the Offers will not be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith.

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VIII. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Board on pages 26 to 29 of this Composite Document, the letter from the Independent Board Committee on pages 30 to 31 of this Composite Document and the letter from the Independent Financial Adviser on pages 32 to 60 of this Composite Document in relation to their respective recommendations and advice with respect to the Offers.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully,
For and on behalf of
CLSA Limited
Edmund Chan
Managing Director, Head of M&A

LETTER FROM THE BOARD



AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

Executive Directors:

Mr. Yan Weibin (*Chairman*)
Mr. Bartle van der Meer (*Chief Executive Officer*)
Ms. Ng Siu Hung

Non-executive Directors:

Mr. Shi Liang (*Vice-Chairman*)
Mr. Qiao Baijun
Mr. Tsai Chang-Hai

Independent non-executive Directors:

Mr. Jason Wan
Mr. Lau Chun Fai Douglas
Mr. Aidan Maurice Coleman

Registered office:

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

Principal place of business in Hong Kong:

Unit 16, 36/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

10 February 2022

To Shareholders and Optionholders:

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS
BY CLSA LIMITED FOR AND ON BEHALF OF
HONGKONG JINGANG TRADE HOLDING CO., LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
AUSNUTRIA DAIRY CORPORATION LTD
(OTHER THAN THOSE ALREADY OWNED AND/OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR
THE PARTIES ACTING IN CONCERT WITH IT) AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF
AUSNUTRIA DAIRY CORPORATION LTD**

1. INTRODUCTION

Reference is made to the Rule 3.5 Announcement.

LETTER FROM THE BOARD

The Company was informed by the Vendors that, on 27 October 2021 (after trading hours), the Offeror and the Vendor Group entered into the Share Purchase Agreement, pursuant to which the Vendors have conditionally agreed to sell and the Offeror has conditionally agreed to purchase the Sale Shares, being an aggregate of 530,824,763 Shares, representing approximately 29.35% of the entire issued share capital of the Company as at the Latest Practicable Date, for an aggregate consideration of HK\$5,340,097,116 (representing HK\$10.06 per Sale Share). On the same day, being 27 October 2021 (after trading hours), the Offeror and the Company entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to issue and the Offeror has conditionally agreed to subscribe, in cash, for 90,000,000 new Shares, representing approximately 4.98% of the entire issued share capital of the Company as at the Latest Practicable Date, for an aggregate of Subscription Price of HK\$905,400,000 (representing HK\$10.06 per Subscription Share).

Completion took place on 28 January 2022.

Pursuant to Rule 26.1 of the Takeovers Code, upon Completion, the Offeror is required to make a mandatory conditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and the parties acting in concert with it). Pursuant to Rule 13 of the Takeovers Code, the Offeror will make an appropriate cash offer to the Optionholders to cancel all the Options.

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other matters, (i) information relating to the Group, the Offeror and the Offers; (ii) a letter from CLSA Limited containing, among other things, details of the Offers; (iii) a letter from the Independent Board Committee containing its recommendation to Offer Shareholders and Optionholders as to whether the Offers is, or is not, fair and reasonable and as to acceptance of the Offers; and (iv) a letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee in relation to the Offers.

Unless the context otherwise requires, terms defined in this Composite Document shall have the same meanings when used in this letter.

2. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors namely, Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman who have no direct or indirect interest in the Offers has been established to make recommendations to Offer Shareholders and Optionholders (where applicable) on whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers.

Although Mr. Shi Liang, Mr. Qiao Baijun and Mr. Tsai Chang-Hai are non-executive Directors, Mr. Shi Liang, being a director of CAFM, Mr. Qiao Baijun, being the general manager of CAFM, and Mr. Tsai Chang-Hai, being a director of BioEngine Capital Inc., are considered to have conflicts of interest in advising on the Share Subscription and the terms of the Offers and therefore have not been appointed as members of the Independent Board Committee for the purpose of the Takeovers Code.

LETTER FROM THE BOARD

Optima Capital, with the approval of the Independent Board Committee, has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Offers and in particular as to whether the Offers are, or are not, fair and reasonable and as to acceptance and voting.

3. THE OFFERS

As disclosed in the “Letter from CLSA Limited” in this Composite Document, CLSA Limited will, for and on behalf of the Offeror, make the Offers in compliance with the Takeovers Code on the following basis:

The Share Offer

For each Offer Share HK\$10.06 in cash

The Option Offer

For the cancellation of each of Options HK\$0.06 in cash

Further details of the Offer are set out under the section headed “Letter from CLSA Limited” and Appendix I in this Composite Document and the accompanying Forms of Acceptance, which together set out the terms and conditions of the Offers and certain related information.

4. OFFEROR’S INTENTION ON THE COMPANY

Your attention is drawn to the section headed “Intention of the Offeror regarding the Group” in the “Letter from CLSA Limited” in this Composite Document which sets out the intention of the Offeror regarding the Group.

The Board is pleased to note the intention of the Offeror in respect of the Group as disclosed. The Board is willing to cooperate with the Offeror for the best interests of the Company and its Shareholders as a whole.

5. INFORMATION OF THE OFFEROR

Your attention is drawn to the section headed “Information on the Offeror” in the “Letter from CLSA Limited” in this Composite Document for information relating to the Offeror.

6. INFORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in (i) the dairy industry with activities ranging from the research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands, Australia and other overseas countries; and (ii) the research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia.

LETTER FROM THE BOARD

Your attention is also drawn to Appendices II and IV to this Composite Document which contain the financial information of the Group and the general information of the Group respectively.

7. PUBLIC FLOAT AND LISTING STATUS OF THE COMPANY

Your attention is drawn to the section headed “Public float and listing status of the Company” in the “Letter from CLSA Limited” in this Composite Document.

8. FURTHER INFORMATION

You are advised to read the “Letter from CLSA Limited” in this Composite Document and the accompanying Forms of Acceptance for information relating to the Offers and the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the appendices to this Composite Document.

9. RECOMMENDATION

Your attention is drawn to (i) “Letter from the Independent Board Committee” as set out on pages 30 to 31 of this Composite Document, which contains the recommendation of the Independent Board Committee to Offer Shareholders and Optionholders in relation to the Offers; and (ii) “Letter from the Independent Financial Adviser” as set out on pages 32 to 60 of this Composite Document, which sets out the advice and recommendation of the Independent Financial Adviser to the Independent Board Committee in relation to the Offers and the principal factors considered by it before arriving at its recommendation. You are urged to read both letters and the other information contained in this Composite Document carefully before taking any action in respect of the Offers.

In considering what action to take in response to the Offers, you should also consider your own tax positions, if any, and in case of doubt, consult your professional advisers.

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 the Cayman Islands with limited liability)

(Stock code: 1717)

10 February 2022

To Independent Shareholders and Optionholders:

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS
BY CLSA LIMITED FOR AND ON BEHALF OF
HONGKONG JINGANG TRADE HOLDING CO., LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
AUSNUTRIA DAIRY CORPORATION LTD
(OTHER THAN THOSE ALREADY OWNED AND/OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR
THE PARTIES ACTING IN CONCERT WITH IT) AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF
AUSNUTRIA DAIRY CORPORATION LTD**

1. INTRODUCTION

We refer to the Composite Document dated 10 February 2022 issued jointly by the Offeror and the Company of which this letter forms part. Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter.

We have been appointed by the Board to form the Independent Board Committee to make recommendation to you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as Offer Shareholders and Optionholders are concerned and as to acceptance of the Offers.

Optima Capital, with the approval of the Independent Board Committee, has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Offers and in particular as to whether the Offers are, or are not, fair and reasonable and as to acceptance and voting. Details of its advice and recommendation are set out in the “Letter from the Independent Financial Adviser” set out in the Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We also wish to draw your attention to the “Letter from CLSA Limited”, the “Letter from the Board” and the additional information set out in the Composite Document, including the Appendices to the Composite Document and the accompanying Form of Acceptance.

2. RECOMMENDATION

Having taken into account the advice and recommendation of the Independent Financial Adviser, in particular the factors, reasons and recommendations as set out in the “Letter from the Independent Financial Adviser”, we concur with the view of the Independent Financial Adviser and consider that the terms of the Offers (being the Share Offer and the Option Offer) are fair and reasonable so far as Offer Shareholders and Optionholders are concerned, and recommend (i) the Independent Shareholders to accept the Share Offer; and (ii) the Optionholders to accept the Option Offer.

Notwithstanding our recommendation, Offer Shareholders and Optionholders are strongly advised that their decision to realise or hold their investment in the Company depends on their own individual circumstances and investment objectives. If in any doubt, Offer Shareholders and Optionholders should consult their own professional advisers for professional advice.

For and on behalf of the
**Independent Board Committee of
Ausnutria Dairy Corporation Ltd**

Mr. Jason Wan
*Independent Non-executive
Director*

Mr. Lau Chun Fai Douglas
*Independent Non-executive
Director*

Mr. Aidan Maurice Coleman
*Independent Non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter from Optima Capital containing its advice to the Independent Board Committee relating to the Offers, which is prepared for the purpose of incorporation in this Composite Document.



Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

10 February 2022

To the Independent Board Committee

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFERS
BY CLSA LIMITED FOR AND ON BEHALF OF
HONGKONG JINGANG TRADE HOLDING CO., LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
AUSNUTRIA DAIRY CORPORATION LTD
(OTHER THAN THOSE ALREADY OWNED AND/OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR
THE PARTIES ACTING IN CONCERT WITH IT) AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF
AUSNUTRIA DAIRY CORPORATION LTD**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Company to advise the Independent Board Committee in respect of the Offers, details of which are contained in the composite document jointly issued by the Offeror and the Company dated 10 February 2022 (the “**Composite Document**”) of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman, who have no direct or indirect interest in the Offers and the Share Subscription, has been established by the Company to make recommendation to the Independent Shareholders in respect of the Offers, and in particular, as to whether the Offers are fair and reasonable and as to the acceptance of the Offers pursuant to Rule 2.1 of the Takeovers Code. We, Optima Capital, have been appointed by the Company as the independent financial adviser in accordance with Rule 2.4 of the Takeovers Code to advise the Independent Board Committee in respect of the Offers. Our appointment has been approved by the Independent Board Committee.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are not associated or connected with the Company, the Offeror, the Vendors, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. We are therefore considered eligible to give independent advice in respect of the Offers. Apart from normal professional fees payable to us in connection with the current appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, the Vendors, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately prior to date of this letter, we have only acted as the independent financial adviser in relation to the Share Subscription, and accordingly, we consider that we are independent pursuant to the Listing Rules and the Takeovers Code to act as the Independent Financial Adviser to the Independent Board Committee in respect of the Offers.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company (the “**Management**”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have reviewed, among other things, (i) the Rule 3.5 Announcement; (ii) the Circular; (iii) the annual reports of the Company for the three years ended 31 December 2018 (the “**2018 Annual Report**”), 2019 (the “**2019 Annual Report**”) and 2020 (the “**2020 Annual Report**”); (iv) the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”); and (v) other information obtained from the public domain. We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Offeror or the associates of any of them, nor have we carried out any independent verification of the information supplied. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to in this letter and our opinion after the Latest Practicable Date and throughout the Offer Period.

In relation to the Offers, we have not considered the tax and regulatory implications of the Offers on the Independent Shareholders and the Optionholders since these are particular to their individual circumstances. In particular, the Independent Shareholders and Optionholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

This letter is issued to the Independent Board Committee solely in connection with and for their consideration of the Offers. Except for its inclusion in the Composite Document, this letter is not to be quoted or referred to, in whole or part, nor shall this letter be used for any other purpose without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Offers, we have taken into account the following principal factors and reasons:

1. Terms and conditions of the Offers

CLSA Limited is making the Offers, for and on behalf of the Offeror, in compliance with the Takeovers Code on the following basis:

1.1 The Share Offer

For each Offer Share HK\$10.06 in cash

The Share Offer Price of HK\$10.06 is equal to the per Sale Share consideration under the Share Purchase Agreement and the subscription price of the Subscription Shares under the Subscription Agreement. The Offer Shares to be acquired under the Share Offer shall be fully paid and clear of any lien and together with all rights and interests attaching thereto, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of the despatch of the Composite Document. The Company has no intention to make any distribution or declare dividends before the Closing Date and there is no unpaid dividend as at the Latest Practicable Date.

The Offeror will not increase the Share Offer Price for the Offer Shares as set out above. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Share Offer Price and the Offeror does not reserve the right to increase the Share Offer Price.

1.2 The Option Offer

For the cancellation of each Option HK\$0.06 in cash

Pursuant to Rule 13 and Practice Note 6 of the Takeovers Code, the Option Offer Price would normally represent the difference between the exercise price of the Options and the Share Offer Price. Under the Option Offer, given that the exercise price of the Options, being HK\$10.00, is below the Share Offer Price of HK\$10.06, the Options are in-the-money and the Option Offer Price is set at the see-through price of HK\$0.06.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.3 Other terms and conditions to the Offers

The Share Offer is conditional only on valid acceptances being received in respect of such number of Offer Shares, which together with Shares owned, acquired or agreed to be acquired by the Offeror and parties acting in concert with it before or during the Share Offer, will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in the Company. The Option Offer will be conditional on the Share Offer becoming or being declared unconditional in all respects. Subject to the Option Offer becoming unconditional and following acceptance of the Option Offer, the relevant Options tendered in acceptance of the Option Offer will be cancelled, and all Options which have not been exercised or tendered in acceptance of the Option Offer by 4:00 p.m. on the Closing Date will lapse (following which the holder of such Options will not be able to accept the Option Offer in respect of such Options). Further terms and conditions of the Offers, including the procedures for acceptance, are set out in the letter from CLSA Limited and the letter from the Board contained in the Composite Document and in Appendix I to the Composite Document and the accompanying Form(s) of Acceptance.

2. Principal businesses of the Group

The Company was incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in two segments, the (i) dairy industry with activities ranging from the research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands, Australia and other overseas countries (the “**Dairy Operation**”); and (ii) the research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia (the “**Nutrition Operation**”).

The Group has formulated the “Golden Decade” strategy plan in late 2015 as its long term development plan to further strengthen its position in the dairy industry, and has been expanding its business into the nutrition and healthcare industry. In view of its long term strategic plan to become one of the major global players in the nutrition and healthcare sector, particularly on infant formula products, the Group continues to streamline its business structure and strategies, increase its effort into building its global supply chain on formula milk powder products and establishing its overseas nutritional business. According to the management of the Group, the above steps have contributed promising results in terms of operation performance, product diversification as well as strengthened the business chain of the Group. In addition, the Group believes it has achieved satisfactory results by developing its market network and enhancing consumer services in recent years.

The Group sells its infant formula products under its own brands, including but not limited to, the Allnutria series, the Hyproca 1897 series and the Puredo series for cow milk based infant formula, and the Kabrita series for goat milk based infant formula. Except for Kabrita which is distributed globally, most of the own-branded cow milk based infant formula products (with milk source from the overseas) are principally designated for consumers located in the PRC. Along with the development of its own-branded formula milk powder business, the Group also produces formula milk powder products for other customers worldwide on an original equipment manufacturing basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group also sells different nutrition products (e.g. probiotics and gastrointestinal products) under different brand names. The Group acquired an Australian nutrition business in 2016, subsequently launched its nutrition products under the brand name Nutrition Care (NC) and established a sales platform of which sales were mainly conducted offline. Furthermore, the Group acquired an Australian probiotics brand, Aunulife, in 2019 to further expand its nutrition business. In 2020, the Group successfully expanded its branded probiotics business in the PRC and Australia.

Set out below is the breakdown of segment revenue and results of the Group for each of the three financial years ended 31 December 2018 (“FY2018”), 2019 (“FY2019”) and 2020 (“FY2020”) and the six months ended 30 June 2020 (“HY2020”) and 30 June 2021 (“HY2021”) (collectively, the “Track Record Period”).

	FY2018	FY2019	FY2020	HY2020	HY2021
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	<i>RMB'M</i>	<i>RMB'M</i>	<i>RMB'M</i>	<i>RMB'M</i>	<i>RMB'M</i>
Dairy Operation					
<i>Own-branded formula milk</i>					
<i>powder products:</i>					
Cow milk	2,368.0	3,167.2	3,820.2	1,755.3	2,052.8
Goat milk	<u>2,033.4</u>	<u>2,856.2</u>	<u>3,106.2</u>	<u>1,655.6</u>	<u>1,688.2</u>
Subtotal	4,401.4	6,023.4	6,926.4	3,410.9	3,741.0
<i>Private Label and others</i>	<u>852.1</u>	<u>594.1</u>	<u>917.1</u>	<u>382.4</u>	<u>461.2</u>
Total segment revenue from					
Dairy Operation	5,253.5	6,617.5	7,843.5	3,793.3	4,202.2
Nutrition Operation	<u>136.1</u>	<u>118.7</u>	<u>142.3</u>	<u>66.0</u>	<u>68.3</u>
Total revenue	<u><u>5,389.6</u></u>	<u><u>6,736.2</u></u>	<u><u>7,985.8</u></u>	<u><u>3,859.3</u></u>	<u><u>4,270.5</u></u>

2.1 The Dairy Operation

The Dairy Operation comprised (i) own-branded formula milk powder business, and (ii) the original equipment manufacturing for other customers worldwide (the “Private Label”) and other business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Own-branded formula milk powder business has always been the Company's core business and accounted for approximately 81.7%, 89.4%, 86.7%, 88.4% and 87.6% of the total revenue of the Group for FY2018, FY2019, FY2020, HY2020 and HY2021 respectively. The increase in sales of own-branded formula milk powder business throughout the Track Record Period was mainly attributable to (i) the implementation of the Group's effective strategic plans, the constant refinement of its business chain and the continuous improvement of its upstream operational efficiency and product quality; (ii) the constant enhancement of its product mix in accordance with its well-established multiple-brand strategy that caters to the rising market demand for high-end products; and (iii) the synergies between its brands and channels resulting from its unremitting efforts to develop mama and baby store channels by high-frequency and high-quality marketing activities.

Private Label and other business in relation to the Dairy Operation accounted for approximately 15.8%, 8.8%, 11.5%, 9.9% and 10.8% of the total revenue of the Group for FY2018, FY2019, FY2020, HY2020 and HY2021 respectively.

2.2 The Nutrition Operation

The Nutrition Operation comprised the manufacturing and sale of nutrition products (other than dairy related) to its customers principally in the PRC and Australia. The Nutrition Operation accounted for approximately 2.5%, 1.8%, 1.8%, 1.7% and 1.6% of the total revenue of the Group for FY2018, FY2019, FY2020, HY2020 and HY2021 respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Historical financial results of the Group

Set out below is a summary of the financial results of the Group during the Track Record Period extracted from the annual reports and interim report of the Company:

	FY2018	FY2019	FY2020	HY2020	HY2021
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5,389,568	6,736,153	7,985,816	3,859,336	4,270,546
Cost of sales	<u>(2,728,933)</u>	<u>(3,202,836)</u>	<u>(4,003,859)</u>	<u>(1,836,932)</u>	<u>(2,134,141)</u>
Gross profit	2,660,635	3,533,317	3,981,957	2,022,404	2,136,405
Other income and gains	114,109	69,191	90,105	46,750	51,660
Selling and distribution expenses	(1,444,237)	(1,771,834)	(2,066,765)	(985,260)	(1,117,430)
Administrative expenses	(461,853)	(558,289)	(692,996)	(321,458)	(334,987)
Other expenses	(59,621)	(138,666)	(88,707)	(213,607)	(26,426)
Finance costs	(29,753)	(33,332)	(28,850)	(14,519)	(11,631)
Share of profits of a joint venture	1,159	–	–	–	–
Share of profits of associates	<u>11,553</u>	<u>6,797</u>	<u>26,102</u>	<u>15,152</u>	<u>619</u>
Profit before tax	791,992	1,107,184	1,220,846	549,462	698,210
Income tax expense	<u>(147,440)</u>	<u>(228,288)</u>	<u>(220,812)</u>	<u>(129,690)</u>	<u>(126,614)</u>
PROFIT FOR THE YEAR/ PERIOD	<u><u>644,552</u></u>	<u><u>878,896</u></u>	<u><u>1,000,034</u></u>	<u><u>419,772</u></u>	<u><u>571,596</u></u>
Attributable to:					
Owners of the parent	635,100	878,390	1,004,106	408,761	593,990
Non-controlling interests	9,452	506	(4,072)	11,011	(22,394)
Earnings per Share (<i>RMB cents</i>)					
Basic	47.20	54.92	60.93	25.37	34.60
Diluted	46.63	54.50	60.57	24.97	34.50

3.1 Total revenue

Total revenue of the Group represented (i) sales of own-branded formula milk powder business which comprised cow milk and goat milk; (ii) sales of Private Label and others side business including dairy related products under the customers' own brands; and (iii) sales of nutrition products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2018 versus FY2019

Total revenue increased from approximately RMB5,389.6 million in FY2018 to approximately RMB6,736.2 million in FY2019, representing an increase of approximately 25.0%, which was mainly driven by the increase in sales of the Group's own-branded cow and goat milk formula products by 33.8% and 40.5% respectively compared to that in FY2018 as a result of the continuous strengthening of sales network and brand building. Such increase was partly offset by the decrease in revenue from the sales of the Private Label and sales of dairy related products as a result of the Company's strategy to prioritise more resources to better serve its own-branded formula milk powder business.

FY2019 versus FY2020

Total revenue increased from approximately RMB6,736.2 million in FY2019 to approximately RMB7,985.8 million in FY2020, representing an increase of approximately 18.6%, which was mainly due to the increase in sales of the Group's own-branded cow and goat milk formula products by 20.6% and 8.8% respectively compared to that in FY2019, and the increase in the trading of commodities such as milk powder, cream and whey protein as a result of the increase in its intake of fresh goat milk since the second quarter of 2020.

HY2020 versus HY2021

Total revenue increased from approximately RMB3,859.3 million in HY2020 to approximately RMB4,270.5 million in HY2021, representing an increase of approximately 10.7%, which was mainly due to (i) the increase in sales of the Group's own-branded formula milk powder products by 9.7% as a result of the Group's rapid and proactive response of adjusting its strategies to accommodate for the market change and the continuous strengthening of the distribution channels (mainly mama and baby stores); and (ii) the increase in sales of other dairy related products such as milk, milk powder, cream and other milk derived ingredients such as whey protein powder, as a result of the increase in the intake of milk, particularly goat milk, for the processing of related ingredients in order to fulfil the internal production needs.

3.2 Other income and gains

Other income and gains mainly represented (i) incentive granted from the PRC government; (ii) interest income from the Group's deposits with banks; (iii) fair value gain of derivative financial instruments; and (iv) gain on re-measurement in relation to the acquisition of the remaining interest in Ozfarm Royal Pty Ltd ("**Ozfarm**").

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2018 versus FY2019

Other income and gains decreased from approximately RMB114.1 million in FY2018 to approximately RMB69.2 million in FY2019, representing a decrease of approximately 39.4%. Such decrease was mainly attributable to the decrease in (i) the fair value gain of derivative financial instruments arising from the contingent consideration of RMB22.3 million as a result of an acquisition in May 2018; and (ii) the gain on re-measurement due to the acquisition of the remaining 50% equity interest in Ozfarm in June 2018. Such effect was partly offset by the increase in government grant in FY2019 of approximately RMB12.1 million.

FY2019 versus FY2020

Other income and gains increased by approximately 30.2% from approximately RMB69.2 million in FY2019 to approximately RMB90.1 million in FY2020. Such increase was mainly attributable to the increase in government grants of RMB28.1 million in FY2019 to RMB43.6 million in FY2020.

HY2020 versus HY2021

The Group recorded other income and gains of approximately RMB51.7 million for HY2021 as compared to approximately RMB46.8 million for HY2020, representing an increase of approximately 10.5%. Such increase was mainly due to the increase in incentive granted by the PRC government and partly offset by the decrease in interest income from bank deposits.

3.3 Selling and distribution expenses

Selling and distribution expenses mainly comprised advertising and promotion expenses, rebates to distributors and customers, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery cost. Such expenses increased from approximately RMB1,444.2 million in FY2018 to approximately RMB1,771.8 million in FY2019, and further increased to approximately RMB2,066.8 million in FY2020. Selling and distribution expenses increased from RMB985.3 million in HY2020 to RMB1,117.4 million in HY2021. The increase in such expenses was mainly because more resources were allocated to the advertising and promotion activities in face of the intense market competition in order to increase the market share of the Group, and such increase was generally in line with the increase in revenue in the corresponding year/period.

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3.4 Administrative expenses

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense), travelling expenses, auditor's remuneration, professional fees, depreciation and research and development costs. Such expenses increased from approximately RMB461.9 million in FY2018 to approximately RMB558.3 million in FY2019 and further increased to approximately RMB663.0 million in FY2020, mainly due to the increase in research and development costs and the increase in the scale of operations of the Group. No material fluctuation in such expenses was noted in HY2021 as compared with those in HY2020.

3.5 Other expenses

Other expenses mainly comprised loss on fair value change of a derivative financial instrument, charitable donations and net foreign currency exchange losses arising from the foreign currency transactions.

FY2018 versus FY2019

Other expenses recorded by the Group increased by approximately 132.6% from approximately RMB59.6 million in FY2018 to approximately RMB138.7 million in FY2019. Such increase was mainly attributable to the increase in loss on fair value change of a derivative financial instrument of RMB63.6 million as compared to a gain of RMB22.3 million in FY2018 and the increase in charitable donations in FY2019, partly offset by the decrease in net foreign currency exchange losses arising from the foreign currency transactions as compared to that in FY2018.

FY2019 versus FY2020

Other expenses recorded by the Group decreased by approximately 36.0% from approximately RMB138.7 million in FY2019 to approximately RMB88.7 million in FY2020. Such decrease was mainly due to the decrease in loss on fair value change of a derivative financial instrument from RMB63.6 million in FY2019 to RMB43.0 million in FY2020 and the decrease in net foreign currency exchange losses arising from the foreign currency transactions.

HY2020 versus HY2021

Other expenses recorded by the Group decreased by approximately 87.6% from approximately RMB213.6 million in HY2020 to approximately RMB26.4 million in HY2021. Such significant decrease was mainly due to exclusion of fair value change of a derivative financial instrument of approximately RMB165.9 million recorded in HY2020 arising from the contingent consideration as a result of an acquisition, after the settlement of such consideration in August 2020.

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3.6 Finance costs

The finance costs of the Group represented mainly the interest on bank loans and other borrowings for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands. Such expenses increased from approximately RMB29.8 million in FY2018 to approximately RMB33.3 million in FY2019 and decreased to approximately RMB28.9 million in FY2020. Finance costs recorded in HY2021 decreased to RMB11.6 million from RMB14.5 million in HY2020. The fluctuations in finance costs were mainly attributable to the increase or decrease in interest-bearing bank loans and other borrowings in the corresponding year/period.

3.7 Share of profit of associates

The Group's share of profit of associates referred to the share of profits of Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**"), Bioflag International Corporation and its subsidiaries, etc.

FY2018 versus FY2019

The Group's share of profit of associates for FY2018 and FY2019 represented the share of profits of Farmel Group. Profit sharing decreased from approximately RMB11.6 million in FY2018 to RMB6.8 million in FY2019, mainly due to the share of loss and impairment of investment in an associate in FY2019.

FY2019 versus FY2020

The Group's share of profit of associates increased significantly from RMB6.8 million in FY2019 to approximately RMB26.1 million in FY2020, which was mainly attributable to the increase in profit sharing of Farmel Group, which is principally engaged in the collection and trading of milk in Europe.

HY2020 versus HY2021

The decrease in the share of profits of associates from RMB15.2 million for the HY2020 to RMB0.6 million for the HY2021 was mainly due to the decrease in results of the Farmel Group as a result of the decrease in commodity prices.

3.8 Share of profit of a joint venture

The Group's share of profit of a joint venture in FY2018 represented the share of profit of Ozfarm until it became a wholly-owned subsidiary of the Company on 29 June 2018.

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3.9 Profit for the year/period attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for FY2019 amounted to RMB878.4 million, representing an increase of RMB243.3 million, or 38.3%, when compared with that in the FY2018, and further increased to RMB1,004.1 million in FY2020. The Group's adjusted profit attributable to equity holders of the Company was RMB581.5 million, RMB942.0 million and RMB1,083.3 in FY2018, FY2019 and FY2020 respectively, which was arrived at after excluding the non-recurring or non-cash items.

The Group's profit attributable to equity holders of the Company for HY2021 amounted to RMB594.0 million, representing an increase of RMB185.2 million, or 45.3%, when compared with that in HY2020. The Group's adjusted profit attributable to equity holders of the Company was RMB574.7 million and RMB594.0 in HY2020 and HY2021 respectively, which was arrived at after excluding the non-recurring or non-cash items.

The continuous improvement in the Group's financial performance was spurred by (i) better brand awareness and acceptance of the Group's goat and cow brands in the market; (ii) the implementation of the Group's strategic plans, in particular, continuous improvement of the upstream operational efficiency, streamlining of the supply chain and enhancement in the product mix; and (iii) the improvement in business structure as a result of the rising proportion of the sales of the Group's own-branded goat and cow milk formula products.

4. Historical dividend payout

The Company has a consistent track record of paying final dividends in the past few years. The following table summarises the dividend payout of the Company during the Track Record Period:

	FY2018	FY2019	FY2020	HY2020	HY2021
Dividend per Share (HK\$)	0.15	0.22	0.27	Nil	Nil
Dividend payout ratio (%) (Note 1)	27.1	35.6	39.6	N/A	N/A
Dividend yield (%) (Note 2)	1.70	1.96	2.07	N/A	N/A

Notes:

1. Dividend payout ratio is calculated by dividing dividend per Share by earnings per Share for the relevant year. As the earnings per Share were denominated in RMB, the average exchange rate RMB to HK\$ for the relevant year have been used for currency translation.
2. Dividend yield is calculated by dividing the dividend per Share by the year end closing price of the Shares for the relevant year.

As shown above, the Company's dividend payout ratio was about 27.1% for FY2018, 35.6% for FY2019 and 39.6% for FY2020. The Share Offer Price of HK\$10.06 per Share translates to a dividend yield of approximately 2.1% based on the average dividend of approximately HK\$0.213 per Share for FY2018, FY2019 and FY2020.

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5. Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2020 and 30 June 2021 extracted from the annual report and interim report of the Company:

	31 December 2020	30 June 2021
	(Audited)	(Unaudited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,840,357	1,866,874
Right-of-use assets	359,731	329,262
Goodwill	297,541	280,745
Other intangible assets	411,642	440,306
Investments in associates	581,188	599,460
Prepayments, deposits and other assets	136,992	140,721
Deferred tax assets	<u>257,981</u>	<u>237,357</u>
	<u>3,885,432</u>	<u>3,894,725</u>
Current assets		
Inventories	2,400,946	2,464,324
Trade and bills receivables	456,425	506,795
Prepayments, other receivables and other assets	435,576	492,195
Pledged deposits	212,062	173,210
Cash and cash equivalents	<u>1,857,516</u>	<u>1,428,920</u>
	<u>5,362,525</u>	<u>5,065,444</u>
Total assets	<u><u>9,247,957</u></u>	<u><u>8,960,169</u></u>
Current liabilities		
Trade and bills payables	409,247	485,137
Other payables and accruals	2,267,673	1,853,068
Derivative financial instruments	109	104
Interest-bearing bank loans and other borrowings	558,973	685,438
Tax payable	<u>156,666</u>	<u>126,644</u>
	<u>3,392,668</u>	<u>3,150,391</u>

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	31 December 2020	30 June 2021
	(Audited)	(Unaudited)
	RMB'000	RMB'000
Non-current liabilities		
Interest-bearing bank loans and other borrowings	527,299	466,004
Defined benefit plan	8,932	6,619
Deferred revenue	65,121	62,610
Other long-term liability	7,477	6,489
Deferred tax liabilities	<u>94,520</u>	<u>72,055</u>
	<u>703,349</u>	<u>613,777</u>
Total liabilities	<u>4,096,017</u>	<u>3,764,168</u>
Total equity	<u><u>5,151,940</u></u>	<u><u>5,196,001</u></u>
Equity attributable to:		
Owners of the parent	5,171,372	5,227,046
Non-controlling interests	<u>(19,432)</u>	<u>(31,045)</u>
	<u><u>5,151,940</u></u>	<u><u>5,196,001</u></u>

5.1 Assets

As at 30 June 2021, total assets of the Group amounted to approximately RMB8,960.2 million. Major components of the total assets include (i) inventories of approximately RMB2,464.3 million, representing approximately 27.5% of the total assets; (ii) property, plant and equipment of approximately RMB1,866.9 million, representing approximately 20.8% of the total assets; (iii) cash and cash equivalents of approximately RMB1,428.9 million, representing approximately 15.9% of the total assets; (iv) investments in associates of approximately RMB599.5 million, representing approximately 6.7% of the total assets; (v) trade and bills receivables of approximately RMB506.8 million, representing approximately 5.7% of the total assets; (vi) prepayments, other receivables and other assets of approximately RMB492.2 million, representing approximately 5.5% of the total assets; and (vii) other intangible assets of approximately RMB440.3 million, representing approximately 4.9 % of the total assets.

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The decrease in total assets of the Group to RMB8,960.2 million as at 30 June 2021 as compared with that of RMB9,248.0 million as at 31 December 2020 was mainly due to the decrease in cash and cash equivalent. Cash and cash equivalents decreased by approximately 23.1% to RMB1,428.9 million as at 30 June 2021 as compared with that of RMB1,857.5 million as at 31 December 2020 as a result of the payment of final dividend of RMB388.1 million for FY2020 and the decrease in cashflows generated from operating activities as a result of the decrease in prepayments received from customers.

Trade and bills receivables increased by approximately RMB50.4 million, or approximately 11.0%, as at 30 June 2021 as compared with that as at 31 December 2020 which was in line with the increase in sales.

Prepayments, other receivables and other assets increased by 13.0% to RMB492.2 million as at 30 June 2021 as compared with that of RMB435.6 million as at 31 December 2020 which was also in line with the increase in scale of operation.

5.2 Liabilities

As at 30 June 2021, total liabilities of the Group amounted to approximately RMB3,764.2 million, which mainly consisted of (i) other payables and accruals of approximately RMB1,853.1 million, representing approximately 49.2% of the total liabilities; (ii) interest-bearing bank loans and other borrowings of approximately RMB1,151.4 million, representing approximately 30.6% of the total liabilities; and (iii) trade and bills payables of approximately RMB485.1 million, representing approximately 12.9% of total liabilities.

Other payables and accruals decreased by approximately 18.3% from RMB2,267.7 million as at 31 December 2020 to RMB1,853.1 million as at 30 June 2021 which was mainly due to the decrease in advanced payments received from customers.

Trade and bills payables increased by 18.5 % to RMB485.1 million as at 30 June 2021 as compared with that of RMB409.2 million as at 31 December 2020. The increase was in line with the increase in sales, which has been explained above.

As at 30 June 2021, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries of a total of RMB48.0 million. The Group did not have any material contingent liabilities as at 30 June 2021.

5.3 Equity attributable to owners of the parent

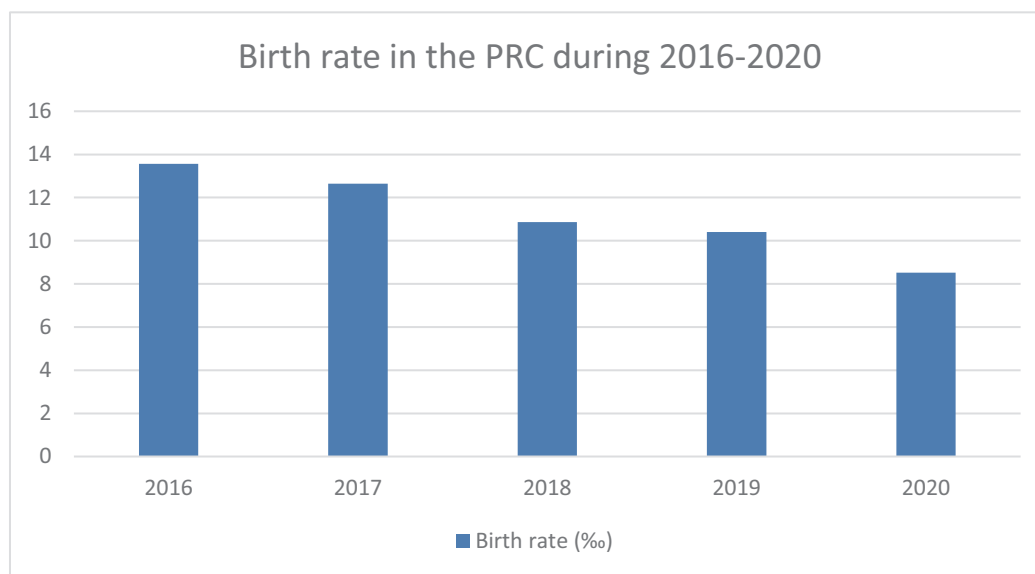
Equity attributable to the owners of the parent increased from approximately RMB5,171.4 million as at 31 December 2020 to approximately RMB5,227.0 million as at 30 June 2021. The increase was mainly attributable to the profits generated for HY2021 attributable to the owners of the parent of approximately RMB594.0 million; partly offset by the exchange differences on translation of foreign operations and the 2020 final dividend declared.

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6. Prospects of the Group

The ongoing global spread of COVID-19 (the “**Pandemic**”) has caused some short-term interruptions in the business development of the Group, particularly in (i) the Group’s own-branded formula milk powder business (both in the PRC and the overseas) which had fewer marketing and promotional activities conducted for the concerned period due to lockdowns; and (ii) the dairy commodities trading business due to lower dairy related commodity prices. Despite of that, the Company managed to contain the negative impact of these challenges during the Track Record Period. As shown in the paragraph headed “3. Historical financial results of the Group” above, it is noted that the financial performance of the Company has been improving during the Track Record period with the compound annual growth rate in revenue and profit for the year attributable to owners of the parent of approximately 21.7% and 25.7% during FY2018 to FY2020, respectively. Though the Group had contained the negative impact of these challenges and recorded growth in revenue and profit during the Track Record Period as discussed above, it is uncertain as to the impacts of the Pandemic may have on the future performance of the Group.

Besides, as mentioned in the 2020 Annual Report, with the continuous drops in the female population at childbearing age and the reduced willingness to marry and bear children, particularly in the PRC, the number of newborns has been decreasing over the past few years and as a result, the competition of formula milk powder business has become more intense. The downward trend of birth rate would be a key challenge to be faced by the Group in the future. As shown in the table below, the birth rate in the PRC decreased from approximately 13.57‰ in 2016 to approximately 8.52‰ in 2020, representing a compounded annual decline rate of approximately 11.0%.



Source: National Bureau of Statistic, PRC

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On a brighter note, in response to the decline in the birth rate, the PRC Government has made changes to certain policies which may bring positive impacts and opportunities to the Company in the upcoming years. As mentioned in the 2021 Interim Report, on 20 July 2021, the State Council of the PRC issued the Decision Regarding the Optimisation of Family Planning Policies for Long-Term Balanced Population Growth (《關於優化生育政策促進人口長期均衡發展的決定》), which laid down certain supportive policies such as promulgating the three-child policy and cancelling Social Maintenance Fees, etc. The measures primarily focus on reducing the cost of raising a child and aim to appropriately increasing birth rate by 2025 and boost long-term and balanced population growth. The Management considers and we concur that such policies may have a long-term positive contribution to the PRC dairy industry as the demand for infant formula milk powder will be increased with the increasing birth rate.

In 2020, the Chinese government issued a consultation memorandum including various measures to further strengthen the regulations and quality standards of infant formula. In February 2021, the Announcement of the State Administration for Market Regulation (“SAMR”) on Matters Concerning the Registration of Infant Formula Milk Powder Product Formulas was issued, whereby all infant formula players are required to re-register their products with the SAMR according to a new set of rules and standards (the “**New GB Standard**”). According to the announcement, the New GB Standard will become effective in February 2023. As the New GB Standard have stricter requirements for key raw material content, quality, and quantity in IMF products, many producers may have to adjust their product formulas, change raw materials, and reapply for China Food and Drug Administration (“CFDA”) registration. We are of the view that such New GB Standard would be a double-edge sword to the Company. On one hand, as advised by the Management, extra costs may be incurred by the Group for the compliance of the New GB Standard. It is expected that the New GB Standard may further spur the industry consolidation and small companies may choose to exit the market in upcoming years given their smaller operations and potentially significant costs for the changes in formulas, which may create opportunities for the Company to further increase its market share.

In view of the above, facing the new opportunities and challenges arising from the new policies and the Pandemic, it is uncertain as to whether the Group would be able to turn the above challenges into opportunities and grasp the opportunities to further the growth of the Group. In particular, there is no guarantee that any further tightening of administration or implementation of more stringent policies and standards on the infant milk formula industry in the future would not impose possible challenges and disturbances to the businesses and the profitability of the Group.

7. Information of the Offeror and intention of the Offeror

7.1 Background of the Offeror

As set out in the letter from the Board, Jingang Trade is a company incorporated in Hong Kong, primarily engaged in investment and trading businesses. As at the Latest Practicable Date, Jingang Trade was wholly and beneficially owned by Yili Industrial, and the board of Jingang Trade comprised Mr. Pan Gang, Mr. Wang Xiaogang, Ms. Yuan Ping and Ms. Jiang Yuanzi.

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Yili Industrial is a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange of the PRC (stock code: 600887). Yili Industrial is principally engaged in the business of processing and manufacturing dairy products in the PRC. As at the Latest Practicable Date, the board of Yili Industrial comprised Mr. Pan Gang, Ms. Zhao Chengxia, Mr. Wang Xiaogang, Ms. Zhao Ying, Ms. Wang Aiqing, Mr. Zhang Junping, Mr. Lv Gang, Mr. Peng Heping, Ms. Ji Shao, Mr. Cai Yuanming, and Ms. Shi Fang. As at the Latest Practicable Date, Yili Industrial did not have any controlling shareholder (as defined in the Listing Rules) and the largest shareholder of Yili Industrial was Huhhot Investment Company Limited* (呼和浩特投資有限責任公司) with a shareholding of approximately 8.41%. Huhhot Investment Company Limited is a company incorporated in the PRC, which is owned as to 81% by Inner Mongolia Financial Investment Group Co., Ltd.* (內蒙古金融投資集團有限公司) and 19% by Shanghai Electric Qingcheng Inner Mongolia Industrial Co., Ltd.* (上海電氣內蒙古青城實業有限公司). Inner Mongolia Financial Investment Group Co., Ltd.* is a company incorporated in the PRC, which is owned as to 89.96% by Huhhot State-owned Assets Supervision and Administration Commission* (呼和浩特國有資產監督管理委員會), 9.99% by Inner Mongolia State-owned Assets Management Co., Ltd.* (內蒙古國有資產運營有限公司) and 0.05% by Huhhot Investment Company Limited*.

Yili Industrial is a major player in the PRC dairy market. As set out in the annual report of Yili Industrial, according to the report “Asia Brand Footprint 2020” published by Kantar, an international data, insights and consulting company with presence in over 70 countries, Yili Industrial ranked first in the list of most chosen brands in terms of fast-moving consumer goods by consumers in China market for five consecutive years. Further, as stated in the annual report and interim report of Yili Industrial, Yili Industrial recorded audited consolidated revenue and net profit attributable to shareholders of Yili Industrial of approximately RMB96,524.0 million and RMB7,078.2 million respectively for FY2020 and unaudited consolidated net assets attributable to shareholders of Yili Industrial of approximately RMB32,210.7 million as at 30 June 2021. As at the Latest Practicable Date, the market capitalisation of Yili Industrial amounted to approximately RMB248,069 million.

7.2 Intention of the Offeror

As disclosed in the letter from CLSA Limited contained in the Composite Document, the Offeror identifies with the strategy, culture, team and business of the Company and will continue to support the independent operation of the Company and maintain the Company’s listing status in the Hong Kong capital market. It is the intention of the Offeror that the Company will continue to focus on the development of its existing businesses. The Offeror does not intend to introduce any major changes to the existing operations and business of the Group upon the close of the Offers.

Following the closing of the Offers, the Offeror will conduct a review and outlook on the strategy, operations and financial position of the Group, taking into account the net proceeds of HK\$904,900,000 received by the Company through Share Subscription, for the purpose of formulating business plans and strategies for the Group’s long-term business development, leverage the synergies between the Offeror and the Group and explore other business opportunities for the Group. Subject to the results of the review, should suitable investment or business opportunities arise, the Offeror may consider for purpose of enhancing the growth of the Group.

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The Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for a proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code or such later time as the Offeror considers to be appropriate as further disclosed in the paragraph headed “7.3 Proposed change to the Board composition” below) or to dispose of or re-allocate the Group’s fixed assets which relate to the ordinary and usual course of business of the Group as a result of completion of the Offers. However, the Offeror reserves the right to make such changes that it deems necessary or appropriate to the Group’s business and operations to optimize the value of the Group.

As at the Latest Practicable Date, no material investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group.

Taking into account the background of the Offeror, a leading player in the dairy industry in the PRC, depending on the changes on the business plans and strategies of the Group to be introduced by the Offeror (if any), there may or may not be potential synergy effects to the Company’s future prospect. However, as no concrete plan for future cooperation has been laid out, we are unable to assess such effects (if any), thus the aforesaid has not formed part of the basis of our opinion.

7.3 Proposed change to the Board composition

As at the Latest Practicable Date, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; three non-executive Directors, namely Mr. Shi Liang (Vice-Chairman), Mr. Qiao Baijun and Mr. Tsai Chang-Hai; and three independent non-executive Directors, namely Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman.

Mr. Shi Liang and Mr. Tsai Chang-Hai (both being nominated by the Vendors to the Board) have tendered resignation from their offices as a non-executive Director and a member of Nomination Committee and Remuneration Committee of the Company to take effect from the day after the Closing Date. Mr. Shi Liang will also cease to be the Vice Chairman of the Board on even date. The Offeror intends to nominate Mr. Sun Donghong and Mr. Zhang Zhanqiang as new non-executive Directors, and such proposed appointment is subject to approval of the Board and expected to take effect from the day after the Closing Date. The biographical details of Mr. Sun Donghong and Mr. Zhang Zhanqiang are set out section headed “V. Proposed Change to the Board Composition” in the letter from CLSA Limited contained in the Composite Document.

Besides, to the extent existing independent non-executive Directors resign from or cease to hold their respective positions, the Offeror intends to nominate new independent non-executive Directors to the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors intended to resign from his/her offices as a Director.

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7.4 Maintaining listing status of the Company

The Offeror has no intention to privatize the Company and intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offers.

The Offeror and the new Directors to be appointed to the Board (if any) will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares, which may include but not limited to placing down of sufficient number of accepted Shares by the Offeror and/or issue of additional Shares by the Company for this purpose. No arrangements have been confirmed or put in place as at the Latest Practicable Date.

8. Evaluation of the Share Offer Price

8.1 Comparison of the Share Offer Price against historical Share prices and NAV per Share

The Share Offer Price of HK\$10.06 per Offer Share represents:

- (i) a premium of approximately 13.67% over the closing price of HK\$8.85 per Share as quoted on the Stock Exchange on 11 October 2021, being the Last Trading Day;
- (ii) a premium of approximately 17.11% over the average closing price of approximately HK\$8.59 per Share based on the daily closing prices as quoted on the Stock Exchange for five (5) consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 24.20% over the average closing price of approximately HK\$8.10 per Share based on the daily closing prices as quoted on the Stock Exchange for ten (10) consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 33.42% over the average closing price of approximately HK\$7.54 per Share based on the daily closing prices as quoted on the Stock Exchange for thirty (30) consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 1.51% over the closing price of HK\$9.91 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a premium of approximately 188.50% over the audited consolidated net asset value (“NAV”) attributable to the Shareholders of approximately HK\$3.487 per Share as at 31 December 2020, calculated by dividing the Group’s audited consolidated net assets attributable to the Shareholders of approximately RMB5,171.37 million (equivalent to approximately HK\$6,306.55 million) as at 31 December 2020 by 1,808,545,841 Shares in issue as at the Latest Practicable Date; and

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(vii) a premium of approximately 185.39% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$3.525 per Share as at 30 June 2021, calculated by dividing the Group's unaudited consolidated net assets attributable to the Shareholders of approximately RMB5,227.05 million (equivalent to approximately HK\$6,374.45 million) as at 30 June 2021 by 1,808,545,841 Shares in issue as at the Latest Practicable Date.

As shown above, the Share Offer Price represents a premium over (i) the closing prices of the Shares as quoted on the Stock Exchange on the Last Trading Date; (ii) the average closing price per Share based on the daily closing prices as quoted on the Stock Exchange for the 5, 10 and 30 consecutive trading days immediately prior to and including the Last Trading Day; and (iii) the unaudited and audited consolidated net asset value attributable to the Shareholders per Share.

8.2 Historical price trend of the Shares

The chart below depicts the closing price of the Shares traded on the Stock Exchange from 27 October 2019, being the date falling two years preceding the date of the Joint Announcement, up to and including the Last Trading Day (the “**Review Period**”) and from 28 October 2021 (being the first trading day after the publication of the Joint Announcement) up to the Latest Practicable Date. We consider the Review Period is appropriate for our analysis of the historical Share price performance as it covers a sufficiently long period reflecting the financial results announced by the Company from time to time as well as smoothing out the distortions which may have been caused by short term volatility in the overall stock market.



Source: The website of the Stock Exchange and Bloomberg

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During the Review Period, the lowest closing price and the highest closing price of the Shares were HK\$6.59 on 24 September 2021 and HK\$17.4 on 19 June 2020 respectively, with an average closing price of the Shares of approximately HK\$11.66. The Share Offer Price of HK\$10.06 per Share represents (i) a premium of approximately 13.67 % over the closing price on the Last Trading Date; (ii) a premium of approximately 17.11 % to the lowest closing price; and (iii) a discount of approximately 13.7 % to the average closing price during the Review Period. There were 96 out of the 484 trading days during the Review Period that the closing prices of the Shares below the Share Offer Price of HK\$10.06.

As shown in the chart above, we note that there was an increasing trend in the closing price of the Shares since the second quarter in 2020 and it reached the highest closing price during the Review Period of HK\$17.4 on 19 June 2020. It is noted that the Company announced an acquisition on 9 April 2020 for the remaining 15.0% equity interest in Hyproca Bio-Science (Hong Kong) Company Limited and its subsidiary and published a profit alert announcement (the “**Profit Alert**”) on 27 April 2020 which the Management is of the view that the Profit Alert may have triggered the surge in the share price as to reflect the market’s positive reaction to such information. However, such growth momentum was not sustained. The closing price of the Shares dropped back to approximately HK\$11 in November 2020. As advised by the Management, they were not aware of any reason for the aforesaid sudden drop in the closing price of the Shares. The closing price of the Shares increased to approximately HK\$12 in December 2020 and remained relatively stable at approximately HK\$12 to HK\$13 since then until the second quarter in 2021, when there was a general downward trend of closing price of the Shares. We also note that on 29 July 2021, the Company published an announcement that they have noted the decrease in the trading price since July 2021 and the Management were not aware of any reason for the aforesaid fluctuations in the closing price of the Shares. Since then, the closing price of the Shares showed a downward trend in general and reached the bottom during the Review Period before the Last Trading Day of HK\$6.59 on 24 September 2021. The Shares slightly rebounded and closed at HK\$8.85 on the Last Trading Day.

Trading in the Shares was suspended from 12 October 2021 to 27 October 2021 (both days inclusive) pending the publication of the Joint Announcement. Immediately thereafter, the closing price of the Shares surged to HK\$9.45 on 28 October 2021, which is the first trading day immediately following the Joint Announcement. Since then, the closing price of the Shares maintained in the range of HK\$8.73 to HK\$9.91 and closed at HK\$9.91 as at the Latest Practicable Date.

We consider the current Shares prices were supported by the publication of the Joint Announcement on 27 October 2021 of the possible Share Offer and thus in absence of the Share Offer or any significant positive events, the current Shares prices might not sustain at the current level. Based on the above analysis and taking into account that the recent prevailing market price is more relevant for purpose of comparison, we consider that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

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8.3 Liquidity of the Shares

The following table sets out the trading volume of the Shares during the period between the date falling one year preceding the date of the Joint Announcement up to and including the Latest Practicable Date which we consider to be a sufficient period of time to provide a general overview on the recent trading volume of the Shares for conducting an analysis.

	Number of trading days in the relevant month/period	Total trading volume for the month/period <i>(Note 1)</i>	Average daily trading volume for the month/period <i>(Note 2)</i>	Percentage of average daily trading volume to the total issued Shares <i>(Note 3)</i>	Percentage of average daily trading volume to the total number of Shares held by public Shareholders <i>(Note 4)</i>
2020					
From 27 October to 30 October	4	20,635,799	5,158,950	0.30%	0.69%
November	21	167,259,379	7,964,732	0.46%	1.07%
December	22	112,951,533	5,134,161	0.30%	0.69%
2021					
January	20	90,098,371	4,504,919	0.26%	0.60%
February	18	69,095,837	3,838,658	0.22%	0.52%
March	23	96,939,631	4,214,767	0.25%	0.57%
April	19	45,818,197	2,411,484	0.14%	0.32%
May	20	55,732,714	2,786,636	0.16%	0.37%
June	21	39,495,510	1,880,739	0.11%	0.25%
July	21	71,162,102	3,388,672	0.20%	0.45%
August	22	123,062,994	5,593,772	0.33%	0.75%
September	21	53,983,286	2,570,633	0.15%	0.34%
From 1 October to the Last Trading Day	6	47,035,554	7,839,259	0.46%	1.05%
From the first trading day following the Joint Announcement to the Latest Practicable Date	69	860,368,149	12,469,104	0.69%	1.67%
Average				0.29%	0.67%

Source: the website of the Stock Exchange

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Notes:

1. Total trading volume is expressed in terms of number of Shares traded.
2. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period excluding any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
3. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month/period or as at the Latest Practicable Date, as applicable.
4. The total number of Shares held by the public is based on the number of Shares held by public shareholders of 745,291,288 Shares as at the Latest Practicable Date.

As illustrated in the above table, the average daily trading volume ranged from 1,880,739 Shares to 12,469,104 Shares, representing approximately 0.11% to 0.69% of the total number of Shares in issue as at the end of the respective month/period, and approximately 0.29% to 1.67% of the total number of Shares held by public Shareholders as at the end of the respective month/period.

We are of the view that the liquidity of the Shares during the one-year period preceding the date of the Joint Announcement had been thin. In this light, the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares.

9. Peer Comparison

In order to determine the fairness and reasonableness of the Share Offer Price, we have adopted the comparable approach whereby the Share Offer Price is compared to the valuation of its industry peers, as this approach is direct and commonly used as a valuation methodology. For our purpose of comparison, we have identified three companies (the “**Comparable Companies**”) that (i) the shares of which are listed in the Hong Kong Stock Exchange; (ii) principally operate in the dairy industry with at least 40% of their respective consolidated revenue generated from the sales of infant formula products; (iii) have its own-branded infant formula products; (iv) have a presence in the PRC market as industry peers; (v) are profit making for the year ended 31 December 2020, and (vi) have a closing market capitalisation below HK\$100 billion as at the Latest Practicable Date, which, in our view, excludes those companies operating in the industry with much larger scale as they may be valued with different valuation multiples, which to the best of our knowledge represent the exhaustive samples that meet the aforesaid selection criteria.

For the selection of the valuation multiples, we have considered price-to-earnings ratio(s) (“**P/E Ratio(s)**”) and price-to-book ratio (s) (“**P/B Ratio(s)**”) of the Comparable Companies based on the financial information as disclosed in their respective latest publication of annual results announcement or annual report. However, we did not consider using the price-to-sales ratio (“**P/S Ratio**”) is an appropriate benchmark because the P/S Ratio is mainly used to value non-profitable companies, while the Group and the Comparable Companies are profitable, hence it may not be a good metric to use for their comparison purposes.

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Below sets out the table detailing our selection basis of the Comparable Companies:

Company name	Stock code	Principal activities	Approximate percentage of revenue generated from sales of infant formula or related products (%) (Note)	Approximate percentage of revenue generated from the PRC market (%) (Note)
Health and Happiness (H&H) International Holdings Limited	1112.HK	The group is principally engaged in the manufacture and sale of baby nutrition and care products.	46.8	82.8
Yashili International Holdings Limited	1230.HK	The group is principally engaged in the manufacture and sale of dairy and nourishment products.	81.5	86.4
China Feihe Limited	6186.HK	The group is principally engaged in the production and sales of infant milk formula products.	95.0	98.4

Note:

The information was extracted from the annual reports of the Comparable Companies for the year ended 31 December 2020.

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Set out below are Comparables Companies together with the relevant market capitalisation, P/E Ratios and P/B Ratios:

Company name	Stock code	Market capitalisation <i>(HK\$'billion)</i> <i>(Note 1)</i>	P/E Ratio <i>(times)</i> <i>(Note 2)</i>	P/B Ratio <i>(times)</i> <i>(Note 3)</i>
Health and Happiness (H&H) International Holdings Limited	1112.HK	8.41	6.07	1.11
Yashili International Holdings Limited	1230.HK	2.61	21.17	0.37
China Feihe Limited	6186.HK	92.25	10.17	4.26
		Minimum	6.07	0.37
		Maximum	21.17	4.26
		Average	12.47	1.92
		Median	10.17	1.11
		Implied market capitalization <i>(HK\$'billion)</i> <i>(Note 4)</i>	Implied P/E Ratio <i>(approximate times)</i> <i>(Note 5)</i>	Implied P/B Ratio <i>(approximate times)</i> <i>(Note 6)</i>
The Company	1717.HK	17.92	14.63	2.84

Notes:

1. The market capitalisation is calculated as the closing price of shares of the respective Comparable Companies as at the Latest Practicable Date multiplied by their respective number of issued shares as at the Latest Practicable Date.
2. The P/E Ratio is calculated based on the market capitalisation as described in Note 1 above divided by the latest net profit attributable to equity holders of the respective Comparable Companies reported in their latest annual reports.
3. The P/B Ratio is calculated based on the market capitalisation as described in Note 1 above divided by the net asset value attributable to equity holders of the respective Comparable Companies reported in their latest annual reports.
4. The implied market capitalisation of the Company is calculated as the Share Offer Price multiplied by the number of issued Shares as at the Latest Practicable Date
5. The implied P/E Ratio is calculated as the implied market capitalisation as described in Note 4 above divided by the profit attributable to equity holders of the Company in FY2020 extracted from the 2020 Annual Report.
6. The implied P/B Ratio is calculated as the implied market capitalisation as described in Note 4 above divided by the net asset value attributable to equity holders of the Company as at 31 December 2020 extracted from the 2020 Annual Report.

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As shown in the table above, the P/E Ratios of the Comparable Companies ranged from approximately 6.07 times to approximately 21.17 times, with an average P/E Ratio of approximately 12.47 times and a median P/E Ratio of approximately 10.17 times. The Implied P/E Ratio of approximately 14.63 times is slightly above both the average and median P/E Multiples of the Comparable Companies.

As shown in the table above, the P/B Ratios of the Comparable Companies ranged from approximately 0.37 time to approximately 4.26 times, with an average P/B Ratio of approximately 1.92 times and a median P/B Ratio of approximately 1.11 times. The Implied P/B Ratio of approximately 2.84 times is higher than both the average and median P/B Multiples of the Comparable Companies.

Having considered that (i) the Implied P/E Ratio, calculated based on the Share Offer Price, is within the industry range and slightly higher than the average and median of the P/E Ratios of the Comparable Companies; and (ii) the Implied P/B Ratio is within the industry range and higher than the average and median of the P/B Ratio of the Comparable Companies, we consider the Share Offer Price to be fair and reasonable so far as the Independent Shareholders are concerned.

10. The Option Offer

As at the Latest Practicable Date, the Company had 37,499,334 Options which may be exercised for an issue of 37,499,334 additional Shares at a price of HK\$10.00 per Option by the Optionholders.

Pursuant to Rule 13.5 of the Takeovers Code and Practice Note 6 of the Takeovers Code, the Option Offer to cancel each Option is calculated on a see-through basis, so that the Option Offer Price would represent the difference between the exercise price for each Option and the Share Offer Price, which is in line with the normal practice. We note that the current Option Offer Price is derived based on the “see-through” principle, which is in accordance with the general practice. On this basis, we are of the view that the Option Offer at the Option Offer Price is fair and reasonable.

DISCUSSION

In forming our opinion and recommendation below, we have taken into account the factors set out under the section headed “Principal factors and reasons considered” above, none of which can be considered in isolation. We would like to draw the attention of the Independent Shareholders and the Optionholders in particular to the points summarised below:

- (i) The Share Offer Price represented a premium over the recent prevailing market price of the Shares – 13.67% and 1.51% over the closing price of the Shares as at the Last Trading Day and as at the Latest Practicable Date respectively, and 17.11%, 24.20% and 33.42% over the average closing price of the Shares during the 5-day, 10-day and 30-day periods prior to and including the Last Trading Day. The increase in Share price after publication of the Joint Announcement is in our view likely to be associated with the Offers and there is no assurance that such level of Share price can be sustained if the Offers close or lapse.

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- (ii) The Share Offer Price represented a premium of approximately 188.50% and 185.39% over the audited or unaudited consolidated net assets attributable to the Shareholders per Share as at 31 December 2020 and 30 June 2021 respectively.
- (iii) The liquidity of the Shares were in general very thin, with average trading volume representing around 0.29% and 0.67% of the total issued share capital and public float of the Shares respectively. Such low liquidity renders it difficult for the Independent Shareholders to dispose of their Shares in the market without exerting downward pressure on the Share price.
- (iv) The Offeror had indicated that it does not intend to introduce any major changes to the existing operations and business of the Group upon the close of the Offers.
- (v) The businesses of the Group had been profitable in the past and the Group has a consistent dividend payout record in the past few years. However, in view of the opportunities and challenges lying ahead of the Group as discussed in the paragraphs headed “6. Prospects of the Group”, there is uncertainty that the Company would be able to maintain the growth momentum of its business and profitability in the future and declare dividend payout in a similar ratio as it maintained before.
- (vi) The Implied P/E Ratio falls with the range of the P/E Ratios of the Comparable Companies and is above the average P/E Ratio as well as the median of the P/E Ratio of the Comparable Companies. The Implied P/B Ratio falls within the range of the P/B Ratio of the Comparable Companies and is above the average P/B Ratio and the median of the P/B Ratio of the Comparable Companies.
- (vii) The Option Offer adopts the “see-through” price, which is a common market practice and in accordance with Rule 13 and Practice Note 6 of the Takeovers Code, as such, we consider the Option Offer Price is fair and reasonable so far as the Optionholders are concerned.
- (viii) The Share Offer on the other hand provides an option with certainty for the Independent Shareholders to receive a cash consideration of HK\$10.06 per Share which represents a premium over the prevailing market prices if they wish to exit their investment in the Shares.

CONCLUSION AND RECOMMENDATION

Based on the above analysis, we are of the opinion that the terms of the Offers (being the Share Offer and the Option Offer) are fair and reasonable so far as the Independent Shareholders and Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to advise (i) the Independent Shareholders to accept the Share Offer; and (ii) the Optionholders to accept the Option Offer.

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For Independent Shareholders who are attracted by and confident in the future prospects of the Group, given the background of the Offeror as detailed in the letter from CLSA Limited contained in the Composite Document, they may consider to retain their Shares in full or in part. For those Independent Shareholders who would like to retain their Shares in part or in full, we would like to remind them that the Share Offer Price of HK\$10.06 per Offer Share is above closing price of the Shares as at the Latest Practicable Date. We would also like to remind them of the potential difficulties they may encounter in disposing large blocks of Shares in the open market without creating downward pressure on the market price of the Shares after the close of the Offers in view of the historical thin liquidity of the Shares and there is no guarantee that the prevailing level of the Share price will sustain. The Independent Shareholders are strongly advised that the decision to realise or to continue to hold their investments in the Shares is subject to individual circumstances and investment objectives. As each Independent Shareholder or Optionholders would have different investment objectives and/or circumstances, we advise the Independent Board Committee to also recommend the Independent Shareholders and the Optionholders who may require advice concerning any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers. Furthermore, they should carefully read the procedures for accepting the Offers as set out in the Composite Document, its appendices and the accompanying Form of Acceptance.

For the purpose of this letter, the exchange rate of HK\$1 = RMB0.82 have been used for currency translation, where applicable. Such an exchange rate is for illustrative purposes and does not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at such a rate.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Ng Ka Po
Co-Managing Director, Corporate Finance

Mr. Ng is a responsible officer of Optima Capital and a licensed person registered with the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Ng has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

To accept the Offers, you should complete and sign the relevant accompanying Form(s) of Acceptance in accordance with the instructions printed thereon. The instructions set out in this Composite Documents should be read together with the instructions printed on the Form(s) of Acceptance which forms part of the terms of the Offers.

I. GENERAL PROCEDURES FOR ACCEPTANCE OF THE SHARE OFFER

- (a) To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Share Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Share Offer.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must send the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Shares in respect of which you intend to accept the Share Offer, by post or by hand, to the Registrar, at Computershare Hong Kong Investor Services Limited, marked “Ausnutria Dairy Corporation Ltd – Share Offer” on the envelope as soon as possible but in any event so as to reach the Registrar by not later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (c) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must either:
 - a. lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or
 - b. arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or

- c. if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorize HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
- d. if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (d) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares should be forwarded to the Registrar as soon as possible thereafter. If you have lost the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given should be provided to the Registrar.
- (e) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror and/or CLSA Limited and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.

- (f) Acceptance of the Share Offer will be treated as valid only if the completed and signed **WHITE** Form of Share Offer Acceptance is received by the Registrar by not later than 4:00 p.m. on the First Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code) and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
- a. accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares and, if that/those share certificate(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g., a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - b. from a registered Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - c. certified by the Registrar or the Stock Exchange.
- (g) If the **WHITE** Form of Share Offer Acceptance is executed by a person other than the registered Shareholders, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.
- (h) Seller's ad valorem stamp duty (rounded up to the nearest HK\$1) payable by the Shareholders who accept the Share Offer and calculated at a rate of 0.13% of the market value of the Offer Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is the higher, will be deducted from the amount payable by the Offeror to the relevant Shareholders on the acceptance of the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the Shareholders who accept the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).
- (i) No acknowledgement of receipt of any **WHITE** Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares will be given.

- (j) If the Share Offer does not become, or is not declared, unconditional as to acceptances on the Closing Date, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar, lodged with **WHITE** Form of Share Offer Acceptance will be returned to the relevant Offer Shareholders who have accepted the Share Offer by ordinary post as soon as possible but in any event within ten (10) days after the Share Offer has lapsed.

II. COURSES OF ACTION AVAILABLE TO THE OPTIONHOLDERS

You may take any of the following courses of action with respect to your outstanding Options:

- (a) to the extent any of your outstanding Options are not exercised on or prior to the Closing Date, you may accept the Option Offer in accordance with its terms (as set out in this Composite Document and the **PINK** Form of Option Offer Acceptance) and receive the Option Offer Price (if the Offers become or are declared unconditional in all respects) by returning the duly completed and signed **PINK** Form of Option Offer Acceptance enclosed together with the relevant document(s) as soon as possible and in any event no later than 4:00 p.m. on the First Closing Date or such later time(s) and/or date(s) as the Offeror may determine and announce in compliance with the requirements of the Takeovers Code, to the company secretary of the Company at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong, marked “Ausnutria Dairy Corporation Ltd – Option Offer” on the envelop;
- (b) you may in accordance with the terms of the Share Option Scheme exercise some or all of outstanding vested Options (to the extent not already exercised), by submitting a notice for exercising the Options together with a cheque for payment of the subscription monies and the related certificates (if applicable) for the Options to the company secretary of the Company no later than 4:00 p.m. on the First Closing Date or such later time(s) and/or date(s) as the Offeror may determine and announce in compliance with the requirements of the Takeovers Code, and the Share issued as a result of the exercise of such Options will be subject to and eligible to participate in the Share Offer. Please refer to details of this Composite Document for the details of the Share Offer and the acceptance thereof; or
- (c) you may do nothing, and in which case, if the Offers become unconditional in all respects, unexercised Options will lapse automatically after the Closing Date and you will not receive the Option Offer Price.

III. GENERAL PROCEDURES FOR ACCEPTANCE OF THE OPTION OFFER

- (a) To accept the Option Offer, you should complete and sign the accompanying **PINK** Form of Option Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Option Offer.

- (b) If you are an Optionholder and you wish to accept the Option Offer in respect of your Options, you must send the duly completed and signed **PINK** Form of Option Offer Acceptance together with the relevant certificate(s), document(s) of title or entitlement in respect of the Options, and/or other document(s) (if applicable) evidencing the grant of the Options to you (and/or satisfactory indemnity or indemnities required in respect thereof) for your holding of Options (or if applicable, for not less than the number of Options in respect of which you intend to accept the Option Offer), by post or by hand, to the company secretary of the Company at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong marked “Ausnutria Dairy Corporation Ltd – Option Offer”, as soon as possible and in any event no later than 4:00 p.m. on the First Closing Date or such later time(s) and/or date(s) as the Offeror may determine and announce in compliance with the requirements of the Takeovers Code.
- (c) No stamp duty will be deducted from the amount paid or payable to the Optionholder who accepts the Option Offer.
- (d) No acknowledgment of receipt of any **PINK** Form of Option Offer Acceptance, certificate(s) of the Options (if applicable) and/or any other document(s) of title (and/or any satisfactory indemnity/indemnities required in respect thereof) in respect of the Options will be given.
- (e) If the Option Offer does not become, or is not declared, unconditional as to acceptances on the Closing Date, relevant certificate(s), document(s) of title or entitlement in respect of the Options, and/or other document(s) (if applicable) evidencing the grant of the Options to you (and/or satisfactory indemnity or indemnities required in respect thereof), lodged with **PINK** Form of Option Offer Acceptance, received by the company secretary of the Company will be returned to you by ordinary post as soon as possible but in any event within ten (10) days after the Option Offer has lapsed.

IV. SETTLEMENT OF THE OFFERS

i. The Share Offer

- (a) Pursuant to Rule 20.1 of the Takeovers Code, provided that a valid **WHITE** Form of Share Offer Acceptance and the relevant certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Shares are complete and in good order in all respects and have been received by the Registrar before the close of the Share Offer, a cheque for the amount (rounding up to the nearest cent) due to each of the Shareholders who accepts the Share Offer less seller’s ad valorem stamp duty in respect of the Shares tendered by him/her/it under the Share Offer will be despatched to such Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within seven (7) business days following the later of (i) the date of receipt by the Registrar of the duly completed acceptances of the Share Offer and all relevant document(s) of title which render such acceptance complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code; and (ii) the date the Share Offer becomes or is declared unconditional.

- (b) Settlement of the consideration to which any accepting Shareholder is entitled under the Share Offer will be implemented in full in accordance with the terms of the Share Offer (save with respect to the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Shareholder.
- (c) Cheque(s) not presented for payment within six months from the date of issue of the relevant cheques will not be honoured and be of no further effect, and in such circumstances cheque holders should contact the Offeror for payment.

ii. The Option Offer

- (a) Pursuant to Rule 20.1 of the Takeovers Code, provided that a valid **PINK** Form of Option Offer Acceptance and the relevant Option certificate(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the company secretary of the Company before the close of the Option Offer, payment of the consideration for the Options surrendered for cancellation under the Option Offer will be made to the Company as the agent of the Optionholders, by cheque(s) drawn in the name of the Company which will be delivered to the Company's Hong Kong office at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong or, at the election of the Offeror, by wire transfer to the bank account of the Company, and the Company will transfer any payment received to respective Optionholders by issue of cheque or wire transfer, in each case, within seven (7) business days following the later of (i) the date of receipt by the company secretary of the Company of the duly completed acceptances of the Option Offer and all relevant documents which render such acceptance complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code; and (ii) the date on which the Option Offer becomes or is declared unconditional in all respects.
- (b) Settlement of the consideration to which any accepting Optionholder is entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Optionholder.

V. ACCEPTANCE PERIOD

- (a) Unless the Offers have previously been extended with the consent of the Executive, to be valid, the Forms of Acceptance must be received by the Registrar (in respect of the Share Offer) or the company secretary of the Company (in respect of Option Offer) in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date.

- (b) If the Offers are extended, the Offeror and the Company will issue an announcement in relation to any extension of the Offers, which announcement will state either the next closing date or, a statement that the Offers will remain open until further notice. In the latter case, at least fourteen (14) days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the relevant Offers.
- (c) If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

VI. ANNOUNCEMENT

- (a) As required under Rule 19 of the Takeovers Code, by 6:00 p.m. on the First Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the extension or expiry of the Offers. The Offeror must publish an announcement in accordance with the requirements of the Listing Rules by 7:00 p.m. on the Closing Date stating whether the Offers have been extended, or expired or has become or been declared unconditional (and, in such case, whether as to acceptances or in all respects).

Such announcement must state the following:

- (i) the total number of Shares and Options for which acceptances of the Offers have been received;
- (ii) the total number of Shares and Options held, controlled or directed by the Offeror and/or parties acting in concert with it before the Offer Period;
- (iii) the total number of Shares and Options acquired or agreed to be acquired during the Offer Period by the Offeror and/or parties acting in concert with it; and
- (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company in which the Offeror or any party acting in concert with it has borrowed or lent, saved for any borrowed Shares which have been either on-lent or sold.

The announcement will specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by the number of securities as referred to in (i) to (iv) above.

- (b) In computing the total number of Shares and Options for which acceptances of the Offers have been received, only valid acceptances in complete and good order which have been received by the Registrar (in respect of Share Offer) or the company secretary of the Company (in respect of Option Offer) no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offers, shall be included.

- (c) As required under the Takeovers Code, all announcements in respect of listed companies must be made in accordance with the requirements of the Listing Rules.

VII. RIGHT OF WITHDRAWAL

- (a) Acceptance of the Offer tendered by the Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in sub-paragraph (b) or (c) below.
- (b) If the Offeror is unable to comply with the requirements set out in the paragraph (a) of section VI headed “ANNOUNCEMENT” above, the Executive may, pursuant to Rule 19.2 of the Takeovers Code, require that acceptors of the Offers who have tendered acceptances of the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.
- (c) In compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Offers shall be entitled to withdraw his/her/its acceptance of the Offers after twenty one (21) days from the First Closing Date if the Offers have not by then become unconditional as to acceptance.

In such case, when the Shareholders and/or Optionholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or the certificate(s) of the Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form(s) of Acceptance to the relevant Shareholders and/or Optionholders at his/her/its own risks.

VIII. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS

The Offers will be made available to all the Shareholders and Optionholders, including the Overseas Shareholders and the Overseas Optionholders. The availability of the Offers to any Overseas Shareholders and Overseas Optionholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders and Overseas Optionholders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders and Overseas Optionholders who wish to accept the Share Offer and/or the Option Offer (as the case may be) to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes and duties due by such Overseas Shareholders and Overseas Optionholders in respect of the acceptance of the Offers in such jurisdictions).

Any acceptance by any Overseas Shareholders or Overseas Optionholders will be deemed to constitute a representation and warranty from such Overseas Shareholders or Overseas Optionholders to the Offeror that such Overseas Shareholders and Overseas Optionholders have observed and are permitted under all applicable laws and regulations to receive and accept the Offers and that such Overseas Shareholders and Overseas Optionholders have obtained all requisite governmental, exchange control or other consents and have made all requisite regulations and filing in compliance with all necessary formalities and regulatory or legal requirements and have paid all transfer or other taxes and duties or other required payments due from such Overseas Shareholders and Overseas Optionholders in connection with such acceptance in such jurisdiction, and the such acceptance shall be valid and binding in accordance with all applicable laws and regulations. The Overseas Shareholders and Overseas Optionholders should consult their professional advisers if in doubt.

IX. NOMINEE REGISTRATION

To ensure equality of treatment of all Shareholders and Optionholders, those Shareholders and Optionholders who hold Shares and Options as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares and Options whose investments are registered in the names of nominees to provide instructions to their nominees of their intention with regard to the Offers.

X. TAX IMPLICATIONS

Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance or rejection of the Offers that may be applicable in relevant jurisdictions. It is emphasized that none of the Offeror or parties acting in concert with it, the Company, the Registrar or any of their respective directors, officers, advisers, associates, agents or any persons involved in the Offers is in a position to advise the Shareholders on their individual tax implications, nor do they accept responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offers.

XI. GENERAL

- (a) All communications, notices, Form(s) of Acceptance, share certificates, transfer receipts (as the case may be), other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Offer Shareholders and the Optionholders or their designated agents will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, CLSA Capital Markets, CLSA Limited, Asian Capital, Optima Capital and any of their respective directors nor the Registrar or the company secretary of the Company or other parties involved in the Offers or any of their respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the accompanying Form(s) of Acceptance form part of the terms and conditions of the Offers.

- (c) The accidental omission to despatch this Composite Document and/or Form(s) of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offer in any way.
- (d) The Offers are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form(s) of Acceptance will constitute an authority to the Offeror, CLSA Limited, or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares or the Options in respect of which such person or persons has/have accepted the Offers.
- (f) Due execution of the Form(s) of Acceptance will constitute the appointment of the Offeror and/or CLSA Limited as the attorney of the person or persons accepting the Offers in respect of all the Share(s) to which the Form(s) of Acceptance relate(s).
- (g) Due execution of the Form(s) of Acceptance will constitute an agreement of the Offer Shareholders and Optionholders to ratify each and every act or thing which may be done or effected by the Offeror and/or CLSA Limited and/or the Company or their respective agent(s) or such person or persons as any of them may direct on the exercise of any of the rights contained therein.
- (h) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares sold to the Offeror free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them as at the date of this Composite Document or subsequently becoming attached to them, including, in the case of the Shares, the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Share Offer is made, being the date of despatch of this Composite Document. For the avoidance of doubt, neither Hong Kong Securities Clearing Company Limited nor HKSCC Nominees Limited will give, or be subject to, any of the above representation and warranty.
- (i) By accepting the Offers, the Offer Shareholders and the Optionholders will sell their Shares or tender their Options (as the case may be) to the Offeror free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights accruing or attaching to them, including, without limitation, the right to receive in full all dividends and distributions (as applicable) which may be recommended, declared, made or paid by reference to a record date on or after the date on which the Offers are made, that is, the date of this Composite Document. As at the Latest Practicable Date, there is no unpaid dividend and the Company has no intention to make, declare or pay any future dividend/distribution until the close of the Offers.

- (j) Acceptance of the Offers by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares or Options in respect of which as indicated in the Form(s) of Acceptance is the aggregate number of Shares or Options held by such nominee for such beneficial owner who is accepting the Offers.
- (k) Any Offer Shareholder or Optionholder accepting the Share Offer and/or the Option Offer, respectively, will be responsible for payment of any other transfer or cancellation or other taxes or duties payable in respect of the relevant jurisdiction due by such persons.
- (l) Reference to the Offers in this Composite Document and in the Form of Acceptance shall include any extension thereof.
- (m) All acceptance, instructions, authorities and undertakings given by the Offer Shareholders in the Form(s) of Acceptance shall be irrevocable except as permitted under the Takeovers Code.
- (n) The English text of this Composite Document and the Form(s) of Acceptance shall prevail over the respective Chinese text for the purpose of interpretation.
- (o) In making their decision, the Offer Shareholders and Optionholders must rely on their own examination of the Offeror, the Group and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form of Acceptance, shall not be construed as any legal or business advice on the part of the Company, the Offeror and parties acting in concert with each of them, CLSA Capital Markets, CLSA Limited, the Independent Financial Adviser, the Registrar or any of their respective ultimate beneficial owners, directors, officers, advisers, associates, agents or any persons involved in the Offer. The Shareholders and Optionholders should consult their own professional advisers for professional advice.

1. FINANCIAL SUMMARY

The following summary financial information has been extracted from the audited consolidated financial statements of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 in the respective annual reports of the Company and the unaudited consolidated financial statements for the six months ended 30 June 2021 as extracted from the 2021 Interim Report.

There were no items of any income or expense which are material in respect of the consolidated financial results of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021.

Save for the 2021 Interim Report, there are no other interim statements or preliminary announcement made by the Company since the last published audited accounts of the Company (namely, its annual report for the year ended 31 December 2020). Save for the Offers, there have been no other significant events of the Company after 31 December 2020.

Summary of Consolidated Income Statement

	For the six months ended 30 June 2021 RMB'000 (unaudited)	For the year ended 31 December		
		2020 RMB'000 (audited)	2019 RMB'000 (audited)	2018 RMB'000 (audited)
Revenue	4,270,546	7,985,816	6,736,153	5,389,568
Profit before tax	698,210	1,220,846	1,107,184	791,992
Fair value/re-measurement gain/(loss)				
from acquisition	–	(43,020)	(63,631)	53,600
Income tax expense	(126,614)	(220,812)	(228,288)	(147,440)
Profit for the period/year attributable to:				
owners of the Company	593,990	1,004,106	878,390	635,100
non-controlling interests	(22,394)	(4,072)	506	9,452
	571,596	1,000,034	878,896	644,552
Total comprehensive income for the period/ year attributable to:				
owners of the Company	430,881	1,066,201	886,744	607,839
non-controlling interests	(22,254)	(3,800)	(1,200)	8,874
	408,627	1,062,401	885,544	616,713
Earnings per share attributable to owners of the Company for the period/year:				
basic (RMB cents)	34.60	60.93	54.92	47.20
dilute (RMB cents)	34.50	60.57	54.50	46.63
Dividend	nil	389,927	317,172	207,942
Dividend per Share (HK cents)	nil	27	22	15

Summary of Consolidated Statement of Financial Position

	As at 30 June	As at 31 December		
	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(audited)	(audited)	(audited)
Total assets	8,960,169	9,247,957	8,343,194	6,829,006
Total liabilities	3,764,168	4,096,017	4,279,286	3,434,458
Equity attributable to owners of the Company	5,227,046	5,171,372	4,015,654	3,253,738
Non-controlling interests	(31,045)	(19,432)	48,254	140,810

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

The Company is required to set out or refer to in this Composite Document the consolidated statements of profit or loss, the consolidated statements of financial position, the consolidated statements of cash flows, and any other primary statements as shown in the (i) audited consolidated financial statements of the Group for the year ended 31 December 2018, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2018 Financial Statements**”); (ii) audited consolidated financial statements of the Group for the year ended 31 December 2019, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2019 Financial Statements**”); and (iii) audited consolidated financial statements of the Group for the year ended 31 December 2020, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2020 Financial Statements**”).

The 2018 Financial Statements are set out from pages 94 to 219 in the 2018 annual report of the Company (the “**2018 Annual Report**”) which was published on 3 April 2019. The 2018 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.com>) and the Company (www.ausnutria.com.hk) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0403/ltn201904031613.pdf>

The 2019 Financial Statements are set out from pages 82 to 187 in the 2019 annual report of the Company (the “**2019 Annual Report**”) which was published on 25 March 2020. The 2019 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.com>) and the Company (www.ausnutria.com.hk) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0325/2020032500619.pdf>

The 2020 Financial Statements are set out from pages 73 to 175 in the 2020 annual report of the Company (the “**2020 Annual Report**”) which was published on 7 April 2021. The 2020 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.com>) and the Company (www.ausnutria.com.hk) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0407/2021040700993.pdf>

The 2018 Financial Statements, 2019 Financial Statements and 2020 Financial Statements (but not any other parts of the 2018 Annual Report, 2019 Annual Report and 2020 Annual Report, in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

The auditor of the Group for the three years ended 31 December 2018, 31 December 2019 and 31 December 2020, Ernst & Young, did not issue any modified opinion nor any emphasis of matter or material uncertainty related to going concern contained in the auditors’ report of the Group for any of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020.

3. UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2021

2021 Interim Financial Statements

The Company is required to set out or refer to in this Composite Document the consolidated statement of profit or loss and the consolidated statement of financial position as shown in the unaudited financial results of the Group for the six months ended 30 June 2021, and significant accounting policies together with any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2021 Interim Financial Statements**”).

The 2021 Interim Financial Statements are set out from pages 30 to 60 in the 2021 interim report of the Company (the “**2021 Interim Report**”) which was published on 27 August 2021. The 2021 Interim Report is available on the websites of the Stock Exchange (<http://www.hkexnews.com>) and the Company (www.ausnutria.com.hk) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0827/2021082700515.pdf>

The 2021 Interim Financial Statements (but not any other parts of the 2021 Interim Report) are incorporated by reference into this Composite Document and form part of this Composite Document.

4. INDEBTEDNESS

Statement of Indebtedness

Interest-bearing bank loans and other borrowings

As of the close of business on 30 November 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Composite Document, the breakdown of the Group's interest-bearing bank loans and other borrowings was set forth in the following table:

	30 November 2021
	<i>RMB'000</i>
Secured bank loans and overdrafts	1,272,068
Amounts due to non-controlling shareholders – unsecured	26,690
Lease liabilities	<u>154,906</u>
	<u><u>1,453,664</u></u>

The Group's bank loans and overdrafts and certain of the lease liabilities as of 30 November 2021 were secured by certain of the Group's land and buildings, inventories, trade receivables and time deposits.

Lease liabilities

As of 30 November 2021, the Group had lease liabilities of RMB154.9 million, which was already included in the breakdown of interest-bearing bank loans and other borrowings above.

Capital commitments

As of 30 November 2021, the Group had capital commitments (contracted but not provided for) for land and buildings, plant and machinery, intangible assets and milk collection rights of a total amount of RMB471.4 million.

Guarantees

As of 30 November 2021, the Group had granted guarantees to certain suppliers with a total amount of RMB50.7 million.

Contingent liabilities

As of 30 November 2021, the Group did not have any material contingent liabilities.

Saved as disclosed above, the Group did not have any outstanding bank overdrafts, loans, other similar indebtedness (issued or agreed to be issued), mortgages, guarantees, or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency denominated amounts have been translated into RMB at the rates of exchange prevailing at the close of business on 30 November 2021.

5. MATERIAL CHANGE

The Directors confirmed that as at the Latest Practicable Date, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

I. RESPONSIBILITY STATEMENTS

The directors of the Offeror and Yili Industrial jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the respective Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

II. DISCLOSURE OF INTERESTS AND DEALINGS AS REQUIRED BY THE TAKEOVERS CODE

The Offeror confirms that, as at the Latest Practicable Date:

- (i) save for 620,824,763 Shares (representing approximately 34.33% of the existing issued share capital of the Company) currently owned by the Offeror, neither the Offeror, the directors of the Offeror nor any person acting in concert with the Offeror owned or had control or direction over any voting rights or rights over the Shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities;
- (ii) save for the acquisition of 530,824,763 Sale Shares from the Vendors, the subscription of 90,000,000 Subscription Shares from the Company and the dealings in the securities of the Company by the relevant members of the CLSA Group prior to obtaining the exempt principal traders status or the exempt fund managers status (in each case recognised by the Executive as such for the purpose of the Takeovers Code) on 23 August 2021 as set out below, neither the Offeror, the director of the Offeror nor any person acting in concert with the Offeror had dealt for value in any Shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities during the Relevant Period;

Entity	Trade Date	Type of dealing	Number of Shares	Trade Price
CSI Capital Management Limited	12 May 2021	Sell	62,000.00	HKD12.1667742
CITIC Securities Company Limited	12 May 2021	Buy	62,000.00	HKD12.15
CSI Capital Management Limited	13 May 2021	Sell	29,000.00	HKD12.9628
CITIC Securities Company Limited	13 May 2021	Buy	29,000.00	HKD12.94
China Asset Management Co., Ltd.	25 May 2021	Sell	59,000.00	RMB9.7
CSI Capital Management Limited	25 May 2021	Sell	208,000.00	HKD11.6568
CITIC Securities Company Limited	25 May 2021	Buy	208,000.00	HKD11.64
CSI Capital Management Limited	26 May 2021	Buy	173,000.00	HKD11.76
China Asset Management Co., Ltd.	27 May 2021	Sell	358,000.00	RMB9.99
CSI Capital Management Limited	9 June 2021	Sell	1,000.00	HKD11.18
CITIC Securities Company Limited	9 June 2021	Buy	1,000.00	HKD11.16
CSI Capital Management Limited	10 June 2021	Buy	1,000.00	HKD11.14
China Asset Management (Hong Kong) Limited	18 June 2021	Buy	30,000.00	HKD10.6833

Entity	Trade Date	Type of dealing	Number of Shares	Trade Price
CSI Capital Management Limited	22 June 2021	Buy	30,000.00	HKD10.6453
CITIC Securities Company Limited	22 June 2021	Sell	30,000.00	HKD10.66
China Asset Management Co., Ltd.	13 July 2021	Sell	182,000.00	RMB8.11
CSI Capital Management Limited	30 July 2021	Sell	58,000.00	HKD7.2922
CITIC Securities Company Limited	30 July 2021	Buy	58,000.00	HKD7.28
CSI Capital Management Limited	2 August 2021	Buy	28,000.00	HKD7.36
CSI Capital Management Limited	5 August 2021	Sell	41,000.00	HKD7.5005
CSI Capital Management Limited	5 August 2021	Sell	225,000.00	HKD7.5152
CITIC Securities Company Limited	5 August 2021	Buy	266,000.00	HKD7.5
CSI Capital Management Limited	6 August 2021	Sell	90,000.00	HKD7.1752
CITIC Securities Company Limited	6 August 2021	Buy	90,000.00	HKD7.16
CSI Capital Management Limited	6 August 2021	Buy	216,000.00	HKD7.48
CSI Capital Management Limited	9 August 2021	Buy	82,000.00	HKD7.39
CSI Capital Management Limited	20 August 2021	Buy	38,000.00	HKD7.0131579
CITIC Securities Company Limited	20 August 2021	Sell	38,000.00	HKD7.03

- (iii) save for the Share Purchase Agreement, the Subscription Agreement and the Irrevocable Undertakings, there is no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Shares and which might be material to the Offers;
- (iv) neither the Offeror nor any person acting in concert with it has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (v) save for the Irrevocable Undertakings, neither the Offeror nor any person acting in concert with it has received any irrevocable commitment to accept the Offers;
- (vi) save as disclosed in this sub-paragraph, no one giving an irrevocable undertaking to accept or reject the Offers, owned or had control or direction over any voting rights or rights over the Shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities;

Shareholders	Number of Shares held	Approximate% of the Shares in issue
Citagri Easter Limited	92,400,738	5.11
CL Seller (CenterLab) and parties acting in concert with it	131,225,071	7.26
– CL Seller (CenterLab)	130,706,271	7.23
– Mr. Lin Jung-Chin	400,000	0.02
– Ms. Lin O, Li-Chu	118,800	0.01
Mr. Bartle van der Meer and parties acting in concert with him	94,714,230	5.24
– Mr. Bartle van der Meer	1,509,000	0.08
– DDI Seller	93,205,230	5.15
Mr. Yan Weibin and parties acting in concert with him	120,439,085	6.66
– Ausnutria Holding Co. Ltd.	118,739,085	6.57
– Mr. Yan Weibin	1,700,000	0.09

Optionholders	Number of Options held	Exercise Period	Exercise Price
Mr. Bartle van der Meer	1,000,000	Started on 15 January 2021 and shall end on 14 January 2024	HK\$10.00
Mr. Yan Weibin	1,000,000	Started on 15 January 2021 and shall end on 14 January 2024	HK\$10.00

- (vii) save for the Share Purchase Agreement and the dealings as disclosed in this sub-paragraph, no one giving an irrevocable undertaking to accept or reject the Offers, had dealt for value in any Shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities or exercise any Options during the Relevant Period;

Person	Number of Options exercised	Date of exercise	Exercise price	Option money paid
Mr. Yan Weibin	500,000	26 May 2021	HK\$10.00	HK\$5,000,000
Mr. Bartle van der Meer	500,000	26 May 2021	HK\$10.00	HK\$5,000,000

- (viii) there is no outstanding derivative in respect of the securities in the Company entered into by the Offeror or any person acting in concert with it;
- (ix) save for the consideration for the Sale Shares under the Share Purchase Agreement, there is no other consideration, compensation or benefits in whatever form paid or to be paid by any member of the Offeror and parties acting in concert with it to any of the Vendors or any party acting in concert with any of them in connection with the sale and purchase of the Sale Shares under the Share Purchase Agreement;
- (x) save for the Share Purchase Agreement, the Subscription Agreement and the Irrevocable Undertakings, there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Vendors and parties acting in concert with them on one hand, and the Offeror and parties acting in concert with it on the other hand;
- (xi) save for the Share Purchase Agreement, the Subscription Agreement and the Irrevocable Undertakings, there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (a) any Shareholders and (b) the Offeror and any parties acting in concert with it;
- (xii) there was no arrangement whereby any Director would be given any benefit as compensation for loss of office or otherwise in connection with the Offers;
- (xiii) save for the Share Purchase Agreement, the Subscription Agreement and the Irrevocable Undertakings, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror or any party acting in concert with it and any Directors, recent Directors of the Company, Shareholders or recent Shareholders having any connection with or dependent upon the Offers;
- (xiv) save for the Share Purchase Agreement and the Subscription Agreement, there is no agreement or arrangement to which the Offeror or any person acting in concert with it, is a party which relates to circumstances in which the Offeror may or may not invoke or seek to invoke a pre-condition or a condition to the Offers; and
- (xv) there was no agreement, arrangement or understanding that the Offer Shares acquired in pursuance of the Offers would be transferred, charged or pledged to any other persons.

III. MARKET PRICE

The table below shows the closing prices of Shares as quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing Price <i>HK\$</i>
30 April 2021	11.50
31 May 2021	12.64
30 June 2021	10.40
30 July 2021	7.36
31 August 2021	7.59
30 September 2021	8.04
11 October 2021 (being the Last Trading Day)	8.85
29 October 2021	9.75
31 December 2021	9.45
31 January 2022	9.88
7 February 2022 (being the Latest Practicable Date)	9.91

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$12.96 per Share (on 13 May 2021) and HK\$6.59 per Share (on 24 September 2021), respectively.

IV. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of experts to the Offeror, who have given opinion or advice contained in this Composite Document.

Name	Qualifications
CLSA Capital Markets	a corporation licensed to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the exclusive financial adviser to the Offeror in respect of the Offers
CLSA Limited	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 7 (providing automated trading services) regulated activities under the SFO, being the agent making the Offers on behalf of the Offeror

Each of CLSA Capital Markets and CLSA Limited has given and has not withdrawn its respective written consent to the issue of this Composite Document with the inclusion of its letter and/or references to its name in the form and context in which they respectively appear.

V. GENERAL

- (i) As at the Latest Practicable Date, the principal members of the Offeror's concert group are the Offeror and Yili Industrial.
- (ii) As at the Latest Practicable Date, the registered office of the Offeror was Room 1802B 18/F, 18 Hysan Avenue, Causeway Bay, Hong Kong, and for more details of directors and ultimate beneficial owner of the Offeror, please refer to the section headed "III. INFORMATION ON THE OFFEROR" in "Letter from CLSA Limited".
- (iii) As at the Latest Practicable Date, the registered office of Yili Industrial was No.1, Jinshan Road, Jinshan Development Zone, Hohhot, Innermongolia Autonomous Region, the PRC, and for more detail of directors and ultimate beneficial owner of Yili Industrial, please refer to the section headed "III. INFORMATION ON THE OFFEROR" in "Letter from CLSA Limited".
- (iv) As at the Latest Practicable Date, the registered office of CLSA Capital Markets is 18/F, One Pacific Place, 88 Queensway, Hong Kong.
- (v) As at the Latest Practicable Date, the registered office of CLSA Limited is at 18/F, One Pacific Place, 88 Queensway, Hong Kong.
- (vi) In the event of inconsistency, the English texts of this Composite Document and the accompanying Forms of Acceptance shall prevail over their respective Chinese texts.

VI. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) at the principal office of the Company at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays); (ii) on the website of the Company (www.ausnutria.com.hk); and (iii) on the website of the SFC (www.sfc.hk), from the date of this Composite Document up to and including the Closing Date or the date on which the Offer lapse or is withdrawn (whichever is earlier):

- (a) the articles of association of the Offeror;
- (b) the letter from CLSA Limited, the text of which is set out on pages 12 to 25 of this Composite Document;
- (c) the written consents referred to under the paragraph headed "QUALIFICATION AND CONSENT OF EXPERTS" in this Appendix III; and
- (d) the Irrevocable Undertakings.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

(a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised:</i>		<i>HKD</i>
<u>3,000,000,000</u>	Shares of HKD0.1 each	<u>300,000,000</u>
<i>Issued and fully paid:</i>		
<u>1,808,545,841</u>	Shares of HKD0.1 each	<u>180,854,584.1</u>

All the Shares currently in issue rank *pari passu* in all respects with each other, including voting rights, right to receive dividend payment and capital (including right to return of capital).

The number of Shares in issue at 31 December 2020, being the date to which the latest audited consolidated financial statements of the Group were made up, was 1,715,903,508 Shares. Save for the issue of 2,642,333 new Shares pursuant to exercise of share options granted under the Share Option Scheme, no other new Shares have been issued by the Company since 31 December 2020 and up to 31 December 2021, being the end of the last financial year of the Company, was 1,718,545,841 Shares. Save for the Subscription Shares (i.e. a total of 90,000,000 Shares issued by the Company to the Offeror at the subscription price of HK\$10.06 per Subscription Share pursuant to the Subscription Agreement, no other new Shares have been issued by the Company since 31 December 2021 and up to the Latest Practicable Date.

Save for the 37,499,334 share options granted by the Company pursuant to the Share Option Scheme, there were not any outstanding options, derivatives, warrants, or any conversion rights affecting the Shares issued by the Company as at the Latest Practicable Date and the Company has not entered into any agreement for the issue of such options, derivatives, warrants, or securities convertible or exchangeable into Shares, and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

(b) Listing

The Shares are listed and traded on the Main Board of the Stock Exchange. No part of the Shares is listed or dealt in, nor in any listing or permission to deal in the Shares being or proposed to be sought, on any other stock exchange.

3. DISCLOSURE OF INTERESTS**(a) Interests of the directors and chief executives of the Company in the securities of the Company and the securities of the associated corporations of the Company**

As at the Latest Practicable Date, save for disclosed below, none of the directors and chief executives of the Company had any interests or 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 (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules; or (iv) to be disclosed pursuant to the requirements of the Takeovers Code.

In the Shares:

Name of Director	Number of shares held, capacity and nature of interest			Approximate percentage of issued share capital (Note 3)
	Beneficial Owner	Interest of a controlled corporation	Total	
Mr. Yan Weibin	1,700,000	118,739,085 (Note 1)	120,439,085	6.66%
Mr. Bartle van der Meer	1,509,000	93,205,230 (Note 2)	94,714,230	5.24%
Ms. Ng Siu Hung	2,500,000	–	2,500,000	0.14%
Mr. Tsai Chang-Hai	466,666	–	466,666	0.03%
Mr. Lau Chun Fai Douglas	384,000	–	384,000	0.02%
Mr. Jason Wan	300,000	–	300,000	0.02%

Notes:

- (1) The Shares are held by Ausnutria Holding Co Ltd (“**Ausnutria BVI**”), a company wholly-owned by Mr. Yan Weibin (“**Mr. Yan**”). Mr. Yan is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.
- (2) The Shares are held by DDI Seller, which is in turn wholly-owned by DDI Seller Parent. DDI Seller Parent is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer (“**Mr. van der Meer**”). Mr. van der Meer is therefore deemed to be interested in 93,205,230 Shares held by DDI Seller under the SFO.
- (3) As at the Latest Practicable Date, the total number of the issued Shares was 1,808,545,841.

In the share options of the Company:

Name of Director	Number of share options beneficially owned
Mr. Yan Weibin	1,000,000
Mr. Bartle van der Meer	1,000,000
Ms. Ng Siu Hung	1,000,000
Mr. Shi Liang	500,000
Mr. Qiao Baijun	500,000
Mr. Tsai Chang-Hai	333,334
Mr. Lau Chun Fai Douglas	416,000
Mr. Jason Wan	500,000
Mr. Aidan Maurice Coleman	500,000

(b) Interests of substantial shareholders in the securities of the Company

As at the Latest Practicable Date, save as disclosed below, so far as was known to the Board, no persons (not being a director, supervisor or chief executive of the Company) had an interest or a short position in the shares or underlying shares and debentures 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, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

In the Shares:

Name	Number of Shares	Nature of interest	Approximate percentage of issued share capital <i>(Note 10)</i>
Citagri Easter Ltd. <i>(Note 1)</i>	92,400,738	Beneficial owner	5.11%
Changsha Kunxin Xin' Ao Investment LP <i>(Note 2)</i>	92,400,738	Interest of controlled corporation	5.11%
Chengtong CITIC Agriculture Investment Fund <i>(Note 2)</i>	92,400,738	Interest of controlled corporation	5.11%
China Structural Reform Fund Co., Ltd* (中國國有企業結構 調整基金股份有限公司) <i>(Note 2)</i>	92,400,738	Interest of controlled corporation	5.11%
CITIC Agri Fund Management Co., Ltd <i>(Note 3)</i>	92,400,738	Interest of controlled corporation	5.11%

Name	Number of Shares	Nature of interest	Approximate percentage of issued share capital (Note 10)
CITIC Agriculture Technology Co., Ltd. (Note 3)	92,400,738	Interest of controlled corporation	5.11%
CITIC Limited (Note 4)	92,400,738	Interest of controlled corporation	5.11%
CITIC Group Corporation (Note 4)	92,400,738	Interest of controlled corporation	5.11%
CL Seller (CenterLab) (Note 5)	130,706,271	Beneficial owner	7.23%
DDI Seller (Note 6)	93,205,230	Beneficial owner	5.15%
DDI Seller Parent (Note 6)	93,205,230	Interest of controlled corporation	5.15%
Fan Deming B.V. (Note 6)	93,205,230	Interest of controlled corporation	5.15%
Ms. Chen Miaoyuan (Note 7)	121,439,085	Interest of spouse	6.71%
Ausnutria Holding Co Ltd (Note 8)	118,739,085	Beneficial owner	6.57%
Inner Mongolia Yili Industrial Group Co., Ltd. (Note 9)	620,824,763	Interest of controlled corporation	34.33%

Notes:

- (1) Citagri Easter Ltd. is owned as to approximately 53.14% by Changsha Kunxin Xin' Ao Investment LP* (長沙鯤信信澳股權投資合夥企業(有限合夥))("Kunxin Xin' Ao"), 30.40% by Easter Fund II LP and 16.46% by Easter Fund LP.
- (2) Kunxin Xin' Ao is owned as to 91.17% by Chengtong CITIC Agriculture Investment Fund as a limited partner, which in turn is owned as to 34.90% by China Structural Reform Fund Co., Ltd.* (中國國有企業結構調整基金股份有限公司) and owned as to 37.20% by CITIC Agriculture Technology Co. Ltd (中信農業科技股份有限公司). Citagri Nutrition Investment Co., Limited, the general partner of Easter Fund LP and Easter Fund II LP, is indirect wholly-owned subsidiary of CAFM.
- (3) CAFM is the general partner of Kunxin Xin' Ao and its largest shareholder is CITIC Agriculture Technology Co., Ltd., which owns 40.41% of the equity interest in CAFM. CITIC Agriculture Technology Co., Ltd. is an indirect wholly-owned subsidiary of CITIC Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 267).
- (4) CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation.
- (5) CL Seller (CenterLab), shares of which are listed on the Taipei Exchange in Tai wan (stock code: 4123), is beneficially interested in 130,706,271 Shares. LeJean Bioteach Co., Ltd. (儷榮科技股份有限公司), a private company incorporated in Taiwan, is the largest shareholder of CL Seller (CenterLab) and effectively owns about 8.5% of the shareholding in CL Seller (CenterLab). The ultimate shareholders of LeJean Bioteach Co., Ltd. (儷榮科技股份有限公司) are five individuals, namely Lin, Jung-Chin (林榮錦), Lin O, Li-Chu (歐麗珠), Lin, Hung-Hsuan (林宏軒), Lin, Chia-Ling (林佳陵), Lin, Wei-Hsuan (林尉軒).

- (6) DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V., which is in turn wholly-owned by Mr. van der Meer. Each of DDI, Fan Deming B.V. and Mr. van der Meer is therefore deemed to be interested in the Shares held by DDIHK under the SFO.
- (7) Ms. Chen Miaoyuan is the spouse of Mr. Yan. Ms. Chen Miaoyuan is therefore deemed to be interested in 120,439,085 Shares held by Mr. Yan (himself and through Ausnutria BVI) and the 1,000,000 shares options held by Mr. Yan under the SFO.
- (8) Ausnutria BVI is wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.
- (9) The Offeror is wholly-owned by Inner Mongolia Yili Industrial Group Co., Ltd..
- (10) As at the Latest Practicable Date, the total number of the issued Shares was 1,808,545,841.

(c) Interests discloseable under Schedule II to the Takeovers Code

Save as disclosed above, as at the Latest Practicable Date:

- (i) the Company was not interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Offeror, and the Company had not dealt for value in the shares or relevant securities of the Offeror during the Relevant Period;
- (ii) none of the Directors was interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company or the Offeror, and none of the Directors had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company or the Offeror during the Relevant Period;
- (iii) none of the subsidiaries of the Company, the pension fund of the Company or of its subsidiaries, or a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (excluding any exempt principal trader or exempt fund manager) owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company, and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Offer Period and up to the Latest Practicable Date;
- (iv) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and none of such persons had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Offer Period and up to the Latest Practicable Date;

- (v) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were managed on a discretionary basis by fund managers (excluding any exempt fund managers) connected with the Company, and none of them had dealt for value in any relevant securities in the Company during the Offer Period and up to the Latest Practicable Date;
- (vi) save for the Bartle Irrevocable Undertaking and Yan Irrevocable Undertaking, none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Offers;
- (vii) none of the Company or the Directors had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; and
- (viii) save for the Share Purchase Agreement, the Subscription Agreement and the Irrevocable Undertakings, there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any Shareholders and the Company, its subsidiaries or associated companies.

4. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date,

- (i) no benefit (other than statutory compensation) had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offers;
- (ii) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers; and
- (iii) there is no material contract entered into by the Offeror in which any Director has a material personal interest.

5. SERVICE CONTRACTS WITH DIRECTORS

The Company had entered into the following service agreements with the Directors all of which were on fixed term with more than twelve (12) months to run irrespective of the notice period. Details of the said fixed term service contracts are set out below:

Name of Director	Expiry date	Amount of remuneration
Mr. Yan Weibin	8 October 2024	An annual director's fee of HK\$300,000 and annual emoluments of RMB2,116,000
Ms. Ng Siu Hung	8 October 2024	An annual director's fee of HK\$300,000 and annual emoluments of RMB1,476,000
Mr. Jason Wan	18 September 2023	An annual director's fee of HK\$350,000
Mr. Lau Chun Fai Douglas	2 January 2023	An annual director's fee of HK\$400,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service contract or letter of appointment with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed-term contracts) had been entered into, or amended within six (6) months before the date of commencement of the Offer Period; (ii) was a continuous contract with a notice period of twelve (12) months or more; or (iii) was a fixed term contract with more than twelve (12) months to run irrespective of the notice period.

6. MATERIAL CONTRACTS

Within the two (2) years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, save as disclosed below, neither the Company nor any of its subsidiaries has entered into any material contract, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries:

- (i) the sale and purchase agreement dated 4 April 2020 entered into between the Ausnutria Dairy Company Limited (澳優乳品有限公司), as the purchaser, Mr. Liu Yubiao and Mr. Liu Guangchu, as the vendors, and the Company in respect of the acquisition of the aggregate of 7,500,000 ordinary shares in Hyproca Bio-Science (Hong Kong) Company Limited (海普諾凱生物科技(香港)有限公司) at a consideration of HK\$896 million, details of which are referred to in the announcements of the Company dated 9 April 2020, 28 May 2020, 12 June 2020, 30 June 2020 and 30 July 2020, and the circular of the Company dated 13 July 2020; and
- (ii) the Subscription Agreement.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is pending or threatened by or against the Company or any of its subsidiaries.

8. QUALIFICATION OF EXPERT

The following is the name and qualification of the expert who has given opinion or advice which is contained in this Composite Document:

Name	Qualifications
Optima Capital	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Optima Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion therein of its opinions, advice, recommendations, and/or letter and the references to its name, logo, opinions, advice, recommendations, and/or letter in the form and context in which they are included.

9. MISCELLANEOUS

- (i) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and principal place of business of the Company in Hong Kong is Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (ii) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, which is situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iii) The registered office of Optima Capital is at Unit 1501-06, 15/F Jardine House, 1 Connaught Place, Central, Hong Kong.
- (iv) The English text of this Composite Document and the Forms of Acceptance shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (1) on the website of the Company at www.ausnutria.com.hk; (2) on the website of the SFC at www.sfc.hk; and (3) at the principle place of business of the Company in Hong Kong at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (public holidays excepted) from the date of this Composite Document onwards for so long as the Offers remain open for acceptance:

- (i) the memorandum and articles of association of the Company;
- (ii) the 2018 Annual Report, 2019 Annual Report and 2020 Annual Report;
- (iii) the 2021 Interim Report;
- (iv) the “Letter from the Board”, the text of which is set out from pages 26 to 29 of this Composite Document;
- (v) the “Letter from the Independent Board Committee”, the text of which is set out from pages 30 to 31 of this Composite Document;
- (vi) the “Letter from the Independent Financial Adviser”, the text of which is set out from pages 32 to 60 of this Composite Document;
- (vii) the service contracts referred to in the section headed “5. SERVICE CONTRACTS WITH DIRECTORS” in this Appendix IV of this Composite Document;
- (viii) the material contracts referred to in the section headed “6. MATERIAL CONTRACTS” in this Appendix IV of this Composite Document;
- (ix) the written consent from the expert referred to in the section headed “8. QUALIFICATION OF EXPERT” in this Appendix IV of this Composite Document; and
- (x) this Composite Document and the accompanying Forms of Acceptance.