
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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AUSNUTRIA DAIRY CORPORATION LTD
澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

**(1) CONNECTED TRANSACTION
IN RELATION TO
THE SUBSCRIPTION OF NEW SHARES;
(2) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
(3) NOTICE OF EGM**

Sole financial adviser to the Company



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



A notice convening the EGM to be held at 22nd Floor, Block A, Building 1, Ausnutria Building, Suncity, Purui East Road, Yueliangdao Street, Wangcheng District, Changsha City, Hunan Province, the PRC on Friday, 31 December 2021 at 9:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjourned meeting thereof should you so wish and in such event, the form of proxy previously submitted shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Please see page 1 of this circular for measures being taken to try to prevent and control the spread of the Coronavirus at the EGM, including:

- **compulsory temperature checks and health declarations**
- **strongly recommended wearing surgical face masks**
- **no distribution of corporate gifts and refreshments**

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. Attendees are strongly recommended to bring and wear own surgical face masks and Shareholders may appoint the Chairman of the meeting as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

15 December 2021

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PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In view of the ongoing novel Coronavirus (COVID-19) epidemic and recent requirements for prevention and control of its spread, the Company will implement the following preventive measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) the Company encourages the Shareholders to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person;
- (ii) compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue;
- (iii) each attendee must wear surgical face masks inside the EGM venue at all times, and to maintain a safe distance between seats; and
- (iv) no refreshments will be served, and there will be no corporate gifts.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders' health and safety and consistent with recent pandemic guidelines for prevention and control, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

The proxy form is attached to this circular for Shareholders who opt to receive physical circulars. Alternatively, the form of proxy can be downloaded from the "Investors – Circulars" section of the Company's website at <http://ausnutria.com.hk/en/ir/circulars.php> and the Stock Exchange's website at <http://www.hkexnews.hk>. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

If the Shareholders choose not to attend the EGM in person have any questions about the relevant resolutions, or about the Company or any matters for communication with the Board, they are welcome to contact the Company via its investors contact as follows:

Investor Relations

Contact Person: Ms. Tracy Sun

Email: tracy_sun@ausnutria.com

DEFINITIONS

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

“2009 Share Option Scheme”	the share option scheme adopted by the Company on 19 September 2009
“acting in concert”	has the same meaning ascribed to it in the Takeovers Code
“associate”	has the same meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorised by laws to be closed in mainland China and Hong Kong
“CAFM”	CITIC Agri Fund Management Co., Ltd., a company established under the laws of the PRC
“CEL”	Citagri Easter Limited, a company incorporated under the laws of the British Virgin Islands, and for more detail, please refer to Note (ii) in the section headed “ILLUSTRATIVE EFFECT ON THE SHAREHOLDING STRUCTURE” in the “Letter from the Board” of this circular
“China” or “PRC”	the People’s Republic of China which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CL Seller (BioEngine)”	BioEngine Capital Inc., a company incorporated under the laws of Taiwan, which is owned as to approximately 58.60% by CL Seller (CenterLab) as at the Latest Practicable Date, and for more detail, please refer to Note (iii) in the section headed “ILLUSTRATIVE EFFECT ON THE SHAREHOLDING STRUCTURE” in the “Letter from the Board” of this circular
“CL Seller (CenterLab)”	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 share of CL Seller (BioEngine)

DEFINITIONS

“CLSA Capital Markets”	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 Group”	CLSA Capital Markets, CLSA Limited and persons controlling, controlled by or under the same control (with the meanings ascribed to such terms in the Takeovers Code) as either CLSA Capital Markets or CLSA Limited
“CLSA Limited”	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)
“Company”	Ausnutria Dairy Corporation Ltd, a company incorporated under the laws of the Cayman Islands, the Shares are listed on the Main Board of the Stock Exchange (stock code: 1717)
“Completion”	both the Share Purchase Completion and the Subscription Completion, which shall take place simultaneously
“Completion Date”	the date on which the Completion takes place
“Composite Document”	the composite offer and response document to be jointly issued by the Offeror and the Company in accordance with the Takeovers Code containing, among other things, the details of the Offers, the recommendation from the Independent Board Committee and the advice from the Independent Financial Adviser to the Independent Board Committee in respect of the Offers
“DDI”	the DDI Seller and DDI Seller Parent
“DDI Seller”	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

DEFINITIONS

“DDI Seller Parent”	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)”	the director(s) of the Company
“EGM”	an extraordinary general meeting to be convened by the Company to consider and approve the Subscription Agreement and the transactions contemplated thereunder
“Encumbrance(s)”	all pledges, charges, liens, mortgages, security interests, preemption rights, options, equities, power of sale, hypothecations, retentions of title, rights of first refusal and any other encumbrances or third party rights or claims of any kind or any obligation to create any of the foregoing
“EUR”	the lawful currency of the member states of the European Union
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	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

DEFINITIONS

“Independent Financial Adviser” or “Optima Capital”	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, the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) whether the Offers are fair and reasonable for acceptance
“Independent Shareholders”	Shareholders other than the Vendor Group, the Offeror, their respective associates and parties acting in concert with them
“Independent Third Party(ies)”	person(s) or company(s) who/which is/are not connected with the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries, or any of their respective associates
“Joint Announcement”	the announcement jointly published by the Company and the Offeror dated 27 October 2021
“Last Trading Day”	11 October 2021, being the last trading day of the Shares on the Stock Exchange before the publication of the Joint Announcement
“Latest Practicable Date”	10 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	being 30 June 2022, or such other date as the parties may agree in writing, or such other date as each of the Vendors and the Offeror may agree in writing
“NDRC”	the National Development and Reform Commission of the PRC
“Offeror” or “Jingang Trade”	Hongkong Jingang Trade Holding Co., Limited, which is wholly and beneficially owned by Yili Industrial
“Offers”	collectively, the Share Offer and the Option Offer

DEFINITIONS

“Option Offer”	the possible mandatory conditional cash offer to be made by CLSA Limited for and on behalf of the Offeror to cancel all the Options in accordance with the Takeovers Code
“Optionholder(s)”	holder(s) of Option(s)
“Option(s)”	outstanding share options granted by the Company pursuant to the 2009 Share Option Scheme
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC
“Sale Shares”	any and all of 530,824,763 Shares beneficially owned by the Vendors as at the date of the Share Purchase Agreement and representing approximately 30.89% of the total issued share capital of the Company as at the date of the Share Purchase Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Share Offer”	the possible mandatory conditional cash offer to be 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 Purchase Agreement”	the share purchase agreement dated 27 October 2021 entered into between the Vendors and the Offeror in respect of the sale and purchase of the Sale Shares
“Share Purchase Completion”	completion of the purchase of the Sale Shares by the Offeror in accordance with the terms and conditions of the Share Purchase Agreement
“Share Subscription”	the subscription of the Subscription Shares by the Offeror on the terms and subject to the conditions of the Subscription Agreement
“Shareholder(s)”	holder(s) of Share(s)

DEFINITIONS

“Specific Mandate”	the specific mandate for the issue and allotment of the Subscription Shares to the Offeror, which is subject to the approval by the Shareholders at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 27 October 2021 entered into between the Offeror and the Company in respect of the Share Subscription
“Subscription Completion”	completion of the Share Subscription in accordance with the terms and conditions of the Subscription Agreement
“Subscription Price”	the subscription price of HK\$10.06 per Subscription Share
“Subscription Shares”	any and all of 90,000,000 new Shares to be subscribed by the Offeror on the terms and subject to the conditions of the Subscription Agreement
“Takeovers Code”	the Codes on Takeovers and Mergers of Hong Kong
“U.S\$”	United States dollars, the lawful currency of the United States
“Vendor(s)”	collectively, CEL, CL Seller (BioEngine), CL Seller (CenterLab) and DDI Seller
“Vendor Group”	CAFM and DDI Seller Parent, together with the Vendors
“Yili Industrial”	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)
%	Percent

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)

Directors

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. Lau Chun Fai Douglas

Mr. Jason Wan

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

15 December 2021

To the Shareholders:

Dear Sirs,

**(1) CONNECTED TRANSACTION
IN RELATION TO
THE SUBSCRIPTION OF NEW SHARES;
AND
(2) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE**

INTRODUCTION

Reference is made to the Joint Announcement in relation to, among others, the Share Subscription.

LETTER FROM THE BOARD

The purpose of the circular is to provide you with, among others, (i) further details in relation to the Share Subscription; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the EGM.

THE SHARE PURCHASE AGREEMENT

As disclosed in the Joint Announcement dated 27 October 2021, the Offeror and the Vendor Group entered into the Share Purchase Agreement, pursuant to which the Vendor Group conditionally agreed to sell and the Offeror, as the purchaser, conditionally agreed to purchase 530,824,763 Shares (representing 30.89% of the total number of issued Shares as at the Latest Practicable Date) at a total consideration of HK\$5,340,097,116, representing HK\$10.06 per Share. Pursuant to the Share Purchase Agreement, the Share Purchase Completion shall take place simultaneously with the Subscription Completion. For further details of the Share Purchase Agreement, please refer to the Joint Announcement.

SUBSCRIPTION AGREEMENT

On 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 for an aggregate of Subscription Price of HK\$905,400,000 (representing HK\$10.06 per Subscription Share). Principal terms of the Subscription Agreement are set out below:

- Date : 27 October 2021
- Parties : (i) the Offeror (as the subscriber); and
(ii) the Company (as the issuer)

The Offeror has confirmed that immediately before entering into the Subscription Agreement, it and its beneficial owners are Independent Third Party.

Subscription Shares

As at the Latest Practicable Date, the Company has 1,718,545,841 Shares in issue. Assuming there will be no change in the total number of issued Shares between the Latest Practicable Date and the issue and allotment of the Subscription Shares, 90,000,000 Subscription Shares represents:

- (i) 5.24% of the total number of issued Shares as at the Latest Practicable Date; and
- (ii) 4.98% of the total number of issued Shares as enlarged by the issue and allotment of the Subscription Shares.

The aggregate nominal value of the Subscription Shares is HK\$9,000,000.

LETTER FROM THE BOARD

Subscription Price

The Subscription Price of HK\$10.06 per Subscription Share, equal to per Sale Share consideration under the Share Purchase Agreement, represents:

- (i) a premium of approximately 9.23% over the closing price of HK\$9.21 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 13.67% over the closing price of HK\$8.85 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 17.11% over the average closing price of approximately HK\$8.59 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 24.20% over the average closing price of approximately HK\$8.10 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day.

The Subscription Price was determined after arm's length negotiations between the Company and the Offeror with reference to the recent market price of the Shares on the Stock Exchange and the prevailing market conditions. The Directors (including the independent non-executive Directors, whose view has been included in the section headed "Letter from the Independent Board Committee" in this circular) are of the view that the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Conditions Precedent to the Subscription Agreement

Pursuant to the Subscription Agreement, the Subscription Completion is subject to the satisfaction (or waiver, where applicable) of the following conditions:-

- (a) (i) no indication being received prior to the Subscription Completion from the Stock Exchange or the SFC to the effect that the listing of the Subscription Shares on the Main Board of Stock Exchange shall or may be withdrawn or objected to, (ii) the trading of the Shares on the Stock Exchange not having been suspended for a period longer than three (3) consecutive trading days, save for any temporary suspension as agreed by the Offeror, and (iii) neither the Stock Exchange nor the SFC having indicated that the trading of the Shares on the Stock Exchange will be suspended, cancelled or withdrawn before the Subscription Completion or that it will object to, or it will impose conditions on, the continued listing of the Shares on the Stock Exchange based on reasons arising from the transactions contemplated in the Subscription Agreement;
- (b) the listing committee of the Stock Exchange granting listing of and permission to deal in the Subscription Shares and such listing and permission not subsequently revoked prior to Completion;

LETTER FROM THE BOARD

- (c) the passing of the relevant resolutions by way of poll at the EGM by Shareholders who are entitled to vote and who are not required to abstain from voting under the Listing Rules, the Takeovers Code and other applicable laws and regulations for approving the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Subscription Shares under a specific mandate);
- (d) the fundamental warranties (in relation to the ranking of the Subscription Shares) made or given by the Company under the Subscription Agreement are true, accurate, and not misleading in all respects as of the date of the Subscription Agreement and as of the Completion Date;
- (e) the general warranties (in relation to, among others, the corporate information, corporate matters, compliance and anti-dilution (details of which are set out in the paragraph headed “Anti-Dilution” below)) made or given by the Company under the Subscription Agreement are true, accurate, and not misleading in all material respects as of the date of the Subscription Agreement and as of the Completion Date;
- (f) there shall not been any material adverse change (or effect) in the financial, business or trading position of the Group immediately before Completion;
- (g) receipt of all consents, clearances, approvals, permissions, license, authorization and waivers required to be obtained from, and all registrations, applications, notices and filings required to be made with or provided to, any governmental authority under or in connection with any applicable laws, in connection with the implementation of the Subscription Agreement, which includes:
 - (i) filing with and receipt of clearances from the State Administration for Market Regulation of the PRC or its local counterparts for merger review;
 - (ii) filings with the Ministry of Commerce of the PRC, the NDRC, the SAFE or their respective local counterparts for overseas investment (if applicable); and
- (h) Share Purchase Completion in accordance with the terms and conditions under the Share Purchase Agreement.

Conditions (a), (b), (c), (g) and (h) above are not waivable by any party of the Subscription Agreement. Conditions (d), (e) and (f) can be waived by the Offeror in its absolute discretion at any time before Completion by notice in writing to the Company. Save as disclosed in (g)(i) and (ii) above, the Company and the Offeror are not aware of any other consents, clearances, approvals, permissions, license, authorization and waivers required to be obtained from, and all registrations, applications, notices and filings required to be made with or provided to, any governmental authority under or in connection with any applicable laws, in connection with the implementation of the Subscription Agreement.

The Subscription Agreement contains other indemnities and warranties (including the fundamental warranties and general warranties referred to in conditions (d) and (e) above) given by the Company in customary terms for transactions of this nature and scale.

LETTER FROM THE BOARD

As at the Latest Practicable Date, save for condition (g)(i), none of the above conditions have been fulfilled.

Anti-Dilution

The Company undertakes to the Offeror that for the period between the Completion Date and the three-year anniversary of the Completion Date, without the prior written consent of the Offeror, if the Share Offer fails to become or be declared unconditional, it will not dilute or reduce the percentage of Shares in the Company held by the Offeror (provided that the Company may issue new Shares as long as that the Company also issues new Shares to the Offeror such that the percentage of Shares in the Company held by the Offeror is not diluted or reduced).

Subscription Completion

The Subscription Completion is conditional upon the conditions precedent to the Subscription Agreement having been fulfilled (or, where applicable, waived). The Subscription Completion shall take place simultaneously with the Share Purchase Completion.

Warning: The Subscription Completion is subject to fulfilment (or, where applicable, waiver) of the conditions precedent set out in the Subscription Agreement, the Share Subscription may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Mandate for the issue of the Subscription Shares and application for listing

The Share Subscription is subject to the Independent Shareholders' approval. The Subscription Shares will be issued and allotted under the Specific Mandate to be sought from the Independent Shareholders at the EGM.

Application will be made by the Company to the listing committee of the Stock Exchange for the listing of and permission to deal in the Subscription Shares.

Ranking of the Subscription Shares

The Subscription Shares will be issued free from all Encumbrances together with all rights attaching to them, including the right to receive all dividends declared and will rank *pari passu* with all other issued Shares in all respects as at the date of issue.

REASONS FOR AND BENEFITS OF THE SHARE SUBSCRIPTION AND THE INTENDED USE OF PROCEEDS

The Company acts as an investment holding company of the Group. 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

The Share Subscription, compounding with the transactions contemplated under the Share Purchase Agreement, introduces new shareholders with significant market presence to the Company. The Company believes the Offeror and the Company will be benefited from long term strategic business co-operation in various dimensions, including but not limited to:-

- (i) co-operating in research and developments, which will enhance product qualities and new product development;
- (ii) co-ordinating in the production, which will enhance the utilisation and efficiency of production facilities;
- (iii) co-ordinating in the procurement of raw materials, including base powder and other dairy ingredients; and
- (iv) co-operating in marketing efforts, which will significantly increase the Group's brand awareness and competitiveness in the PRC nationwide.

These will not only benefit the Group, but also benefit the Offeror, as the Company's shareholders. For the avoidance of doubt, the Company and the Offeror (i) have not entered into any legally binding agreements in respect of the aforementioned long term strategic business co-operation as at the Latest Practicable Date; and (ii) will not enter into any legally binding agreements in this regard before the close of the Offers. The Company will comply with relevant requirements under Chapter 14A of the Listing Rules including but not limited to announcement and the obtaining of independent Shareholders' approval in relation to the aforementioned business co-operation. Apart from that, the Share Subscription also benefits the Company financially by offering it an opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group, which is vital for the Group's future development.

As to the terms of the Subscription Agreement (in particular the Anti-dilution Undertaking), the Directors considered it is acceptable to provide such undertaking so as to attract the Offeror, a leading market player in the PRC dairy industry which may bring synergy (such as future research and development, procurement, market expansion and etc.) to the Group, to invest in the Company. In reaching their view, the Directors also considered the following facts: (i) the Anti-dilution Undertaking will not hinder the Group's capability of debt financing (i.e. bank facility) and equity financing alternatives (i.e. rights issue and open offer) provided that the Offeror's shareholding interest in the Company will not be diluted; (ii) the Subscription Price is at premium over the recent prevailing market price as depicted under paragraphs headed "Subscription Agreement – Subscription Prices" in the letter from the Board section of this circular; (iii) the purpose of the Anti-dilution Undertaking is not to prevent the Company from conducting funding raising exercise; (iv) and in the event the Company conducts fund raising via equity financing (such as rights issue and open offer) or any other fund raising alternative which may trigger the Anti-dilution Undertaking, the terms and conditions of such fund raisings will be subject to the satisfaction of all necessary legal and regulatory requirements (including but not limited to those under the Listing Rules and the Takeovers Code); and (v) it is commercially sensible to include the Anti-dilution Undertaking to attract the Offeror to subscribe for the Shares at a premium (if not at discount) over the recent prevailing market price of the Shares.

LETTER FROM THE BOARD

Taking into account of the foregoing, the Directors, after considering (i) the benefits that the Share Subscription will bring to the Company and (ii) there is reasonable flexibility for the Company to conduct various equity fund raising activities if needed, the Directors considered that the Subscription Agreement, together with the Anti-dilution Undertaking, is fair and reasonable, on normal commercial terms, and is in the interest of the Shareholders and the Company as a whole.

The gross proceeds of the Share Subscription will be HK\$905,400,000 and the net proceeds of the Share Subscription, after deduction of the related expenses, will be HK\$904,900,000, representing a net price of HK\$10.05 per Subscription Share. The Company intends to use the net proceeds to be received from the Share Subscription for the following purposes, subject to changes in light of the Company's evolving business needs and changing market conditions:

1. 30% of the net proceeds, or HK\$271.5 million, will be applied to partially finance the expansion of the Company's upstream production facilities. As disclosed in section "Business Review and Outlook" of the Company's annual report 2019 dated 25 March 2020, the Board approved the Group to invest a sum of EUR140.0 million (equivalent to approximately RMB1,094.8 million) in a new infant formula base powder facility and other related facilities in the Netherlands, principally for the processing of goat milk and goat whey. Based on the Group's current estimation, the Group will make such capital investment in tranches, and first tranche will commence in the second quarter of year 2022;
2. 30% of the net proceeds, being HK\$271.5 million, will be reserved for future acquisition of dairy and nutrition-related business. As at the Latest Practicable Date, the Company is contemplating an equity investment in a company involving in the nutraceutical and functional food industry. Based on the Group's current estimation, the acquisition in contemplation will take place in the first half of year 2022. In this regard, as at the Latest Practicable Date, negotiation is still ongoing and no legally binding agreement has been entered into. The Company will comply with relevant requirements of the Listing Rules including but not limited to announcement, circular and the obtaining of Shareholders' approval in relation to the aforementioned acquisition when and if it materialises;
3. 20% of the net proceeds, being HK\$181.0 million, will be applied to enhance the Group's processing and logistics capabilities in the PRC, which plans to build a logistics and warehousing facility, within the Group's planned third factory, with an area of approximately 23,000 square meters. Upon completion of constructing such logistics and warehousing facility, the Group's logistic and warehouse capability in the PRC will be nearly doubled;
4. 10% of the net proceeds, being HK\$90.5 million, will be invested in the Group's brand building related activities in order to cope with the Group's expansion of business; and

LETTER FROM THE BOARD

5. the remaining 10% of the net proceeds, being HK\$90.5 million, will be applied as the Group's general working capital, of which (a) 5% of the net proceeds, being HK\$45.2 million will be applied to repay the Group's existing bank loans and bank borrowings in Hong Kong and the Netherlands in order to reduce the Group's overall finance costs and to rationalize the Group's capital structure; and (b) the remaining 5% of the net proceeds, being HK\$45.3 million, will be applied for working capital (including but not limited to the cost of inventories and general administrative expenses).

The Company will update its shareholders by way of announcement(s) if there are changes in use of the proceeds from the Share Subscription.

ILLUSTRATIVE EFFECT ON THE SHAREHOLDING STRUCTURE

Assuming no other changes to the issued share capital of the Company from the Latest Practicable Date, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon the Share Purchase Completion and the Subscription Completion but before the commencement of the Offers:

Shareholders	As at the Latest Practicable Date		Immediately upon Completion but before the commencement of the Offers	
	Number of Shares	% (approximately)	Number of Shares	% (approximately)
Offeror⁽ⁱ⁾	0	0	620,824,763	34.33
Vendors and parties acting in concert with any of them	849,164,802	49.41	318,340,039	17.60
CEL ⁽ⁱⁱ⁾	379,000,000	22.05	92,400,738	5.11
CL Seller (CenterLab) and parties acting in concert with it ⁽ⁱⁱⁱ⁾	344,450,572	20.04	131,225,071	7.26
– CL Seller (CenterLab)	307,940,089	17.92	130,706,271	7.23
– CL Seller (BioEngine)	35,991,683	2.09	0	0
– Mr. Lin Jung-Chin ^(iv)	400,000	0.02	400,000	0.02
– Ms. Lin O, Li-Chu ^(iv)	118,800	0.01	118,800	0.01
Mr. Bartle van der Meer and parties acting in concert with him ^(v)	125,714,230	7.32	94,714,230	5.24
– Mr. Bartle van der Meer	1,509,000	0.09	1,509,000	0.08
– DDI Seller	124,205,230	7.23	93,205,230	5.15
Other Directors	124,089,751	7.22	124,089,751	6.86
Mr. Yan Weibin and parties acting in concert with him ^(vi)	120,439,085	7.01	120,439,085	6.66
– Ausnutria Holding Co Ltd	118,739,085	6.91	118,739,085	6.57
– Mr. Yan Weibin	1,700,000	0.10	1,700,000	0.09
Ms. Ng Siu Hung	2,500,000	0.15	2,500,000	0.14
Mr. Lau Chun Fai Douglas	384,000	0.02	384,000	0.02
Mr. Tsai Chang-Hai	466,666	0.03	466,666	0.03
Mr. Jason Wan	300,000	0.02	300,000	0.02
Public Shareholders	745,291,288	43.37	745,291,288	41.21
Total	1,718,545,841	100	1,808,545,841	100

LETTER FROM THE BOARD

Notes:

- (i) CLSA Capital Markets is the exclusive financial adviser to the Offeror in respect of the Offers. Accordingly, CLSA Capital Markets and relevant members of the CLSA Group which hold Shares are presumed to be acting in concert with the Offeror in accordance with class (5) of the definition of “Acting in concert” in the Takeovers Code. Details of holdings, borrowings or lendings of, and dealings in, Shares (or options, rights over Shares, warrants or derivatives in respect of them) held by or entered into by other parts of the CLSA Group (except in respect of Shares held by exempt principal traders or exempt fund managers or Shares held on behalf of non-discretionary investment clients of other parts of the CLSA Group on or after 23 August 2021) (i.e. being the date 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) was obtained by the relevant members of the CLSA Group) will be obtained as soon as possible after the Latest Practicable Date in accordance with Note 1 to Rule 3.5 of the Takeovers Code. A further announcement will be jointly made by the Offeror and the Company if the holdings, borrowings, lendings, or dealings of the other parts of the CLSA Group are significant and, in any event, such information will be disclosed in the Composite Document.
- (ii) CEL 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. 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. 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), and CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation.
- (iii) As at the Latest Practicable Date, CL Seller (CenterLab), shares of which are listed on the Taipei Exchange in Taiwan (stock code: 4123), beneficially owns 307,940,089 Shares. CL Seller (BioEngine), which holds 35,991,683 Shares, is a non-wholly-owned subsidiary of CL Seller (CenterLab). Accordingly, CL Seller (CenterLab) is deemed to be interested in a total of 343,931,772 Shares. LeJean Biotech Co., Ltd. (儼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 Biotech Co., Ltd. (儼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). Nien Hsing International Investment Co., Ltd. (年興國際投資股份有限公司), a company incorporated in Taiwan and a wholly owned subsidiary of Nien Hsing Textile CO., Ltd. (年興紡織股份有限公司), a listed company in Taiwan, is the second largest shareholder of CL Seller (BioEngine) and owns about 5.26% of the shareholding thereof. No other remaining shareholders of CL Seller (BioEngine) own more than 5% of the shareholding thereof.
- (iv) As at the Latest Practicable Date, Mr. Lin Jung-Chin, being the chairman of CL Seller (CenterLab) and CL Seller (BioEngine), beneficially owns 400,000 Shares. Ms. Lin O, Li-Chu, being the spouse of Mr. Lin Jung-Chin, beneficially owns 118,000 Shares. Accordingly, Mr. Lin Jung-Chin is deemed to be interested in a total of 518,000 Shares.
- (v) As at the Latest Practicable Date, Mr. Bartle van der Meer beneficially owns 1,509,000 Shares. DDI Seller, which holds 124,205,230 Shares, is wholly-owned by Mr. Bartle van der Meer indirectly. Accordingly, Mr. Bartle van der Meer is deemed to be interested in a total of 125,714,230 Shares under the SFO.
- (vi) As at the Latest Practicable Date, Mr. Yan Weibin beneficially owns 1,700,000 Shares. Ausnutria Holding Co Ltd (“**Ausnutria BVI**”), which holds 118,739,085 Shares, is wholly-owned by Mr. Yan Weibin. Accordingly, Mr. Yan Weibin is deemed to be interested in 120,439,085 Shares under the SFO.

* For identification purpose only

LETTER FROM THE BOARD

INFORMATION OF THE GROUP AND THE OFFEROR

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.

Set out below is a summary of the audited financial information of the Group for each of the two financial years ended 31 December 2019 and 2020 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2021 as extracted from the annual report of the Company for the year ended 31 December 2020 and the interim report of the Company for the six months ended 30 June 2021, respectively:

	Six months	Year ended 31 December	
	ended 30 June	2020	2019
	2021	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)
Revenue	4,270,546	7,985,816	6,736,153
Profit before taxation	698,210	1,220,846	1,107,184
Profit for the period/year	571,596	1,000,034	878,896
	As at 30 June	As at 31 December	
	2021	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)
Total assets	8,960,169	9,247,957	8,343,194
Total liabilities	3,764,168	4,096,017	4,279,286
Net assets	5,196,001	5,151,940	4,063,908

The Offeror

Based on the information as provided by the Offeror, Jingang Trade is a company incorporated in Hong Kong, primarily engaged in investment and trading businesses. It is wholly and beneficially owned by Yili Industrial.

LETTER FROM THE BOARD

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 date of this circular, Yili Industrial does not have any controlling shareholder (as defined in the Listing Rules). As at the date of this circular, 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 8.85%. 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*.

* For identification purpose only

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not raised any funds by way of issuing Shares in the past twelve months immediately before the Latest Practicable Date.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, CEL held 379,000,000 Shares, representing 22.05% of the issued share capital of the Company, CL Seller (CenterLab) and CL Seller (BioEngine), together with parties acting in concert with them, held 344,450,572 Shares, representing 20.04% of the issued share capital of the Company, and DDI Seller is ultimate beneficially owned and controlled by Mr. Bartle van der Meer. As a result, each of the Vendors is a connected person of the Company under Chapter 14A of the Listing Rules. As the Offeror entered into the Share Purchase Agreement with the Vendors, it is a deemed connected person of the Company under Rule 14A.20 of the Listing Rules and the issue of the Subscription Shares to the Offeror is a connected transaction of the Company. Accordingly, the Subscription Agreement and the transactions contemplated thereunder will be subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the EGM.

The Subscription Shares will be issued and allotted under the Specific Mandate to be sought at the EGM. As the Subscription Agreement is conditional upon the Share Purchase Completion, the Vendors are deemed to have a material interest in the Subscription Agreement. Considering that Mr. Bartle van der Meer, being the ultimate beneficial shareholder of DDI Seller and DDI Seller Parent, 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 CL Seller (BioEngine), had conflicts of interest in the Share Subscription, they have abstained from voting on the Board resolution to approve the Subscription Agreement and the transactions contemplated thereunder. The Vendor Group, parties acting in concert with them and their respective associates, whose respective shareholdings are set out under the paragraph headed "Illustrative effect on the shareholding structure", are required to abstain from voting in respect of the relevant resolution(s) to approve the Subscription Agreement and the transactions contemplated thereunder at the EGM.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE TAKEOVERS CODE

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.

Please refer to the Joint Announcement and the Composite Documents for more details of the Offers.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the EGM, the transfer books and register of members of the Company will be closed from 28 December 2021 to 31 December 2021, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for attending and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 24 December 2021.

EXTRAORDINARY GENERAL MEETING

Set out on pages EGM-1 to EGM-2 of this circular is the notice of EGM at which, among others, resolution in relation to the Subscription Agreement and the transactions contemplated thereunder will be proposed to the Independent Shareholders for consideration and approval.

A form of proxy for use at the EGM is enclosed. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://ausnutria.com.hk/en/ir/circulars.php>). Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman of the EGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the EGM shall therefore demand voting on the resolution set out in the notice of EGM be taken by way of poll pursuant to Article 66 of the Articles of Association.

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for every fully paid Share of which he/she/it is the holder. A Shareholder entitled to more than one vote needs not use all his/her/its votes or cast all the votes he/she/it uses in the same way.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the independent non-executive Directors, whose view has been included in the section headed “Letter from the Independent Board Committee” in this circular, but excluding Mr. Bartle van der Meer, Mr. Shi Liang, Mr. Qiao Baijun and Mr. Tsai Chang-Hai, who had conflicts of interest and have abstained from voting on the Board resolution to approve the Subscription Agreement and the transactions contemplated thereunder) consider the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable, the Share Subscription is on normal commercial terms and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the granting of the Specific Mandate to issue and allot the Subscription Shares.

ADDITIONAL INFORMATION

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the granting of the Specific Mandate to issue and allot the Subscription Shares. Optima Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Accordingly, your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 21 to 22 of this circular, which contains its recommendation to the Independent Shareholders; (ii) the letter from the Independent Financial Adviser set out on pages 23 to 61 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholder; and (iii) the general information set out in the Appendix to this circular.

Yours faithfully
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)

15 December 2021

To the Independent Shareholders:

Dear Sirs,

**(1) CONNECTED TRANSACTION
IN RELATION TO
THE SUBSCRIPTION OF NEW SHARES;
AND
(2) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE**

We refer to the circular (the “**Circular**”) of the Company dated 15 December 2021 of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise you on whether the terms of the Subscription Agreement are on normal commercial terms or better and are fair and reasonable as far as the Independent Shareholders are concerned and whether the Share Subscription contemplated under the Subscription Agreement is entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Optima Capital has been appointed as the Independent Financial Adviser to advise in this regard. We wish to draw your attention to the letter from the Board set out on pages 8 to 20 of the Circular and the letter from the Independent Financial Adviser as set out on pages 23 to 61 of the Circular, which contains, *inter alia*, advice and recommendation regarding the terms of the Subscription Agreement with the principal factors and reasons for its advice and recommendation.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Subscription Agreement, and taken into account the advice and recommendation of the Independent Financial Adviser, we are of the view that (i) the terms of the Subscription Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) although the Share Subscription is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. We, therefore, recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

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 and the Independent Shareholders relating to the Share Subscription, which is prepared for the purpose of incorporation in this circular.



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

15 December 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Subscription. Details of the Share Subscription are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 15 December 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the Joint Announcement in relation to, among other things, the Share Subscription. The Company was informed by the Vendors that, on 27 October 2021, the Offeror and the Vendor Group entered into the Share Purchase Agreement. Pursuant to the Share Purchase Agreement, 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 30.89% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total consideration of HK\$5,340,097,116 (representing HK\$10.06 per Sale Share). The Share Purchase Completion is subject to the satisfaction (or waiver, where applicable) of certain conditions, including but not limited to being consummated simultaneously with the Subscription Completion, on or before the Long Stop Date.

On the same date, 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 5.24% of the total number of issued Shares as at the Latest Practicable Date and 4.98% of the total number of issued Shares as enlarged by the issue and allotment of the Subscription Shares, for an aggregate of subscription price of HK\$905,400,000 (representing HK\$10.06 per Subscription Share). The Subscription Completion is subject to the satisfaction (or waiver, where applicable) of certain conditions, including but not limited to being consummated simultaneously with the Share Purchase Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the Subscription Completion and the Share Purchase Completion will take place simultaneously, the Offeror is deemed to be a connected person and the issuance of the Subscription Shares to the Offeror is a connected transaction of the Company. Accordingly, the Subscription Agreement and the transactions contemplated thereunder will be subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the EGM.

As at the Latest Practicable Date, neither the Offeror nor any party acting in concert with it owned (or has control or direction over) any Shares. Upon Completion, (i) 90,000,000 Shares will be issued and allotted to the Offeror pursuant to the Subscription Agreement, representing 4.98% of the total issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares; and (ii) 286,599,262 Shares, 35,991,683 Shares, 177,233,818 Shares and 31,000,000 Shares, representing approximately 15.85%, 1.99%, 9.80% and 1.71% of the total issued share capital of the Company respectively as enlarged by the issue and allotment of the Subscription Shares, will be transferred to the Offeror from CEL, CL Seller (BioEngine), CL Seller (CenterLab) and DDI Seller respectively, upon which the Offeror will be interested in 620,824,763 Shares in aggregate, representing approximately 34.33% voting rights of the Company calculated based on the total issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares. 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). Subject to and upon Completion, CLSA Limited will, for and on behalf of the Offeror, make the Offers in compliance with the Takeovers Code.

THE INDEPENDENT BOARD COMMITTEE

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 Independent Shareholders in respect of (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) 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 14A.44 of the Listing Rules and Rule 2.1 of the Takeovers Code.

OUR APPOINTMENT AND INDEPENDENCE

We, Optima Capital, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder. 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 Share Subscription and the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offerors or the Vendors, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. For avoidance of doubt, we have not acted as an independent financial adviser to the Company during the past two years immediately prior to date of this letter.

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 Joint 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 (has the meaning ascribed to it under the Takeovers Code), 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.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with and for their consideration of the Share Subscription as a connected transaction, and except for its inclusion in the Circular 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 Subscription Agreement and the transaction contemplated thereunder, we have taken into account the following principal factors and reasons:

1. 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 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.

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.

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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 <i>(Audited)</i> RMB'M	FY2019 <i>(Audited)</i> RMB'M	FY2020 <i>(Audited)</i> RMB'M	HY2020 <i>(Unaudited)</i> RMB'M	HY2021 <i>(Unaudited)</i> RMB'M
Dairy Operation					
<i>Own-branded formula milk 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>

The Dairy Operation

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

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.

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The Nutrition Operation

The Nutrition Operation is comprised of 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.

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
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<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>644,552</u>	<u>878,896</u>	<u>1,000,034</u>	<u>419,772</u>	<u>571,596</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 (RMB cents)					
Basic	47.20	54.92	60.93	25.37	34.60
Diluted	46.63	54.50	60.57	24.97	34.50

Total revenue

Total revenue of the Group represented (i) sales of own-branded formula milk powder business which comprised of 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.

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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 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.

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.

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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 Royal Pty Ltd (“**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.

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 the increase in revenue in the corresponding year/period.

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 R&D costs. Such expenses increased from approximately RMB461.9 million in FY2018 to approximately RMB558.3 million in FY2019 and further to approximately RMB663.0 million in FY2020, mainly due to the increase in R&D 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.

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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.

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.

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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**") and Bioflag International Corporation and its subsidiaries (the "**Bioflag Group**"), 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 2019 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.

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 becoming a wholly-owned subsidiary of the Company on 29 June 2018.

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.

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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.

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
	<i>(Audited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
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	257,981	237,357
	3,885,432	3,894,725
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	1,857,516	1,428,920
	5,362,525	5,065,444
Total assets	9,247,957	8,960,169

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	31 December 2020	30 June 2021
	<i>(Audited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
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>
	3,392,668	3,150,391
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>
	703,349	613,777
Total liabilities	4,096,017	3,764,168
Total equity	5,151,940	5,196,001
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>5,151,940</u>	<u>5,196,001</u>

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 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.

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.

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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2. Information 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. It is wholly and beneficially owned by Yili Industrial.

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 date of this Circular, Yili Industrial does not have any controlling shareholder (as defined in the Listing Rules). As at date of this Circular, the largest shareholder of Yili Industrial is Huhhot Investment Company Limited* (呼和浩特投資有限責任公司) with a shareholding of approximately 8.85%. 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 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 RMB270 billion.

In respect of whether there is any business plan with the Offeror or synergy effect expected to be generated from the potential cooperation with the Offeror if the Completion takes place, the Management advised that, in order to leverage the synergies between the Offeror and the Company, if the Completion takes place, the Offeror and the Company will revisit the Group's existing strategies, operations and financial position, fine-tune the Group's business plans and strategies, and explore other business opportunities for the Group's long-term success. Furthermore, based on the preliminary assessment of the Offeror and the Company, the Management expected that both parties can also leverage on each other's existing research and development, procurement and distribution capabilities.

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3. Terms and conditions of the Share Purchase Agreement

The principal terms of the Share Purchase Agreement are summarised below:

Date: 27 October 2021

Parties:

- (i) CEL;
- (ii) CL Seller (BioEngine);
- (iii) CL Seller (CenterLab);
- (iv) DDI Seller;

(each as a Vendor)

- (v) CAFM;

- (vi) DDI Seller Parent; and

(together with the Vendors, collectively as the Vendor Group)

- (vii) the Offeror.

(as the purchaser)

Subject and consideration of the Share Purchase Agreement

Pursuant to the Share Purchase Agreement, 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 30.89% of the entire issued share capital of the Company as at the Latest Practicable Date, free and clear of any lien and together with all rights and interests attaching thereto, including but not limited to all dividends or distributions which may be paid, declared or made in respect thereof after the Share Purchase Completion. Any of the Vendors and the Offeror shall not be obliged to complete the sale and purchase of any of the Sale Shares unless the sale and purchase of all of the Sale Shares is completed simultaneously. The aggregate consideration for the Sale Shares was HK\$5,340,097,116 (representing HK\$10.06 per Sale Share) which was agreed among the Offeror and the Vendors after arm's length negotiations with reference to, among others, the recent market price of the Shares on the Stock Exchange and the prevailing market conditions.

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Immediately after the Completion, (a) CEL will be interested in 92,400,738 Shares, representing approximately 5.38% and 5.11% of the issued share capital of the Company as at the Latest Practicable Date and as enlarged by the issue and allotment of the Subscription Shares respectively; (b) CL Seller (BioEngine) will not retain any Shares; (c) CL Seller (CenterLab) will be interested in 130,706,271 Shares, representing approximately 7.61% and 7.23% of the issued share capital of the Company as at the Latest Practicable Date and as enlarged by the issue and allotment of the Subscription Shares respectively; and (d) DDI Seller will be interested in 93,205,230 Shares, representing approximately 5.42% and 5.15% of the issued share capital of the Company as at the Latest Practicable Date and as enlarged by the issue and allotment of the Subscription Shares respectively.

Conditions Precedent to the Share Purchase Agreement

Pursuant to the Share Purchase Agreement, the Share Purchase Completion is subject to the satisfaction (or waiver, where applicable) of the following conditions on or before the Long Stop Date:

- (i) with respect to the Offeror's obligations to consummate the Share Purchase Completion only, the warranties given by each Vendor or Vendor Group are true and accurate as of the date of the Share Purchase Agreement and as of the Completion Date by reference to the facts and circumstances then subsisting;
- (ii) the joint announcement made pursuant to Rule 3.5 of the Takeovers Code in connection with, among others, the transactions contemplated under the Share Purchase Agreement and the possible conditional mandatory general offer arising therefrom to be made by the Offeror pursuant to the Takeovers Code having been cleared by the SFC, and published on the Stock Exchange's website by the Company and the Offeror;
- (iii) the receipt of all consents, clearances, approvals, permissions, license, authorisation and waivers required to be obtained from, and all registrations, applications, notices and filings required to be made with or provided to, any governmental authority under or in connection with any applicable laws, in connection with the implementation of the Share Purchase Agreement, which includes:
 - (a) filings with and receipt of clearances from the State Administration for Market Regulation of the PRC or its local counterparts for merger review;
 - (b) filings with the Ministry of Commerce of the PRC, the NDRC, the SAFE, or their local counterparts for overseas investment (if applicable); and
- (iv) the Subscription Agreement is consummated in accordance with the terms and conditions thereunder and simultaneously with the Share Purchase Completion.

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Condition (i) above can be waived by the Offeror in its sole and absolute discretion. Conditions (ii), (iii) and (iv) above are not waivable by any party of the Share Purchase Agreement. Save as disclosed in (iii)(a) and (iii)(b) above, as at the Latest Practicable Date, the Offeror was not aware of any other consents, clearances, approvals, permissions, license, authorisation and waivers required to be obtained from, and all registrations, applications, notices and filings required to be made with or provided to, any governmental authority under or in connection with any applicable laws, in connection with the implementation of the Share Purchase Agreement.

As at the Latest Practicable Date, save for conditions (ii) and (iii)(a), none of the above conditions has been fulfilled.

Share Purchase Completion

Pursuant to the Share Purchase Agreement, the Share Purchase Completion will take place within five (5) Business Days after all conditions precedent to the Share Purchase Agreement are satisfied (or waived, where applicable), or such other date as each of the Vendors and Offeror may agree in writing.

Termination

The Share Purchase Agreement may be terminated prior to the Share Purchase Completion,

- (i) by mutual written consent of the parties to the Share Purchase Agreement;
- (ii) by either party to the Share Purchase Agreement if, due to the change of applicable laws, the consummation of the transactions contemplated under the Share Purchase Agreement would become prohibited under applicable laws;
- (iii) if the conditions precedent to the Share Purchase Agreement have not been satisfied (or waived by the Offeror, where applicable) by 5:00 p.m. (Hong Kong time) on the Long Stop Date;
- (iv) if any member of the Vendor Group is in breach of any of its obligations under the Share Purchase Agreement in any material respect on or before the Completion Date and such breach is capable of remedy and is not remedied by any member of the Vendor Group that is in breach within fifteen (15) days upon the Offeror has notified all members of the Vendor Group of the breach in writing, the Offeror may terminate the Share Purchase Agreement; or
- (v) if the Offeror is in breach of any of its obligations under the Share Purchase Agreement in any material respect on or before the Completion Date and such breach is capable of remedy and is not remedied by the Offeror within fifteen (15) days upon the Vendors has notified the Offeror of the breach in writing, the Vendors may terminate the Share Purchase Agreement.

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Retaining Sufficient Assets

To the extent that DDI remains exposed to any potential liability under the Share Purchase Agreement in accordance with the terms of the Share Purchase Agreement, and Mr. Bartle van der Meer remains as the Director, DDI shall retain sufficient assets to cover its potential liability under the Share Purchase Agreement, i.e. potential contractual liability related to indemnification incurred by the breach of warranties, undertakings and covenants under the Share Purchase Agreement.

4. Terms and conditions of the Subscription Agreement

Principal terms of the Subscription Agreement are set out below:

Date: 27 October 2021

Parties:

- (i) the Offeror (as the subscriber); and
- (ii) the Company (as the issuer)

The Offeror has confirmed that immediately before entering into the Subscription Agreement, it and its beneficial owners are Independent Third Parties.

The aggregate nominal value of the Subscription Shares is HK\$9,000,000. The Subscription Price of HK\$10.06 per Subscription Share. The Subscription Price was determined after arm's length negotiations between the Company and the Offeror with reference to the recent market price of the Shares on the Stock Exchange and the prevailing market conditions.

Conditions Precedent to the Subscription Agreement

Pursuant to the Subscription Agreement, the Subscription Completion is subject to the satisfaction (or waiver, where applicable) of the following conditions:

- (i) (a) no indication being received prior to Subscription Completion from the Stock Exchange or the SFC to the effect that the listing of the Subscription Shares on the Main Board of Stock Exchange shall or may be withdrawn or objected to, (b) the trading of the Shares on the Stock Exchange not having been suspended for a period longer than three (3) consecutive trading days, save for any temporary suspension as agreed by the Offeror, and (c) neither the Stock Exchange nor the SFC having indicated that the trading of the Shares on the Stock Exchange will be suspended, cancelled or withdrawn before the Subscription Completion or that it will object to, or it will impose conditions on, the continued listing of the Shares on the Stock Exchange based on reasons arising from the transactions contemplated in the Subscription Agreement;

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- (ii) the listing committee of the Stock Exchange granting listing of and permission to deal in the Subscription Shares and such listing and permission not subsequently revoked prior to Subscription Completion;
- (iii) the passing of the relevant resolutions by way of poll at the EGM by Shareholders who are entitled to vote and who are not required to abstain from voting under the Listing Rules, the Takeovers Code and other applicable laws and regulations for approving the Subscription Agreement and the transactions contemplated hereunder (including the allotment and issue of the Subscription Shares under a specific mandate);
- (iv) the fundamental warranties (in relation to the ranking of the Subscription Shares) made or given by the Company under the Subscription Agreement are true, accurate, and not misleading in all respects as of the date of the Subscription Agreement and as of the Completion Date;
- (v) the general warranties (in relation to, among others, the corporate information, corporate matters, compliance and anti-dilution (details of which are set out in the paragraph headed “Anti-Dilution” below)) made or given by the Company under the Subscription Agreement are true, accurate, and not misleading in all material respects as of the date of the Subscription Agreement and as of the Completion Date;
- (vi) there shall not been any material adverse change (or effect) in the financial, business or trading position of the Group immediately before Subscription Completion;
- (vii) receipt of all consents, clearances, approvals, permissions, license, authorisation and waivers required to be obtained from, and all registrations, applications, notices and filings required to be made with or provided to, any governmental authority under or in connection with any applicable laws, in connection with the implementation of the Subscription Agreement, which includes:
 - (a) filings with and receipt of clearances from the State Administration for Market Regulation of the PRC or its local counterparts for merger review;
 - (b) filings with the Ministry of Commerce of the PRC, the NDRC, the SAFE or their respective local counterparts for overseas investment (if applicable); and
- (viii) Share Purchase Completion in accordance with the terms and conditions under the Share Purchase Agreement.

Conditions (i), (ii), (iii), (vii) and (viii) above are not waivable by any party of the Subscription Agreement. Conditions (iv), (v) and (vi) can be waived by the Offeror in its absolute discretion at any time before Subscription Completion by notice in writing to the Company. Save as disclosed in (vii)(a) and (vii)(b) above, the Company and the Offeror are not aware of any other consents, clearances, approvals, permissions, license, authorisation and waivers required to be obtained from, and all registrations, applications, notices and filings required to be made with or provided to, any governmental authority under or in connection with any applicable laws, in connection with the implementation of the Subscription Agreement.

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The Subscription Agreement contains other indemnities and warranties (including the fundamental warranties and general warranties referred to in conditions (iv) and (v) above) given by the Company in customary terms for transactions of this nature and scale.

As at Latest Practicable Date, save for condition (vii)(a), none of the above conditions has been fulfilled.

Anti-Dilution

The Company undertakes to the Offeror that for the period between the Completion Date and the three-year anniversary of the Completion Date, without the prior consent of the Offeror, if the Share Offer fails to become or be declared unconditional, it will not dilute or reduce the percentage of Shares in the Company held by the Offeror (provided that the Company may issue new Shares as long as that the Company also issues new Shares to the Offeror such that the percentage of Shares in the Company held by the Offeror is not diluted or reduced) (the “**Anti-dilution Undertaking**”).

Subscription Completion

The Subscription Completion is conditional upon the conditions precedent to the Subscription Agreement having been fulfilled (or, where applicable, waived). The Subscription Completion shall take place simultaneously with the Share Purchase Completion.

Mandate for the issue of the Subscription Shares

The Share Subscription is subject to the Shareholders’ approval. The Subscription Shares will be issued and allotted under the Specific Mandate to be sought at the EGM.

Application will be made by the Company to the listing committee of the Stock Exchange for the listing of and permission to deal in the Subscription Shares.

Ranking of the Subscription Shares

The Subscription Shares will be issued free from all Encumbrances together with all rights and interests attached thereto, including the right to receive all dividends declared and will rank *pari passu* with all other issued Shares in all respects as at the date of issue.

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As to the provision of the Anti-dilution Undertaking, the Directors considered it is acceptable to provide such undertaking so as to attract the Offeror, a leading market player in the PRC dairy industry which may bring synergy (such as future research and development, procurement, market expansion and etc.) to the Group, to invest in the Company. The Management advised, as at the Latest Practicable Date, no legally binding agreements in respect of business cooperation have been entered into between the Offeror and the Company. However, the Offeror, following the close of the Offer, will conduct a review and outlook on the strategy, operations and financial position of the Group 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.

In reaching their view, the Directors also consider the following facts (i) Anti-dilution Undertaking will not hinder the Group's capability of debt financing (i.e. bank facility) or equity financing alternatives (i.e. rights issue and open offer) provided that the Offeror's shareholding interest in the Company will not be diluted; (ii) the Subscription Price is at premium over the recent prevailing market price as depicted under paragraphs headed "Subscription Agreement – Subscription Prices" in the letter from the Board section of this circular; (iii) the purpose of the Anti-dilution Undertaking is not to prevent the Company from conducting funding raising exercise; (iv) and in the event the Company conducts fund raising via equity financing (such as rights issue and open offer) or any other fund raising alternative which may trigger the Anti-dilution Undertaking, the terms and conditions of such fund raisings will be subject to the satisfaction of all necessary legal and regulatory requirements (including but not limited to those under the Listing Rules and the Takeovers Code); and (v) it is commercially sensible to include the Anti-dilution Undertaking to attract the Offeror to subscribe for the Shares at a premium (if not at discount) over the recent prevailing market price of the Shares. Taking into account the benefits that the Share Subscription will bring to the Company and there is reasonable flexibility for the Company to conduct various equity fund raising activities if needed, the Directors considered that the Anti-dilution Undertaking is fair and reasonable and is in the interest of the Shareholders and the Company as a whole.

Although an anti-dilution undertaking is not always included in the subscription of new shares by investors, taking into account the facts that

- (i) the Subscription Price is at premium over the recent prevailing market price based our analysis on the Share price as mentioned in the paragraph "10. Comparison of the Subscription Price against historical Share prices and net asset value per Share";
- (ii) the purpose of the Anti-dilution Undertaking is not to prevent the Company from conducting fund-raising exercise;

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- (iii) the Anti-dilution Undertaking does not preclude the Company from equity fund-raising in pre-emptive nature during the Completion Date and the three-year anniversary of the Completion Date. In order for the Offeror to maintain its shareholding in the Company, it has to provide additional funding to the Company at the same time as, and on the same terms (including price) offered to, the other Shareholders and investors. In other words, if the Company conducts any equity fund-raising, no favourable terms will be offered to the Offeror as a result of the Anti-dilution Undertaking; and
- (iv) the Anti-dilution Undertaking could attract the Offeror, a leading market player in the dairy industry which may bring strategic value to the Company, to subscribe for the Shares at a premium (but not at a discount) over the recent prevailing market price of the Shares,

we consider Anti-dilution Undertaking is acceptable in the circumstances and concurred with the Directors that the terms of the Share Subscription Agreement (including the Anti-dilution Undertaking) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Shareholders and the Company as a whole.

5. Reasons for and benefits of the Share Subscription and the intended use of proceeds

The Company acts as an investment holding company of the Group. 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.

The Share Subscription, compounding with the transactions contemplated under the Share Purchase Agreement, introduces new shareholders with significant market presence to the Company. The Company believes the Offeror and the Company will be benefited from long term strategic business co-operation in various dimensions, including but not limited to:-

- (i) co-operating in research and developments, which will enhance product qualities and new product development;
- (ii) co-ordinating in the production, which will enhance the utilisation and efficiency of production facilities;
- (iii) co-ordinating in the procurement of raw materials, including base powder and other dairy ingredients; and
- (iv) co-operating in marketing efforts, which will significantly increase the Group's brand awareness and competitiveness in the PRC nationwide.

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These will not only benefit the Group, but also benefit the Offeror, as the Company's shareholders. For the avoidance of doubt, the Company and the Offeror (i) have not entered into any legally binding agreements in respect of the aforementioned long term strategic business co-operation as at the Latest Practicable Date, and (ii) will not enter into any legally binding agreements in this regard before the close of the Offers. The Company will comply with relevant requirements under Chapter 14A of the Listing Rules including but not limited to announcement and the obtaining of independent Shareholders' approval in relation to the aforementioned business co-operation. Apart from that, the Share Subscription also benefits the Company financially by offering it an opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group, which is vital for the Group's future development.

The gross proceeds of the Share Subscription will be HK\$905,400,000 and the net proceeds of the Share Subscription, after deduction of the related expenses, will be HK\$904,900,000, representing a net price of HK\$10.05 per Subscription Share. The Company intends to use the net proceeds to be received from the Share Subscription for the following purposes, subject to changes in light of our evolving business needs and changing market conditions:

- (i) 30% of the net proceeds, being HK\$271.5 million, will be applied to partially finance the expansion of the Company's upstream production facilities. As disclosed in section "Business Review and Outlook" of the Company's annual report 2019 dated 25 March 2020, the Board approved the Group to invest a sum of EUR 140.0 million (equivalent to approximately RMB1,094.8 million) in a new infant formula base powder facility and other related facilities in the Netherlands, principally for the processing of goat milk and goat whey. Based on the Group's current estimation, the Group will make such capital investment in tranches, and first tranche will commence in the second quarter of year 2022;
- (ii) 30% of the net proceeds, being HK\$271.5 million, will be reserved for future acquisition of dairy and nutrition-related business. As at the Latest Practicable Date, the Company has been contemplating an equity investment in a company involving in the nutraceutical and functional food industry. Based on the Group's current estimation, the acquisition in contemplation will take place in the first half of year 2022. In this regard, as at the Latest Practicable Date, negotiation was still ongoing and no legally binding agreement has been entered into. The Company will comply with relevant requirements of the Listing Rules including but not limited to announcement, circular and the obtaining of Shareholders' approval in relation to the aforementioned acquisition when and if it materialises;
- (iii) 20% of the net proceeds, being HK\$181.0 million, will be applied to enhance the Group's processing and logistics capabilities in the PRC, which plans to build a logistics and warehousing facility, within the Group's planned third factory, with an area of approximately 23,000 square meters. Upon completion of constructing such logistics and warehousing facility, the Group's logistic and warehouse capability in the PRC will be nearly doubled;
- (iv) 10% of the net proceeds, being HK\$90.5 million, will be invested in the Group's brand building related activities in order to cope with the Group's expansion of business; and

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- (v) the remaining 10% of the net proceeds, being HK\$90.5 million, will be applied as the Group's general working capital, of which (a) 5% of the net proceeds, being HK\$45.2 million will be applied to repay the Group's existing bank loans and bank borrowings in Hong Kong and the Netherlands in order to reduce the Group's overall finance costs and to rationalize the Group's capital structure; and (b) the remaining 5% of the net proceeds, being HK\$45.3 million, will be applied for working capital (including but not limited to the cost of inventories and general administrative expenses).

The Company will update its shareholders by way of announcement(s) if there are changes in use of the proceeds from the Share Subscription.

In respect of the reason for the Share Subscription in light of the high cash level retained by the Group, the Management advised that a substantial portion of the Group's sales is generated in the PRC and denominated in RMB (which cannot be freely remitted outside the PRC), while significant portion of the Group's production costs, capital expenditure and borrowings are incurred in the Netherlands and denominated in EUR.

We noted from the 2021 Interim Report, (i) total revenue of approximately RMB3,770.5 million, representing approximately 88.3% of the total revenue, was generated from sales in the PRC; and (ii) non-current assets of RMB2,650.7 million, representing approximately 72.5% of total non-current assets of the Group, were situated in the Netherlands, Australia and New Zealand. Further, total cash and cash equivalent of approximately RMB1,072.3 million, representing approximately 75.0% of the total cash and cash equivalent of the Group, were denominated in RMB while outstanding borrowings of approximately RMB1,081.4 million, representing approximately 93.9% of the total borrowings of the Group, were denominated in EUR. Given significant portion of cash held or generated by the Group were denominated in RMB and significant portion of the borrowings, capital expenditure or costs incurred by the Group were denominated in EUR, we concur with the Management that the Group shall continually manage the potential mismatch between its funds inside of the PRC and its payment obligations or expansion plans outside of the PRC, given the fact that the proceeds from the Share Subscription will be in HK\$ which can be freely converted to EUR and applied for the capital expenditures in the Netherlands.

Further, although the construction cost of the new infant formula base powder facility of the Group in the Netherlands is currently financed by the bank loans in the Netherlands, the Management considers it may become more difficult to obtain further loan financing from banks with favourable terms in view of the recent market sentiment resulting from COVID pandemic. Together with the possible continuous improvement in its infrastructure and/or merger and acquisition of its peers following the industry trend, the Management is of the view that it is essential for the Group to maintain an appropriate cash level to match the Group's capital requirements, for both capital expenditure plans or investment activities in the near future.

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Our views on the funding needs and capital requirements of the Company

As regards the use of the proceeds from the Share Subscription, we noted that a significant part of the net proceeds will be used to expand the Group's production and processing facilities and capabilities. As stated above, 30% (i.e. HK\$271.5 million) and 20% (i.e. HK\$181.0 million) of the net proceeds will be applied to partially finance the expansion of the Company's upstream production facilities on base powder and goat related ingredients in the Netherlands and to enhance the Group's processing and logistics capabilities in the PRC respectively. We understand from the Management that the base powder production facilities of the Group in the Netherlands were more or less fully utilised as at the Latest Practicable Date and that the Company anticipates the supply of certain goat related ingredients will face some challenges in the coming years. In order to meet the increasing demand for the Group's products offering, the Company planned to apply 50% of the new proceeds from the Share Subscription for the expansion of production, processing and logistics capability of the Group. We also noted from the annual reports and interim report of the Company that the Group incurred approximately RMB307.0 million, RMB208.4 million, RMB439.9 million and RMB164.8 million in purchase of items of property, plant and equipment for FY2018, FY2019, FY2020 and HY2021 respectively. We are of the view that the amount of the net proceeds to be applied for the expansion of production, processing and logistics capability of the Group are in line with the Group's expansion and growth plan.

We also noted that 30% (i.e. HK\$271.5 million) of the net proceeds will be reserved for future acquisition of nutrition-related business. As set out in the annual report of the Company, the mission of the Company is to become one of the most trustworthy milk formula, nutrition and health-care enterprises in the world. With regard to the status of the negotiation of the proposed acquisitions, the Management advised that at least two potential acquisitions with estimated investment costs of EUR23.0 million and EUR18.0 million respectively have been in negotiation as at the Latest Practicable Date. The Management considered the proposed acquisitions, which are related to the probiotic and dairy business, will facilitate the Company to realise its mission and hence the return to the Shareholders. We concurred with the Management that the proposed acquisitions are in line with the Group's business strategy.

As stated above, 10% (i.e. HK\$90.5 million) of the net proceeds will be invested in the Group's brand building related activities in order to cope with the Group's expansion of business. We noted that the Company has been increasing its efforts in carrying out of marketing and brand activities in recent years. According to the annual reports and interim report of the Company, the Group's advertising and promotion expenses amounted to approximately RMB589.0 million, RMB780.7 million, RMB1,095.1 million and RMB607.7 million for FY2018, FY2019, FY2020 and HY2021 respectively. We are of the view that the proposed use of the net proceeds for the Group's brand building is justifiable.

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Also, 10% (i.e. HK\$90.5 million) of the net proceeds will be applied for general working capital purpose. We noted that the Group generated positive cash flows from operating activities of RMB531.8 million, RMB970.8 million, RMB1,130.2 million and RMB100.0 million for FY2018, FY2019, FY2020 and HY2021 respectively. We have discussed with the Management for the reasons for the drop in operating cash inflow for HY2021. The Management advised the drop was mainly attributable to the payment of the 2020 final dividend in June 2021 and the decrease in prepayments by customers for the HY2021. Taking into the above, we are of the view that applying 10% of the net proceeds for general working capital purpose is justifiable.

Having considered the aforesaid reasons, including (i) the financial position of the Group as at 30 June 2021; (ii) that the proposed use of proceeds by the Group is in line with the strategic plan of the Group; and (iii) that the Share Subscription can enhance the Group's capital base and working capital for its expansion and growth plan, reduce the Group's finance costs as a result of the repayment of part of its borrowings, and bolster the Group's liquidity to satisfy its funding needs outside the PRC in light of the uncertainties in the current business environment, we concur with the Directors that the Share Subscription and the use of proceeds from the Share Subscription are fair and reasonable insofar as the Independent Shareholders are concerned.

6. Terms and conditions of the Offers

Subject to and upon Completion, CLSA Limited will, for and on behalf of the Offeror, make the Offers in compliance with the Takeovers Code on the following basis:

For each Offer Share HK\$10.06 in cash

The price at which the Share Offer to be made is HK\$10.06 (the "Share Offer Price") which equals 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.

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.

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

Pursuant to Rule 13 and Practice Note 6 of the Takeovers Code, the price at which the Option Offer to be made (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 prices of the Offer Options, being HK\$10.00, is below the Share Offer Price of HK\$10.06, the Offer 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.

7. Other alternative methods of financing

As advised by the Management, the Company has considered various alternative methods of financing, including open offer/right issue, before entering into the Share Subscription Agreement. Taking into account that (i) given the Vendors are selling the Sale Shares at HK\$10.06 per Sale Share which is equivalent to the Subscription Price, it is commercially sensible and reasonable to assume the Vendors, which held 49.41% issued Shares of the Company as at the Latest Practicable Date, are unlikely to participate in the open offer/right issue at the Subscription Price if the subscription price in the open offer/right issue is equivalent to the selling price per Sale Share that they are willing to sell; and (ii) the Subscription Price is above the recent prevailing market price of the Shares, after consulting its financial advisers, the Company is of the view that it may face difficulties in procuring underwriters to underwrite the open offer/rights issue with a size comparable to the Share Subscription at the Subscription Price under the prevailing market condition as it is common that the subscription price in the open offer/right issue would be at discount to the recent market price.

Further, the Management considered that equity financing by way of Share Subscription is a more appropriate way for raising additional capital for the Company than open offer/rights issue since (i) it is less cumbersome (as less documentation is required) and takes shorter time to arrange the Share Subscription than open offer/right issue as the latter involves the issue of prospectus; and (ii) additional costs such as underwriting/placing commission would be incurred in case of open offer, rights issue or placing.

We have enquired with the Management if the Company considered debt financing alternatives. As depicted in the paragraphs headed “5. Reasons for and benefits of the Share Subscription and the intended use of proceeds” above, HK\$724.0 million, representing 80% of the gross proceeds and being the sum of the proceeds for expansion of upstream production facilities, future acquisition of nutrition-related business, enhancement of the processing and logistics capabilities in the PRC. will be applied to finance long term investments of the Group. As such, the Management considered that equity financing will improve the Group’s financial position and be more financially prudent when compared to debt financing alternatives. Further, debt financing may be subject to lengthy due diligence and negotiations with banks and would also incur further interest burden to the Group.

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We have identified all open offer or rights issue precedents (the “**Fundraising Comparables**”) announced by listed companies in Hong Kong during the period from 1 October 2021 up to the Latest Practicable Date, being an approximate two months period up to and including the Latest Practicable Date. We are of the view that the Fundraising Comparables are suitable comparables to the Share Subscription as the review period in which they fall allows us to capture the recent market trend. It should be noted that the companies making up the Fundraising Comparables may have different principal activities, scales of operation and trading prospects as compared with those of the Company. Circumstances leading to the companies in constituting the Fundraising Comparables may also be different from those of the Company. However, as the Fundraising Comparables fulfill the aforementioned criteria, the Fundraising Comparables selected for comparison are exhaustive, serve as a general reference, and are fair and representative comparables in the Hong Kong market. Details of the Fundraising Comparables are set out as follows:

Announcement Date	Stock Code	Company Name	Premium/(discount) of the offer price over/(to)		
			average closing price per share for the last five trading days up to closing price per share on the last trading Day	average closing price per share for the last ten trading days up to and including/ prior to the last trading day	average closing price per share for the last ten trading days up to and including/ prior to the last trading day
2/12/2021	1030	Seazen Group Limited	(5.86%)	(11.19%)	(12.69%)
30/11/2021	872	Titan Invo Technology Limited	(37.50%)	(35.20%)	(33.00%)
26/11/2021	8375	Vertical International Holdings Limited	(40.80%)	(42.50%)	(43.20%)
23/11/2021	2363	Tongda Hong Tai Holdings Limited	(30.00%)	(30.73%)	(27.84%)
23/11/2021	362	Xinyang Maojian Group Limited	(4.00%)	(9.77%)	(11.76%)
19/11/2021	227	First Shanghai Investments Limited	(17.60%)	(16.70%)	(16.30%)
16/11/2021	663	King Stone Energy Group Limited	(41.90%)	(43.90%)	(44.10%)
9/11/2021	884	CIFI Holdings (Group) Co. Ltd.	(2.91%)	(4.12%)	(7.98%)
8/11/2021	8328	Xinyi Electric Storage Holdings Limited	(8.07%)	(12.36%)	(16.57%)
5/11/2021	8456	Mansion International Holdings Limited	(18.60%)	(16.70%)	(18.60%)
2/11/2021	8299	Grand T G Gold Holdings Limited	(16.67%)	(14.63%)	(17.45%)
1/11/2021	262	Deson Development International Holdings Limited	(7.40%)	(7.60%)	(7.80%)
24/10/2021	405	Yuexiu Real Estate Investment Trust	(12.80%)	(12.80%)	(13.00%)
20/10/2021	8133	Jete Power Holdings Limited	(54.50%)	(54.50%)	(55.80%)
19/10/2021	1679	Risecomm Group Holdings Limited	(0.50%)	(1.00%)	(0.50%)
15/10/2021	1143	Link-Asia International MedTech Group Limited	(7.83%)	(9.91%)	(10.19%)
7/10/2021	524	Great Wall Terroir Holdings Limited	(23.70%)	(18.30%)	(21.40%)
		Maximum	(0.50%)	(1.00%)	(0.50%)
		Minimum	(54.50%)	(54.50%)	(55.80%)

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As shown in the above table, all of the subscription prices of the Fundraising Comparables were offered at discount to their recent market price, ranging from (i) a discount of approximately 0.5% to a discount of approximately 54.5% to the respective closing prices of their shares on their last trading days; (ii) a discount of approximately 1.0% to a discount of approximately 54.5% to the respective average closing prices of their shares for the last five trading days up to and including their last trading days; and (iii) a discount of approximately 0.5% to a discount of approximately 55.8% to the respective average closing prices of their shares for the last ten trading days up to and including their last trading days.

Taking into account (i) the Subscription Price is at premium over the recent prevailing market price based our analysis on the Share price as mentioned in the paragraph “10. Comparison of the Subscription Price against historical Share prices and net asset value per Share”, and as shown in the table above, it is common that the subscription price in the open offer/right issue would be at discount to the recent market price; (ii) our analysis on the potential dilution impact on the shareholding interest of the Public Shareholder as mentioned in the paragraph “9. Potential dilution effects of the Share Subscription”; (iii) the possible additional financial burden that could be incurred by the Group in debt financing; (iv) the longer time required for, as well as additional transaction costs that would be incurred for, fund raising through rights issue or open offer; and (v) that the Company would not incur any significant cost in the Share Subscription, we are of the view that the Share Subscription is commercially sensible. Together with the other benefits that the Share Subscription could bring to the Group as discussed in the paragraph headed “5. Reasons for and benefits of the Share Subscription and the intended use of proceeds” above, we concur with the Management that conducting the Share Subscription is more appropriate than raising fund through open offer/right issue or debt financing.

8. Financial effects of the Share Subscription

As set out in the 2021 Interim Report, as at 30 June 2021, the net assets attributable to the Shareholders was approximately HK\$5,152 million. Upon the Subscription Completion, it is expected that the net assets attributable to the Shareholders will be increased by the estimated net proceeds from the Share Subscription of approximately HK\$904.9 million.

As set out in the 2021 Interim Report, as at 30 June 2021, the current ratio of the Group, which was derived by the total current assets divided by the total current liabilities of the Group, was approximately 1.6 times. Upon Subscription Completion, it is expected that the total current assets of the Group will be increased by the estimate net proceeds from the Share Subscription while the total current liabilities of the Group shall remain at same level. Assuming there is no change to the financial position of the Group other than the Share Subscription, the current ratio of the Group will increase to approximately 1.9 times.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position or results of the Group will be upon the Subscription Completion. Based on the above analysis, the Share Subscription would have positive impact on the Group’s net asset value and the current ratio. On such basis, we are of the view that the Share Subscription is in the interests of the Company and the Shareholders as a whole.

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9. Potential dilution effects of the Share Subscription

Assuming no other changes to the issued share capital of the Company from the Latest Practicable Date, the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion are set out in the section headed “Illustrative effect on the shareholding structure” in the letter from the Board.

As set out in the letter from the Board, neither the Offeror nor any party acting in concert with it owns (or has control or direction over) any Shares as at the Latest Practicable Date. Upon Completion, (i) 90,000,000 Shares will be issued and allotted to the Offeror pursuant to the Subscription Agreement, representing 4.98% of the total issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares; and (ii) 286,599,262 Shares, 35,991,683 Shares, 177,233,818 Shares and 31,000,000 Shares, representing approximately 15.85%, 1.99%, 9.80% and 1.71% of the total issued share capital of the Company respectively as enlarged by the issue and allotment of the Subscription Shares, will be transferred to the Offeror from CEL, CL Seller (BioEngine), CL Seller (CenterLab) and DDI Seller respectively, upon which the Offeror will be interested in 620,824,763 Shares in aggregate, representing approximately 34.33% voting rights of the Company calculated based on the total issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares.

As set out in the letter from the Board, the shareholding of the existing public Shareholders as at the Latest Practicable Date was approximately 43.37%. The Subscription Shares to be subscribed by the Offeror represent 5.24% of the total number of issued Shares as at the Latest Practicable Date, and approximately 4.98% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares. On such basis, the shareholding of the existing public Shareholders will be diluted from approximately 43.37% to 41.21% upon the Subscription Completion. Having taken into account that (i) the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned; (ii) our analysis as mentioned in the paragraph headed “7. Other alternative methods of financing”; and (iii) the possible financial effects of the Share Subscription as mentioned in the paragraph headed “8. Financial effects of the Share Subscription” above, we are of the view that the aforesaid level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

10. Comparison of the Subscription Price against historical Share prices and net asset value per Share

The Subscription Price of HK\$10.06 equals the per Sale Share consideration under the Share Purchase Agreement and the price per Offer Share which represents:

- (i) a premium of approximately 9.23% over the closing price of HK\$9.21 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 13.67% over the closing price of HK\$8.85 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 17.11% over the average closing price of approximately HK\$8.59 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;

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- (iv) a premium of approximately 24.20% over the average closing price of approximately HK\$8.10 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;
- (v) 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;
- (vi) a premium of approximately 15.77% over the average closing price of approximately HK\$8.69 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 90 trading days immediately prior to and including the Last Trading Day;
- (vii) a discount of approximately 2.14% to the average closing price of approximately HK\$10.28 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 180 trading days immediately prior to and including the Last Trading Day;
- (viii) a premium of approximately 173.74% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$3.675 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\$6,306.5 million) as at 31 December 2020 by 1,715,903,508 Shares in issue as at 31 December 2020; and
- (ix) a premium of approximately 171.23% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$3.709 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 1,718,545,841 Shares in issue as at the Latest Practicable Date.

As shown above, the Subscription Price represents a premium over (i) the closing prices of the Shares prior to the Joint Announcement, except for the average closing price based on the daily closing prices as quoted on the Stock Exchange for the last 180 trading days immediately prior to and including the Last Trading Day; and (ii) the unaudited and audited consolidated net asset value attributable to the Shareholders per Share.

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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

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 Subscription 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 Subscription Price of HK\$10.06.

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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\$9.75 and closed at HK\$9.21 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 Subscription Price which is the same as Share price per Sale Share and the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

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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:

	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	32	173,873,649	5,433,552	0.32%	0.73%
Average				0.26%	0.59%

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 7,964,732 Shares, representing approximately 0.11% to 0.46% of the total number of Shares in issue as at the end of the respective month/period, and approximately 0.25% to 1.07% 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 was relatively thin during the Review Period and the Shares were generally illiquid in the open market.

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Comparables

As part of our analysis, we also identified transactions in relation to subscription of new shares under specific mandate for cash, excluding subscription of A shares (the “**Subscription Comparables**”), which were announced by listed companies in Hong Kong from 1 June 2021 up to 10 December 2021, being an approximate six months period up to and including the Latest Practicable Date. To the best of our knowledge and as far as we are aware of, we have identified 17 transactions which met the said criteria on an exhaustive basis. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Subscription Comparables and thus the Subscription Comparables are only used to demonstrate for the recent market practice of Hong Kong listed companies in subscription of new shares under specific mandate.

Company name (stock code)	Date of announcement	Premium/(discount) of the subscription price over/(to) average closing price per share for the last five trading days up to and including/prior to the date of announcement	Premium/(discount) of the subscription price over/(to) average closing price per share for the last ten trading days up to and including/prior to the date of agreement in relation to the respective subscription of shares (%)	Premium/(discount) of the subscription price over/(to) average closing price per share for the last ten trading days up to and including/prior to the date of agreement in relation to the respective subscription of shares (%)	Premium/(discount) of the subscription price over/(to) average closing price per share for the last 30 trading days up to and including/prior to the date of agreement in relation to the respective subscription of shares (%)	Premium/(discount) of the subscription price over/(to) average closing price per share for the last 90 trading days up to and including/prior to the date of agreement in relation to the respective subscription of shares (%)	Gross Proceeds (Approximate HK\$ million)
		(%) (Note 1)	(%)	(%)	(%)	(%)	
China Saite Group Company Limited (153)	10-Dec-21	(3.80)	N/A	N/A	N/A	N/A	312
iDreamSky Technology Holdings Limited (1119)	28-Nov-21	(9.34)	(8.10)	(7.79)	4.50	14.53	195
China Nuclear Energy Technology Corporation Limited (611)	14-Nov-21	(6.17)	0.92	(0.45)	(0.00)	28.27	475
Lingbao Gold Group Company Ltd. (3330)	11-Nov-21	(13.27)	(10.53)	(11.46)	(10.08)	(11.93)	271.8
Sun Cheong Creative Development Holdings Limited (1781)	8-Nov-21	(91.01)	N/A	N/A	N/A	N/A	80
AUX International Holdings Ltd (2080)	26-Oct-21	1.61	2.27	1.78	(1.61)	(3.72)	74.3
Coolpad Group Limited (2369)	4-Oct-21	(17.65)	(18.60)	(18.60)	(10.92)	(9.42)	840.0
China Aoyuan Group Limited (3883)	27-Sep-21	(1.90)	0.00	(7.14)	(18.94)	(38.37)	600
Synergy Group Holdings International Limited (1539)	15-Sep-21	(81.48)	(78.63)	(76.36)	(75.80)	(78.74)	110
Million Cities Holdings Limited (2892)	9-Sep-21	7.48	7.48	5.12	2.86	(0.45)	333.5
Xinte Energy Co., Ltd. (1799)	5-Aug-21	(20.48)	(11.78)	(13.31)	(5.81)	(1.33)	2,761
Elife Holdings Limited (0223)	19-Jul-21	5.77	3.00	(1.08)	(8.49)	(10.11)	8.0
Goal Forward Holdings Limited (1854)	6-Jul-21	7.14	(4.34)	(11.87)	(9.91)	28.33	37
National United Resources Holdings Limited (254) (Note 2)	24-Jun-21	(92.30)	N/A	N/A	N/A	N/A	174.7
Persta Resources Inc. (3395) (Note 3)	9-Jun-21	100.00	121.61	123.46	100.42	102.73	56.0
Media Asia Group Holdings Limited (8075)	4-Jun-21	(11.11)	(11.11)	(13.17)	(14.59)	(40.00)	100
DTXS Silk Road Investment Holdings Company Limited (0620)	4-Jun-21	(8.43)	(4.43)	1.34	6.17	35.57	50.0
Maximum		100.00	121.61	123.46	100.42	102.73	
Minimum		(81.48)	(78.63)	(76.36)	(75.80)	(78.74)	
Average		(3.42)	(0.88)	(2.11)	(3.01)	1.10	
Median		(7.30)	(4.38)	(7.46)	(7.15)	(2.52)	
Maximum (excluding outlier)		7.48	7.48	5.12	6.17	35.57	
Minimum (excluding outlier)		(81.48)	(78.63)	(76.36)	(75.80)	(78.74)	
Average (excluding outlier)		(11.37)	(10.30)	(11.77)	(10.97)	(6.72)	
Median (excluding outlier)		(8.43)	(4.43)	(7.79)	(8.49)	(3.72)	
The Company		13.67	17.11	24.20	33.42	15.77	905.4

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Notes:

1. As Goal Forward Holdings Limited (1854) and the Company suspended its trading at the date of announcement, closing price of Goal Forward Holdings Limited and the Company as quoted on the Stock Exchange on the Last Trading Day are used for comparison.
2. China Saite Group Company Limited (153), Sun Cheong Creative Development Holdings Limited (1781) and National United Resources Holdings Limited (254) are under suspension of trading for over one year, and thus are excluded for comparison.
3. Persta Resources Inc. (3395) is excluded from this analysis as it appears to be an extreme outlier with premiums significantly deviating from the majority of the Subscription Comparables, thus the inclusion of it will skew the overall results and may not provide a meaningful analysis.

We noted from the above table that the subscription prices of the Subscription Comparables ranged from (i) a discount of approximately 81.48% to a premium of approximately 7.48% to/over the respective closing prices of their shares on/prior to the date of announcement in relation to the respective subscription of new shares under specific mandate; (ii) a discount of approximately 78.63% to a premium of approximately 7.48% to/over the respective average closing prices of their shares for the last five trading days up to and including/prior to the date of agreement in relation to the respective subscription of new shares under specific mandate; (iii) a discount of approximately 76.36% to a premium of approximately 5.12% to/over the respective average closing prices of their shares for the last ten trading days up to and including/prior to the date of agreement in relation to the respective subscription of new shares under specific mandate; (iv) a discount of approximately 75.8% to a premium of approximately 6.17% to/over the respective average closing prices of their shares for the last 30 trading days up to and including/prior to the date of agreement in relation to the respective subscription of new shares under specific mandate; (v) a discount of approximately 78.74% to a premium of approximately 35.57% to/over the respective average closing prices of their shares for the last 90 trading days up to and including/prior to the date of agreement in relation to the respective subscription of new shares under specific mandate (collectively, the “**Discount/Premium Market Ranges**”). Accordingly, the premium of the Subscription Price to the closing price of the Shares on the Last Trading Day, and the premium of the Subscription Price to the average closing price of the Shares for the last 5, 10, 30 and 90 trading days up to and including the date of Subscription Agreement is the highest compared to Discount/Premium Market Ranges.

As indicated in the table above, the fund raising sizes of the Subscription Comparables may not have strong and direct correlation with the Discount/Premium Market Ranges. For illustrative purpose, (i) for the Subscription Comparables with fund raising sizes that are equal to or less than HK\$100 million, the subscription prices of such Subscription Comparables ranged from a discount of approximately 11.11% to a premium of approximately 7.14% to/over the respective closing prices of their shares on/prior to the date of announcement in relation to the respective subscription of new shares under specific mandate; and (ii) for the Subscription Comparables with fund raising sizes that are equal to or more than HK\$600 million, the subscription prices of such Subscription Comparables ranged from a discount of approximately 1.90% to 20.48% to the respective closing prices of their shares on/prior to the date of announcement in relation to the respective subscription of new shares under specific mandate. Accordingly, we consider that the fund raising sizes of the Subscription Comparables do not affect our analysis.

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Having considered that: (i) the Share Subscription represents a valuable opportunity for the Company to raise fund to further strengthen its capital base and financial position, thereby laying down a more solid foundation for the Company to further its business development and accelerate its growth; and (ii) the premium of the Share Subscription is the highest among the Subscription Comparables, we consider the Subscription Price to be fair and reasonable.

CONCLUSION AND RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

- (i) the Subscription Price represented a premium over the recent prevailing market price of the Shares – 13.67% and 9.23% 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%, 33.42% and 15.77% over the average closing price of the Shares during the 5-day, 30-day and 90-day periods prior to and including the Last Trading Day and represented a slight discount of 2.14% to the closing price of the Shares over the average closing price of the Share during the 180-day periods. We considered that, in light of the uncertainty in recent stock market sentiment, it would be more meaningful to compare the Subscription Price to the recent prevailing market price of the Shares during the 90-day periods prior to and including the Last Trading Day and the closing price of the Shares as at the Latest Practicable Date) which were below the Subscription Price;
- (ii) the Subscription Price represented a premium of approximately 173.74% and 171.23% 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 Share Subscription is commercially sensible taking into account (i) the alternative equity fund raising measure considered by the Company; and our view of the debt financing as mentioned in the paragraph “7. Other alternative methods of financing”;
- (iv) the terms of the Share Subscription Agreement (including the Anti-dilution Undertaking) are fair and reasonable;
- (v) the proposed use of proceeds is justifiable and is in line with the Group’s business strategy and growth and expansion plan;
- (vi) considering the background of the Offeror (as the subscriber) who is a major player in the PRC dairy market, although we are not in a position to assess if there will be potential synergy effect to the Group’s future operation, the Share Subscription will not only strengthen the shareholder base of the Company but also introduce a strategic investor as the controlling shareholder of the Company; and

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- (vii) the level of dilution to the shareholding interests of the existing public Shareholders is acceptable taking into account that (i) the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned; (ii) our analysis as mentioned in the paragraph headed “Other alternative methods of financing”; and (iii) the possible financial effects of the Share Subscription as mentioned in the paragraph headed “Financial effects of the Share Subscription”,

on balance, we are of the view that (i) the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) although the Share Subscription is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

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.

1. RESPONSIBILITY STATEMENT

(a) Responsibility statements under the Listing Rules

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

(b) Responsibility statements under the Takeovers Code

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, the opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued Shares as at the Latest Practicable Date were, and immediately following the issue of the Subscription Shares will be, as follows:

<i>Authorised</i>		<i>HK\$</i>
<i>share capital</i>		
<u>3,000,000,000</u>	Shares of HK\$0.1 each	<u>300,000,000</u>
<i>Issued and</i>		
<i>fully-paid share</i>		
<i>capital</i>		
1,718,545,841	Shares in issue as at the Latest Practicable Date	171,854,584
<u>90,000,000</u>	Subscription Shares to be issued and allotted	<u>9,000,000</u>
<u>1,808,545,841</u>	Shares in issue immediately following the issue of the Subscription Shares	<u>180,854,584</u>

All Shares in issue rank *pari passu* with each other in all respects including the rights as to voting and dividends.

As at the Latest Practicable Date, the number of Options outstanding under the 2009 Share Option Scheme, which was approved by the Shareholders on 19 September 2009, was 37,499,334 and the exercise price was HK\$10.00.

Save as disclosed above, no share, options, warrants, conversion rights or any equity or debt securities of the Company were outstanding or were proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

3. DISCLOSURE OF INTERESTS

A. Directors' interests in Shares

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules (“**Model Code**”) were as follows:

Name of Director	Number of shares or underlying Shares ^(Note 1)	Nature of interest	Approximate % of issued Shares ^(Note 5)
Mr. Yan Weibin	1,700,000 (L)	Beneficial owner	0.10
	1,000,000 (L)	Beneficial owner ^(Note 2)	0.06
	118,739,085 (L)	Interest of a controlled corporation ^(Note 3)	6.91
Mr. Bartle van der Meer	1,509,000 (L)	Beneficial owner	0.09
	1,000,000 (L)	Beneficial owner ^(Note 2)	0.06
	124,205,230 (L)	Interest of a controlled corporation ^(Note 4)	7.23
Ms. Ng Siu Hung	2,500,000 (L)	Beneficial owner	0.15
	1,000,000 (L)	Beneficial owner ^(Note 2)	0.06
Mr. Tsai Chang-Hai	466,666 (L)	Beneficial owner	0.03
	333,334 (L)	Beneficial owner ^(Note 2)	0.02
Mr. Jason Wan	300,000 (L)	Beneficial owner	0.02
	500,000 (L)	Beneficial owner ^(Note 2)	0.03
Mr. Lau Chun Fai Douglas	384,000 (L)	Beneficial owner	0.02
	416,000 (L)	Beneficial owner ^(Note 2)	0.02
Mr. Aidan Maurice Coleman	500,000 (L)	Beneficial owner ^(Note 2)	0.03

Notes:

1. The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.
2. These are the Shares subject to the exercise of the Options granted by the Company to the Directors under the 2009 Share Option Scheme.
3. The Shares are held by Ausnutria BVI, a company wholly-owned by Mr. Yan Weibin. Mr. Yan Weibin is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.
4. 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. Bartle van der Meer is therefore deemed to be interested in 124,205,230 Shares held by DDI Seller under the SFO.
5. Based on 1,718,545,841 shares of HK\$0.10 each in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive 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 to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

B. Substantial shareholders’ interests in Shares

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares and underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of shares ^(Note 1)	Nature of interest	Approximate % of issued Shares ^(Note 10)
Yili Industrial ^(Note 2)	620,824,763 (L)	Interest of a controlled corporation	36.13
Jingang Trade ^(Note 2)	620,824,763 (L)	Beneficial owner	36.13
CEL ^(Note 3)	379,000,000 (L)	Beneficial owner	22.05
Changsha Kunxin Xin’Ao Investment LP ^(Note 4)	379,000,000 (L)	Interest of a controlled corporation	22.05
Chengtong CITIC Agriculture Investment Fund ^(Note 4)	379,000,000 (L)	Interest of a controlled corporation	22.05

Name	Number of shares ^(Note 1)	Nature of interest	Approximate % of issued Shares ^(Note 10)
China Structural Reform Fund Co., Ltd* (中國國有企業結構調整基金股份有限公司) ^(Note 4)	379,000,000 (L)	Interest of a controlled corporation	22.05
CAFM ^(Note 5)	379,000,000 (L)	Interest of a controlled corporation	22.05
CITIC Agriculture Technology Co., Ltd. ^(Note 5)	379,000,000 (L)	Interest of a controlled corporation	22.05
CITIC Limited ^(Note 6)	379,000,000 (L)	Interest of a controlled corporation	22.05
CITIC Group Corporation ^(Note 6)	379,000,000 (L)	Interest of a controlled corporation	22.05
CL Seller (CenterLab) ^(Note 7)	307,940,089 (L)	Beneficial owner	17.92
	35,991,683 (L)	Interest of a controlled corporation	2.09
CL Seller (BioEngine) ^(Note 7)	35,991,683 (L)	Beneficial owner	2.09
DDI Seller Parent ^(Note 8)	124,205,230 (L)	Interest of a controlled corporation	7.23
DDI Seller ^(Note 8)	124,205,230 (L)	Beneficial owner	7.23
Fan Deming B.V. ^(Note 8)	124,205,230 (L)	Interest of a controlled corporation	7.23
Ausnutria BVI ^(Note 9)	118,739,085 (L)	Beneficial owner	6.91
Ms. Chen Miaoyuan ^(Note 10)	121,439,085 (L)	Interest of spouse	7.07

Notes:

- The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares. The letter “S” denotes a person’s “short position” (as defined under Part XV of the SFO) in such Shares.
- Pursuant to the Share Purchase Agreement and the Subscription Agreement, Jingang Trade is deemed to be interested in 620,824,763 Shares under the SFO (representing 36.13% of the issued share capital of the Company as at the Latest Practicable Date). Jingang Trade is a wholly-owned subsidiary of Yili Industrial. As a result, Yili Industrial is deemed to be interested in 620,824,763 Shares under the SFO (representing 36.13% of the issued share capital of the Company as at the Latest Practicable Date).
- CEL is owned as to approximately 53.14% by Kunxin Xin’Ao.

4. Kunxin Xin'Ao is owned as to 91.17% by Chengtong CITIC Agriculture Investment Fund (formerly known as Guotiao CITIC Modern Agriculture Investment LP), which is owned as to 34.9% 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 indirectly owned as to 37.2% by CITIC Limited respectively.
5. CAFM, who is the GP of Kunxin Xin'Ao, is owned as to 40.41% by CITIC Agriculture Technology Co., Ltd., an indirect wholly-owned company of CITIC Limited (formerly known as CITIC Agriculture Investment Co., Ltd.).
6. CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation.
7. CL Seller (CenterLab) is beneficially interested in 307,940,089 Shares and CL Seller (BioEngine), a non-wholly-owned subsidiary of CL Seller (CenterLab), is beneficially interested in 35,991,683 Shares. CL Seller (CenterLab) is therefore deemed to be interested in 343,931,772 Shares in total under the SFO.
8. DDI Seller is wholly-owned by DDI Seller Parent. DDI Seller Parent is wholly-owned by Fan Deming B.V.. Fan Deming B.V. is wholly-owned by Mr. Bartle van der Meer.
9. Ausnutria BVI is wholly-owned by Mr. Yan Weibin. Mr. Yan Weibin is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.
10. Ms. Chen Miaoyuan is the spouse of Mr. Yan Weibin. Ms. Chen Miaoyuan is therefore deemed to be interested in 120,439,085 Shares held by Mr. Yan Weibin (himself and through Ausnutria BVI) and the 1,000,000 Options held by Mr. Yan Weibin under the SFO.
11. Based on 1,718,545,841 Shares of HK\$0.10 each in issue as at the Latest Practicable Date.

* For identification purpose only

Other than as disclosed above, as at the Latest Practicable Date, no person (other than Directors and chief executive of the Company) or company had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. FURTHER INFORMATION CONCERNING DIRECTORS

A. Competing interests

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined under the Listing Rules) had any business or interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

B. Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

C. Directors' interest in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased, or which were proposed to be acquired, disposed of by or leased to any member 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.

D. Directors' interest in contracts

As at the date of this Circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position 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.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

7. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinions, letters or advice which are contained in this circular:

Name	Qualifications
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

Optima Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter dated 15 December 2021, and reference to its name, and/or its advice in the form and context in which it appears.

As at the Latest Practicable Date, Optima Capital did not:

- (i) have any shareholding, directly or indirectly, in any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (ii) have any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Electronic copies of the following documents are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://ausnutria.com.hk>) for a period of 14 days from the date of this circular (both days inclusive):

- (i) the Subscription Agreement;
- (ii) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 to this circular;
- (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 23 to 61 to this circular;
- (iv) the written consent referred to in the paragraph headed “Expert and consent” in this appendix; and
- (v) this circular.

9. MISCELLANEOUS

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

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Ausnutria Dairy Corporation Ltd (the “Company”) will be held at 22nd Floor, Block A, Building 1, Ausnutria Building, Suncity, Purui East Road, Yueliangdao Street, Wangcheng District, Changsha City, Hunan Province, the PRC on Friday, 31 December 2021 at 9:30 a.m. for the purpose of considering and, if thought fit, passing, without modifications, the following ordinary resolution of the Company. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 15 December 2021 of which the notice convening the EGM forms part.

ORDINARY RESOLUTION

1. “**THAT**

- (a) the conditional Subscription Agreement dated 27 October 2021 (a copy of which is tabled at the EGM and marked “A” and signed by the chairman of the EGM for identification purpose) entered into between the Company and the Offeror in relation to the proposed Share Subscription of a total of 90,000,000 Shares at the Subscription Price of HK\$10.06 per Subscription Share and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) any one Director(s) be and is hereby authorised to, on behalf of the Company, do all such acts and things, to sign and execute such documents or agreements or deeds and take all such actions as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Subscription Agreement and the transactions contemplated thereunder and agree to such variation, amendment or waiver as are, in the opinion of such Director, in the interest of the Company and the Shareholders as a whole; and

NOTICE OF EGM

- (c) subject to and conditional upon the Listing Committee of Stock Exchange having granted the listing of, and permission to deal in the Subscription Shares, the Directors be and are hereby granted the Specific Mandate which shall entitle the Directors to exercise all the powers of the Company to issue, allot and credit as fully paid, the Subscription Shares, on and subject to the terms and conditions of the Subscription Agreement, providing that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandates(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution.”

By Order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

Hong Kong, 15 December 2021

Notes:

- (a) The register of members of the Company will be closed from 28 December 2021 to 31 December 2021, both days inclusive. No transfer of shares of the Company will be registered during that period. In order to qualify to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 24 December 2021.
- (b) A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company but must be present in person to represent the member.
- (c) If the appointer is a corporation, the form of proxy must be under its common seal, or under the hand of an officer or attorney duly authorised on its behalf.
- (d) In order to be valid, a form of proxy must be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. The completion and delivery of the form of proxy will not preclude a member from attending and voting at the meeting if he so wishes. In the event that he attends the meeting after having lodged the form of proxy, the form of proxy will be deemed to have been revoked.
- (e) Where there are joint registered holders of any share of the Company, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote and will be accepted to the exclusion of other joint registered holders in respect hereof.