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

KEY FINDINGS IN RELATION TO THE FORENSIC REVIEW CONDUCTED BY PWC AND PRELIMINARY MANAGEMENT RESPONSES AND REMEDIAL ACTIONS TAKEN OR TO BE TAKEN BY THE COMPANY AND RECENT DEVELOPMENTS OF THE GROUP

SUMMARY OF KEY FINDINGS OF THE REVIEW

Following the issues raised by EY in the EY Letter, King & Wood Mallesons were engaged by the Special Review Committee as its legal advisors in relation to the Unresolved Issues. In turn, PwC was appointed by King & Wood Mallesons to conduct the Review on the Unresolved Issues. PwC issued its report in relation to its findings on the Review to King & Wood Mallesons, which was copied to the Special Review Committee on 12 August 2013.

Key findings of the Review include that:

(a) the Questionable December Transactions, which involve a sum amounting to approximately RMB123 million (equivalent to approximately RMB143.5 million (inclusive of 17% VAT)) in respect of which the relevant underlying documents relating to sample of the Questionable December Transactions appeared to be different from sample of transactions for other months in 2011, and the goods involved had not been delivered to the distributors before 31 December 2011 and accordingly, should not be recognised as sales of the China Subsidiary in December 2011;

(b) the integrity of the Old Sales Order System, which had ceased to be used since October 2011 but recorded the Questionable December Transactions is questionable. Also, the data in relating to the Questionable December Transactions recorded in the old Sales Order System had been manually altered, and the integrity of the warehouse barcode system is also questionable as the Ex-China CFO had instructed the developer of the warehouse barcode system to alter the data in it for December 2011 to match the data previously provided to EY;

(c) there were discrepancies in the quantity of goods sold and delivered between the Accounting Records and information provided by the Logistic Company during January to November 2011, as well as discrepancies in inventory movement records between the Accounting Records and the Warehouse Records in 2011; and

(d) the review of supporting documents for sample transactions with the Associate appeared to be consistent with the explanation given by the management of the China Subsidiary. The management of the China Subsidiary and the other shareholders of the Associate decided to deregister the Associate in late 2011 and the Associate was officially deregistered in May 2012.

PwC also noted that while sales reported in the VAT returns of the China Subsidiary from January 2011 to December 2011 filed with the PRC tax authority amounting to approximately RMB473.3 million, the amount of the VAT invoices issued was approximately 50% of the reported sales in 2011. If the value of the Questionable December Transactions totaling approximately RMB123 million (exclusive of 17% VAT) were to be excluded from the calculation, the remaining VAT invoices, which were issued, accounted for only approximately 68% of the reported sales for 2011.

In addition to the Questionable December Transactions, PwC also identified the Questionable November Transactions amounting to approximately RMB11.5 million (inclusive of 17% VAT) and other questionable transactions for the period from January to November in 2011 amounting to approximately RMB39.6 million (inclusive of 17% VAT) with similar patterns to the Questionable December Transactions.

When conducting the Electronic Data Review, which formed part of the Review, it was revealed that:

(a) there were other excel records maintained by the China Subsidiary relating to the balances with distributors for the period from 31 December 2009 to 31 December 2011 and such data might differ from those included in the finance records pursuant to some excel spreadsheets contained in two emails dated both 3 May 2012;

(b) the transaction value and the Logistic Company delivery notes numbers of certain sales transactions from January to July 2011 had been amended, added or deleted pursuant to a summary of sales orders of the China Subsidiary from January to July 2011 contained in an email dated 3 January 2012;

(c) inventory summary and reconciliation records in the computer of one of the accounting staff appeared to contain questionable inventory records for the period from July 2009 to February 2011, which include the wording of “empty transfers” of finished goods and raw materials;

(d) there were inconsistencies in the Accounting Records and the actual underlying documents pursuant to an email dated 15 March 2012;

(e) there were proposed arrangements to deliver goods to the distributors and to allow the distributors to return the goods after the completion of EY's audit so that the physical inventories as stored in the warehouse of the China Subsidiary would match with the Accounting Records pursuant to an email dated 17 April 2012; and

(f) attempts were made by certain staff of the China Subsidiary to influence the distributors in answering questions that EY might raise during the 2011 audit pursuant to two emails dated 8 February 2012 and 10 February 2012.

However, based on the Review, PwC did not identify any documents or evidence which indicates that the then executive Directors of the Company had any direct involvement in the Unresolved Issues.

However, the Review conducted by PwC was subject to significant limitations. Please refer to the paragraph headed "(G) Other observations by PwC – Electronic Data Review" below for the limitations and explanations provided by the Company.

PRELIMINARY MANAGEMENT RESPONSES

The Special Review Committee, upon its establishment, was concerned with the Unresolved Issues and accordingly, took the initiative to request the Management to carry out reviews to, among other things, quantify the financial impact in relation to the Unresolved Issues. The Management identified the Questionable December Transactions and confirmed that all the Questionable December Transactions should not have been recognised as sales in December 2011 as the corresponding goods had not been dispatched on or before 31 December 2011.

The Management has attempted to substantiate and ascertain explanations in respect of the Questionable December Transactions, the Questionable November Transactions and the other questionable transactions for the period from January to November in 2011. However, as a number of employees who might have been involved in these questionable transactions had since left the China Subsidiary and the information gathered from other employees did not appear to be conclusive, the Management is not able to conclude its findings with satisfactory explanations for these questionable transactions.

To ascertain the potential financial impact of the Unresolved Issues and the other questionable transactions mentioned above on the China Subsidiary as at 31 December 2011, the Management has carried out certain roll-back procedures on inventories and trade balances. The Management is in the process of re-assessing the financial position of the China Subsidiary as at 31 December 2011 based on the results of the above procedures having been performed.

On 12 April 2013, certain Company representatives accompanied by the PRC Legal Advisors reported the Alleged Wrongdoing to the Bureau of Public Security and the Bureau of Finance. According to the officers of the Bureau of Public Security, they would not deal with the Alleged Wrongdoing and commence any investigation into the Alleged Wrongdoing at this stage as there was no report of misappropriation of assets of the China Subsidiary arising from the Alleged Wrongdoing.

On the other hand, the officers of the Bureau of Finance have accepted the lodgment of the Alleged Wrongdoing and have commenced, and are continuing, their investigation. The China Subsidiary is extending its full co-operation to the Bureau of Finance.

As advised by the PRC Legal Advisors, it is an offence under the PRC Accounting Law if an enterprise/person, among other things, forges accounting documents or books or accounts, and/or provides false financial or accounting report. According to the relevant provisions in the PRC Accounting Law and as advised by the PRC Legal Advisors, if the Alleged Wrongdoing constitutes a breach of the relevant provisions and regulations, the enterprise and/or the executive officers and other responsible persons who are directly responsible may be notified of the Alleged Wrongdoing by the relevant governmental authorities and/or institutions, may be imposed with a certain amount of administrative fines (with a maximum up to RMB50,000 on the enterprise and a maximum up to RMB20,000 on the executive officers/responsible persons) or may result in the loss of accounting licence.

The Management notes the then weaknesses in the China Subsidiary's Old Sales Order System and the warehouse barcode system that allowed the Questionable November Transactions and the Questionable December Transactions to be input into the systems in an improper way. The Management has directed the China Subsidiary to implement various remedial actions with a view to enhancing the data integrity of the IT System and the related internal controls of the China Subsidiary.

The investments in all the other similar associates that were set up in 2010 for similar purposes had also ceased since late 2011 and all these associates were either closed down or disposed of to the joint venture partners by 2012, or are in the course of deregistration.

As advised by the PRC statutory auditors of the China Subsidiary, (i) according to the relevant PRC tax law, it states that an enterprise which sold goods or provided services shall issue VAT invoices to its customers at the latter's request, but it has not clearly stated that the enterprise must issue VAT invoices to the customers if the latter does not request for VAT invoices. It is a widespread practice in the PRC that the enterprise will only issue VAT invoices at the request of the customers; (ii) there is a specific column in the monthly VAT return to separately report the sales relating to the non-issuance of VAT invoices; (iii) the reported sales without VAT invoices issued had been properly disclosed in the monthly VAT returns in accordance with the format as set out in the VAT returns and the China Subsidiary had paid the relevant VAT to the PRC tax authorities; (iv) the above reporting of VAT and non-issuance of VAT invoices is a widespread practice in the PRC and under such circumstances, the PRC tax authorities have not challenged the same; (v) the relevant PRC tax authorities have no objection during the course of the China Subsidiary's monthly submission and filing of the VAT returns with the PRC tax authority; and (vi) the PRC statutory auditors of the China Subsidiary are of the view that there has been no under-reporting nor under-payment of VAT or other taxes arising from the non-issuance of the VAT invoices that the distributors did not request for the year ended 31 December 2011.

REMEDIAL ACTIONS TAKEN OR TO BE TAKEN BY THE COMPANY

In view of the key findings of the Review and the preliminary management responses above, the Company has taken or will take several remedial actions including, amongst other things, (a) backup all the China Subsidiary's emails to a separate hard disk on a timely basis; (b) backup the data contained in computers before they are formatted and re-assigned to new users; (c) keep updating the IT System so as to provide a better service and platform to its distributors as well as end customers, to improve its control on the distribution channels and the overall operational efficiency and to ensure its data integrity including that of production, distribution, inventory and orders; (d) monthly reconciling delivery records with the Logistic Company and strengthen the control of order deliveries; (e) restructure the Board (including the replacement of two executive Directors as announced by the Company dated 7 June 2013) and the senior management of the China Subsidiary; and (f) appoint PKF as an internal control advisor to carry out a follow-up review on the internal control system of the China Subsidiary. Further announcement(s) will be issued by the Company when the review report by PKF is finalised.

OBSERVATIONS OF THE SPECIAL REVIEW COMMITTEE

The Special Review Committee is deeply concerned with the findings in relation to the Review conducted by PwC and acknowledges the weaknesses in the internal control system of the China Subsidiary. Prior to the finalisation of the PwC report, the Special Review Committee has requested the Company to adopt measures to strengthen its corporate governance, management team and internal control system so as to address the Unresolved Issues raised by EY and also, to ensure that nothing like the Unresolved Issues will arise in the future. The Company has promptly taken actions to remedy the issues, for instance, strengthening internal control and information technology system, restructuring the Board and the senior management of the China Subsidiary (including the resignation of the chief executive officer of the Company and the China Subsidiary, Mr. Chen), as well as reporting the matter to the Bureau of Public Security and the Bureau of Finance. The Bureau of Finance has already commenced an investigation into the matter.

The Special Review Committee believes that the business of the Group is sound and does not identify any assets misappropriation in the Group. It considers that it is regrettable what might appear to be the acts or failings of certain personnel have caused serious harm to the Group.

RECENT DEVELOPMENTS OF THE GROUP

On 7 June 2013, Ausnutria (Dutch) entered into various agreements pursuant to which the Call Option was granted by DDI to Ausnutria (Dutch). Upon the exercise of the Call Option by Ausnutria (Dutch), Ausnutria (Dutch) will acquire from DDI the remaining 49% shareholding interests in Ausnutria Hyproca held by DDI, by the issuance of new shares of the Company representing approximately 17% of the enlarged issued share capital of the Company as consideration.

The Board would like to take this opportunity to express its apology to all the Shareholders for the prolonged suspension of trading in the Shares, which was mainly caused by the weaknesses in the internal control system of the China Subsidiary. The Board has been taking appropriate actions to implement the remedial suggestions by PKF, the internal control advisors and will continue to carry out restructuring on the management to ensure adequate and satisfactory internal control and corporate governance for the Group in the future.

Reference is made to various announcements published by the Company between 29 March 2012 and 31 July 2013 in relation to, among other things, the Unresolved Issues raised by EY in the EY Letter and the Review carried out by PwC, which was appointed by King & Wood Mallesons who are the legal advisors to the Special Review Committee, in respect of the Unresolved Issues. PwC issued the report addressed to King & Wood Mallesons and copied to the Special Review Committee on 12 August 2013 relating to the Review.

The Board wishes to provide further details in relation to (i) summary of key findings of the Review as set out in PwC's report dated 12 August 2013; (ii) the preliminary responses from the Management in relation to the Review; (iii) remedial actions taken or to be taken by the Company; (iv) observations of the Special Review Committee; and (v) recent developments of the Group.

SUMMARY OF KEY FINDINGS OF THE REVIEW

(A) Authenticity of delivery notes relating to certain sale transactions of the China Subsidiary in December 2011

During its audit process for 2011, EY raised doubts over the authenticity of delivery notes relating to certain sale transactions of the China Subsidiary in December 2011.

The Special Review Committee, upon its establishment, was concerned with the above issue and accordingly, took the initiative to request the Management to carry out reviews to, among other things, quantify the financial impact in relation to the Unresolved Issues. Based on its review, the Management informed the Special Review Committee that goods covered by the Questionable December Transactions had not yet been delivered to the distributors before the end of 2011 and accordingly, the Questionable December Transactions should not be recognised as sales in December 2011.

Upon the commencement of the Review, the Management provided PwC with a list of the Questionable December Transactions with an aggregate amount of sales of approximately RMB123 million (equivalent to approximately RMB143.5 million (inclusive of 17% VAT)). PwC reviewed the underlying documents, including but not limited to, warehouse packing lists (出庫單), delivery notes (配送單), return receipts (配送單回單) and subcontractors' delivery notes (托運單) relating to samples of the Questionable December Transactions and samples of delivery notes (配送單) and return receipts (配送單回單) of the transactions for other months in 2011. PwC found that samples of the Questionable December Transactions appeared to differ from samples of the transactions for other months in 2011 in various ways, such as signatures of the Logistic Company's representative(s) and the pattern of the return receipts (配送單回單) by distributors in some of the delivery notes (配送單).

Based on PwC's interview with certain personnel of the China Subsidiary, PwC was informed that certain underlying documents relating to the Questionable December Transactions were prepared under the direction of the Ex-China CFO who had left the China Subsidiary in or around April 2012. These transactions should not have been recognised as sales of the China Subsidiary in December 2011.

As a result of its findings relating to the Questionable December Transactions, PwC also reviewed samples of transactions for the period from January to November 2011 and identified the Questionable November Transactions amounting to approximately RMB11.5 million (inclusive of 17% VAT) and other questionable transactions for the period form January to November in 2011 amounting to approximately RMB39.6 million (inclusive of 17% VAT) with similar patterns to the Questionable December Transactions. Please also refer to the paragraph headed "(F) Other observations by PwC –other questionable transactions for the period from January to November in 2011" below for other matters relating to the above findings.

(B) Integrity of the Old Sales Order System and the warehouse barcode system

During its audit process for 2011, EY raised doubts as to why the Questionable December Transactions were recorded in the Old Sales Order System, which the China Subsidiary had ceased to use since October 2011 as opposed to the New Sales Order System which was rolled out in or around October 2011. In addition, EY also noted that the data in the Old Sales Order System relating to the Questionable December Transactions had been manually altered and the responsible personnel in the China Subsidiary could not provide satisfactory explanation.

In addition, EY was informed that the dispatch of the Questionable December Transactions could not be substantiated by the data in the China Subsidiary's warehouse barcode system, which was designed to record all goods dispatched from the China Subsidiary's warehouse.

Based on its Review, PwC was informed that the hard disk which hosted the Old Sales Order System had broken down in March 2012 and, in line with the China Subsidiary's usual practice, there was no backup of this data. As a result, PwC could not retrieve the data directly from the Old Sales Order System during the Review. As an alternative, PwC compared two excel files containing the China Subsidiary's December 2011 orders data which EY retrieved directly on 31 January 2012 and 13 March 2012, respectively, during their audit field work i.e. before the Old Sales Order System had broken down in March 2012. There were a number of inconsistencies between the data contained in the two excel files, including but not limited to, the number and amount of orders, order status, delivery status and the data format. In view of this, PwC could not be sure if it could ascertain the correct sales order position of the China Subsidiary in December 2011.

Based on its Review and its interview with the IT Director, PwC further noted that the warehouse barcode system, which was used to record inventory movements in and out of the China Subsidiary's warehouse, had a system backdoor which allowed technicians to perform system maintenance works. The Ex-China CFO had instructed the developer of the warehouse barcode system to alter the data in the warehouse barcode system for December 2011 with a view to matching the data previously provided to EY. However, PwC was not able to interview the Ex-China CFO regarding the above as the latter had left the China Subsidiary in or around April 2012.

(C) Discrepancy in the quantity of goods sold and delivered between the China Subsidiary's records and those provided by the Logistic Company during January to November 2011

During the Review, PwC (i) reviewed the monthly summary of deliveries from January 2011 to November 2011 attached to the vouchers (which were prepared by the Logistic Company as informed by the staff of the logistic department of the China Subsidiary) of the relevant delivery payment records of the China Subsidiary, and (ii) compared the monthly quantity of goods delivered with the quantity of goods delivered in the Accounting Records. PwC noted that the aggregate quantity of goods delivered in the monthly summary of deliveries during that period from January 2011 to November 2011 was 18.7% higher than that shown in the Accounting Records.

In addition, PwC obtained the Warehouse Records for the year ended 2011 and compared the same with the Accounting Records. PwC noted that the aggregate quantity of finished goods dispatched in the year ended 2011 pursuant to the Warehouse Records was approximately 10% lower than that in the Accounting Records. The relevant personnel of the China Subsidiary informed PwC that the discrepancy was mainly due to the Questionable December Transactions and the information contained in the relevant Warehouse Records and the Accounting Records was prepared under the instruction of the Ex-China CFO. As mentioned above, PwC was not able to reconcile the differences between the above records nor interviewed the Ex-China CFO regarding the above as the latter had left the China Subsidiary in or around April 2012.

(D) Questionable transactions with the Associate

PwC was informed that the Associate was jointly set up by the China Subsidiary and three of its senior sales staff (all of which were not connected persons of the Group as defined under the Listing Rules) on 1 September 2010 with a view to incentivising the sales team members to help the China Subsidiary to better penetrate the local market not yet well covered by the China Subsidiary's distributors and to increase the China Subsidiary's market share. PwC was informed that the Associate was subsequently also used, without the approval of the Board, in consolidating orders from small distributors in order to obtain a better discount from the China Subsidiary for bulk purchases.

As part of the order consolidation process, amounts were first received by the Associate as prepayments/deposits from the distributors. The Associate then consolidated the amounts received from the distributors and transferred the same to the China Subsidiary from time to time. The China Subsidiary would either account for the amounts received as prepayments/deposits from the distributors or payments of receivables, depending on whether goods had been dispatched to the distributors.

PwC identified that a total sum of approximately RMB31.9 million was transferred from the Associate to the China Subsidiary in 2011. PwC selected ten transactions with the highest transaction values (totaling approximately RMB29.7 million) involving, fund transfers and seven transactions with the highest transaction amounts (totaling approximately RMB27.1 million) involving amounts booked against the relevant distributors' receivables/deposits accounts for review. PwC noted that the operations appeared to be consistent with the explanations given by the management of the China Subsidiary.

(E) Other observations by PwC – material difference between reported sales and amount of VAT invoices issued

During the Review, PwC noted that the sales reported in the VAT returns of the China Subsidiary from January 2011 to December 2011 filed with the PRC tax authority were consistent with the monthly sales as set out in its financial statements over the same period. Due to the Questionable December Transactions which should not have been booked as sales, the China Subsidiary had paid more VAT in 2011 than it would otherwise have been required to pay in 2011. However, PwC noted that the China Subsidiary only issued the VAT invoices to customers totaling approximately RMB236.5 million in 2011, which was approximately 50% of the reported sales for 2011. If the value of the Questionable December Transactions totaling approximately RMB123 million (exclusive of 17% VAT) were to be excluded from the calculation, the remaining VAT invoices, which were issued, accounted for only approximately 68% of the reported sales for 2011.

(F) Other observations by PwC – other questionable transactions for the period from January to November in 2011

During the Review, in addition to confirming the extent of the Questionable December Transactions, PwC also found that there were Questionable November Transactions amounting to approximately RMB11.5 million (inclusive of 17% VAT) and there were other transactions amounting to approximately RMB39.6 million (inclusive of 17% VAT) with similar patterns to those of the Questionable December Transactions for the months from January to November in 2011.

PwC reviewed a total of 705 orders totaling approximately RMB98.9 million (inclusive of 17% VAT) with order numbers starting with "S" dated between March to September 2011. These include (i) 199 orders totaling approximately RMB39.1 million (inclusive of 17% VAT) with similar patterns to those of the Questionable December Transactions; (ii) 72 orders totaling approximately RMB22.53 million (inclusive of 17% VAT) relating to goods physically picked up by distributors, in respect of which no delivery notes had been issued and hence no delivery notes can be made available to PwC for review; (iii) 143 orders totaling approximately RMB20.54 million (inclusive of 17% VAT) with delivery notes which were not made available to PwC for review; and (iv) 291 orders totaling approximately RMB16.75 million (inclusive of 17% VAT) with patterns seeming different from the Questionable December Transactions.

PwC also reviewed a total of 46 orders totaling approximately RMB2.4 million (inclusive of 17% VAT) with order numbers starting with "8" in September and October 2011. These include (i) 16 orders totaling approximately RMB0.5 million (inclusive of 17% VAT) with similar patterns to those of the Questionable December Transactions; (ii) an order with an amount of RMB40,000 (inclusive of 17% VAT) relating to goods physically picked up by the distributor, in respect of which no delivery note had been issued and hence no delivery note can be made available to PwC for review; (iii) two orders totaling RMB10,000 (inclusive of 17% VAT) with delivery notes of which were not made available to PwC for review; and (iv) 27 orders totaling approximately RMB 1.9 million (inclusive of 17% VAT) with patterns seeming different from the Questionable December Transactions.

(G) Other observations by PwC – Electronic Data Review

Based on PwC's understanding of the roles and responsibilities of various personnel, PwC identified a total of 21 staff of the Group who might have been involved or have had the knowledge of the matter to conduct the Electronic Data Review.

PwC was unable to review the data contained in the laptop computer of Chen Yuanrong ("**Mr. Chen**"), the former executive Director and chief executive officer of the Company and the China Subsidiary, since the laptop computer of Mr. Chen, together with certain personal belongings and valuables of Mr. Chen and his family, were stolen during a burglary at his home on 8 May 2012. Mr. Chen reported the burglary to a branch of the Bureau of Public Security in Changsha Municipal of Changsha (長沙市公安局) (the "**Bureau of Public Security**") on the same date.

PwC was informed that no computer was assigned by the Company or the China Subsidiary to Ng Siu Hung ("**Ms. Ng**"), a current executive Director, for use in the China Subsidiary or the Company.

PwC was informed that the computers of Wu Yueshi ("**Mr. Wu**"), a former executive Director, and Yan Weibin ("**Mr. Yan**"), a current executive Director, belonged to a PRC listed company (the "**PRC Listco**") but not the Group and certain data contained in their computers was price sensitive information relating to the PRC Listco. As an alternative, PwC proposed that (i) Mr. Wu provided PwC with an access to his computer in the presence of his assistant and the staff from the PRC Listco. PwC reviewed the file names in Mr. Wu's computer to identify any documents relating to the Review; and (ii) Mr. Yan identified all the documents in his computer so that PwC could review these documents, which he believed represented all the documents that were relevant to the Review. Mr. Wu and Mr. Yan agreed and provided PwC with free access to Mr. Wu's computer and the documents identified from Mr. Yan's computer, respectively. PwC cannot ensure the completeness of the documents from the computers of Mr. Wu and Mr. Yan which may be relevant to the Review.

PwC was also unable to review the data contained in the computers of the Ex-China CFO as the laptop computer used by him for work purpose belonged to him personally and was not made available to the Group or PwC for inspection after he ceased employment with the China Subsidiary in or around April 2012. Furthermore, in line with the China Subsidiary's usual administrative practice, the desktop computer of the Ex-China CFO had been reformatted following his departure in or around April 2012 and was re-assigned to another staff.

PwC was provided with user names and passwords of the email accounts of various staff, including Mr. Wu, Mr. Chen, Mr. Yan and Ms. Ng, and obtained a copy of the emails in these email accounts during PwC's visits between 20 June 2012 and 28 June 2012. However, PwC was unable to ascertain if any emails related to the Unresolved Issues had been deleted from these email accounts. PwC was also informed that the China Subsidiary did not have its own email server. Its email hosting services were provided by an external email service provider and that employees of the China Subsidiary accessed their emails through webmail. As the external email service provider did not provide any backups or archival services for the China Subsidiary's emails, no backups or archival of emails were available.

PwC was not provided with access to the emails in the email account for the Ex-China CFO as his email account was terminated on 31 March 2012 when he was re-designated from the position of chief financial officer of the China Subsidiary to an assistant of the chief executive officer of the China Subsidiary and no data backups were arranged prior to the account termination.

Based on the procedures performed, PwC did not identify any documents or evidence which indicates that any of the then executive Directors, namely Mr. Yan, Mr. Wu, Mr. Chen and Ms. Ng has any direct involvement in the matter.

However, PwC's work was subject to the above significant limitations, which have limited their ability to determine the level of involvement of the Company's senior management. PwC's findings could have been significantly different had PwC's work not been subject to the above limitations.

During the review of responsive documents and emails after applying the keyword list, which was agreed by PwC and EY, PwC noted certain potentially sensitive emails or documents which might be relevant to the Unresolved Issue or other questionable transactions, including:–

(i) some excel spreadsheets contained in two emails (both dated 3 May 2012) which suggested that there were other excel records maintained by the China Subsidiary relating to the balances with distributors for the period from 31 December 2009 to 31 December 2011 and such data might differ from those included in the finance records;

(ii) a summary of sales orders of the China Subsidiary from January to July 2011 contained in an email dated 3 January 2012 which indicated that the transaction value and the Logistic Company delivery notes numbers of certain sales transactions had been amended, added or deleted;

(iii) inventory summary and reconciliation records in the computer of one of the accounting staff appeared to contain questionable inventory records for the period from July 2009 to February 2011, which include the wording of "empty transfers" of finished goods and raw materials; and

(iv) several emails which suggested that (a) there were inconsistencies in the Accounting Records and the actual underlying documents (pursuant to an email dated 15 March 2012); (b) there were proposed arrangements to deliver goods to the distributors and to allow the distributors to return the goods upon the completion of EY's audit so that the physical inventories as stored in the warehouse of the China Subsidiary would match with the Accounting Records (pursuant to an email dated 17 April 2012); and (c) attempts were made by certain staff of the China Subsidiary to influence the distributors in answering questions that EY might raise during the 2011 audit (pursuant to two emails dated 8 February 2012 and 10 February 2012).

Based on the above findings, PwC interviewed various personnel of the China Subsidiary who might have been involved or have knowledge of the above identified issues. However, they failed to provide any satisfactory explanations in relation to the issues noted, or clarified that they had no involvement or limited knowledge of the matters.

PRELIMINARY MANAGEMENT RESPONSES

(i) The Questionable December Transactions, the Questionable November Transactions and the other questionable transactions for the period between January to November in 2011

The Special Review Committee, upon its establishment, was concerned with the Unresolved Issues and accordingly, took the initiative to request the Management to carry out reviews to, among other things, quantify the financial impact in relation to the Unresolved Issues. The Management identified the Questionable December Transactions and confirmed that all the Questionable December Transactions should not have been recognised as sales in December 2011 as the corresponding goods had not been dispatched on or before 31 December 2011. Subsequently, as a result of the findings by PwC and Management follow-up inquiry on the Questionable November Transactions, the Management confirmed that all the Questionable November Transactions should not be recognised as sales in 2011 as the corresponding goods had also not been dispatched. The Management believes that the omission in identifying the Questionable November Transactions during its preliminary review carried out before the appointment of PwC is likely to be an oversight because the Management was only requested to quantify the amount relating to the December orders in 2011 at that time.

The Management has reviewed the reasons why the supporting documents for the 143 orders with order numbers starting with "S" and two orders with order numbers starting with "8" were not available to PwC during the Review. It seems that the delivery notes of these 145 orders were misplaced but the Management is trying its best efforts to locate the relevant delivery notes.

In view of the above and the findings of the Review by PwC, the Management has attempted to ascertain explanations in respect of the Questionable December Transactions, the Questionable November Transactions and the other questionable transactions for the period from January to November in 2011 noted by PwC. However, as a number of employees who might have been involved in these questionable transactions had since left the China Subsidiary and the information gathered from other employees did not appear to be conclusive, the Management is not able to conclude its findings with any satisfactory explanations for these questionable transactions.

To ascertain the potential financial impact of the Unresolved Issues and these questionable transactions mentioned above on the China Subsidiary as at 31 December 2011, the Management has carried out certain roll-back procedures on inventories and trade balances. The Management is in the process of re-assessing the financial position of the China Subsidiary as at 31 December 2011 based on the results of the above procedures having been performed.

On 12 April 2013, certain Company representatives accompanied by the PRC Legal Advisors reported these matters (the "**Alleged Wrongdoing**") to the Bureau of Public Security and the Bureau of Finance in Hunan Province (湖南省財政廳) (the "**Bureau of Finance**"). According to the officers of the Bureau of Public Security, they would not deal with the Alleged Wrongdoing and commence any investigation into the Alleged Wrongdoing at this stage as there was no report of misappropriation of assets of the China Subsidiary arising from such Alleged Wrongdoing. On the other hand, the officers of the Bureau of Finance have accepted the lodgment of the Alleged Wrongdoing and have commenced, and are continuing their investigation. The China Subsidiary is extending its full co-operation to the Bureau of Finance.

As advised by the PRC Legal Advisors, it is an offence under the PRC Accounting Law if an enterprise/person, among other things, forges accounting documents or books or accounts, and/or provides false financial or accounting report.

According to the relevant provisions in the PRC Accounting Law and as advised by the PRC Legal Advisors, if the Alleged Wrongdoing constitutes a breach of the relevant provisions and regulations, the enterprise and/or the executive officers and other responsible persons who are directly responsible may be notified of the Alleged Wrongdoing by the relevant governmental authorities and/or institutions, may be imposed with a certain amount of administrative fines (with a maximum up to RMB50,000 on the enterprise and a maximum up to RMB20,000 on the executive officers/responsible persons) or may result in the loss of accounting licence. The Board is of the view that this will not have a significant negative financial impact on the China Subsidiary, the Company and the Group as a whole.

(ii) Integrity of the information technology system and the records of the China Subsidiary

The Management notes the then weaknesses in the China Subsidiary's Old Sales Order System and the warehouse barcode system that allowed the Questionable November Transactions and the Questionable December Transactions to be input into the systems in an improper way. The Management has directed the China Subsidiary to implement various remedial actions (details of which are set out in the paragraph headed "Remedial Actions Taken or to be Taken by the Company" below) with a view to enhancing the data integrity of the IT System and the related internal controls of the China Subsidiary.

Apart from the issue relating to the data integrity of the IT System, as most of the inventory records of the logistic department of the China Subsidiary were made in excel format and certain inventory delivery documents have been improperly altered, the Management has doubts as to the completeness and the accuracy of the delivery records kept by the logistic department of the China Subsidiary upon which the China Subsidiary had, to a certain extent, relied in the preparation of the Accounting Records in respect of the revenue recognition and the corresponding cost of sales.

Further, due to the passage of time and lack of data preservation system, the Logistic Company engaged by the China Subsidiary separately informed EY, PwC and the Management that the data supporting its deliveries to the China Subsidiary was no longer available due to its own internal record keeping practices. Therefore, the Management was unable to verify the accuracy and compare the records kept by the finance department and the logistic department of the China Subsidiary with those of the Logistic Company. In view of this and as a result of the above inquiry by the Management, relevant remedial internal control policies have already been implemented by the China Subsidiary.

(iii) Transactions with the Associate

For the questionable transactions with the Associate, the management of the China Subsidiary noted that the operation of the Associate did not achieve the original purpose of setting up the same. Furthermore, the order consolidation process was initiated without having sought approval from the Board. The order consolidation process also highlighted certain operational and control weaknesses in the Associate's arrangement. Accordingly, the management of the China Subsidiary and the other shareholders of the Associate decided to deregister the Associate in late 2011 and the Associate was officially deregistered in May 2012. The investments in all the other similar associates that were set up in 2010 for similar purposes had also ceased since late 2011 and all these associates were either closed down or disposed of to the joint venture partners by 2012, or are in the course of deregistration.

(iv) VAT invoices issues

In respect of the material difference as identified by PwC between the reported sales and the VAT amounts in the VAT invoices issued, the Management has confirmed that the China Subsidiary's monthly sales revenue as set out in its financial statements were consistent with the amounts reported and taxes were paid to the PRC tax authorities as set out in the monthly VAT returns.

According to the PRC tax law, enterprise is required to issue VAT invoices upon sale of goods at the request of its customers.

As advised by the PRC statutory auditors of the China Subsidiary, (i) according to the relevant PRC tax law, it states that an enterprise which sold goods or provided services shall issue VAT invoices to its customers at the latter's request, but it has not clearly stated that the enterprise must issue VAT invoices to the customers if the latter does not request for VAT invoices. It is a widespread practice in the PRC that the enterprise will only issue VAT invoices at the request of the customers; (ii) there is a specific column in the monthly VAT return to separately report the sales relating to the non-issuance of VAT invoices; (iii) the reported sales without VAT invoices issued had in fact also been properly disclosed in the monthly VAT returns in accordance with the format as set out in the VAT returns and the China Subsidiary had paid the relevant VAT to the PRC tax authorities; (iv) the above reporting of VAT and non-issuance of VAT invoices is a widespread practice in the PRC and under which circumstances, the PRC tax authorities have not challenged the same; (v) the relevant PRC tax authorities have no objection during the course of the China Subsidiary's monthly submission and filing of the VAT returns with the PRC tax authority; and (vi) the PRC statutory auditors of the China Subsidiary are of the view that there has been no under-reporting nor under-payment of VAT or other taxes arising from the non-issuance of the VAT invoices that were not requested by the distributors for the year ended 31 December 2011.

REMEDIAL ACTIONS TAKEN OR TO BE TAKEN BY THE COMPANY

In view of the above, the Company has taken or will take several remedial actions as follows to prevent similar incidents happen in the future.

(a) Policy relating to email services of the China Subsidiary

There had been no backup of all email messages of the employees of the China Subsidiary maintained by the external email service provider.

In view of this deficiency, the China Subsidiary has already implemented a new policy whereby all the China Subsidiary's emails are now diverted to a designated email account. The emails received in this designated account are automatically downloaded into a computer on a daily basis, which will then be backed up to a separate hard disk on a monthly basis.

(b) Policy relating to re-assignment of computers of the China Subsidiary

The Management notes the weaknesses of the policy in relation to the formatting of a computer without backup before re-assigning to a new user and that the archive process has not been vigilant. As a result, the China Subsidiary has implemented a new policy that the information technology department of the China Subsidiary will backup the data contained in the computers before they are formatted and re-assigned to new users with a view to ensuring that data in such computers is kept before they are formatted.

(c) Functioning and maintenance of the information technology system

Starting from the second quarter of 2011, the China Subsidiary commenced the development of the IT System in order to provide a better service and platform to its distributors as well as end customers and to improve its control on the distribution channels and the overall operational efficiency. The IT System was installed and implemented in various phases since October 2011 and comprised a number of modules, including but not limited to, production controls module, order placing module, inventory control module and distributors database module. The IT System replaced the Old Sales Order System in October 2011 and has been gradually enhanced and improved since the identification of the Questionable December Transactions by the Management.

The IT System has the following features:–

– *Production tracking system*

Each tin of milk powder produced by the China Subsidiary now has a unique barcode which allows the China Subsidiary to trace back all the production details should there be any quality issue arise subsequently.

– *Distribution tracking system*

In addition to the production tracking system as mentioned above, the China Subsidiary now also has a tracking system to monitor the distribution progress and logistic status to the retail consumers. This implementation is also in line with the new regulations for infant formula in the dairy industry of the PRC.

– *Inventory control*

The inventory and order placing modules of the IT System are now synchronised with the warehouse barcode system on a daily basis in order to strengthen the control of inventory movements.

Further, the management of the China Subsidiary has conducted monthly stocktake by members of staff independent from the warehouse operations and reconciled the results of the stocktake with the inventory data as set out in the IT System and the Accounting Records on a monthly basis.

– *Distributors database*

Each distributor has an account maintained in the IT System which is protected by unique passwords. All the orders placed by the distributors are now required to be put through their respective accounts online. The distributors are required to confirm the receipts of products online upon the receipt of their orders.

Further, the distributors are required to confirm their orders and trading balances with the China Subsidiary online on a monthly basis.

The Board believes the above features enhance the capability of the IT System in ensuring the data integrity. By imposing such data verification procedures, the Management is of the view that the data integrity of the IT System can be assured.

In order to prevent similar incidents as identified in the Review, the IT System and other operational computer systems are now backed up on daily basis. Besides, it is now the China Subsidiary's policy that any alternation to the data in the IT System is subject to consent from the chief executive officer and the IT Director of the China Subsidiary. In addition, any changes in the database of the IT System are now monitored and recorded in a separate log file in the IT System as audit trail for better safeguarding of the integrity of the data recorded in the IT System.

The Management is of the view that the IT System now possesses an efficient and effective order processing system capability.

(d) Policy relating to reconciliation of the delivery records with the Logistic Company and the China Subsidiary

The China Subsidiary has requested and the Logistic Company has agreed to safe-keep all delivery documents relating the services provided by the Logistic Company to the China Subsidiary for a period of not less than three years. The China Subsidiary has also implemented policy in strengthening its monthly reconciliation of delivery records with the Logistic Company. The Management is of the view that the online confirmation by distributors upon the receipt of their goods in the IT System has also provided an effective way in strengthening the control of order deliveries.

(e) The restructuring of the Board and the senior management of the China Subsidiary

In view of the Unresolved Issues, the Company has taken initiatives to restructure the Board and the senior management of the China Subsidiary with a view to enhancing the corporate governance while minimising the impact to the day-to-day operations of the China Subsidiary. Reference is made to the announcement of the Company dated 7 June 2013 in respect of the change of directorship of the Company.

A summary of the completed management restructuring is as follows:

(i) Mr. Wu, a former executive Director and the chairman of the Board, has resigned as the executive Director and the chairman of the Board on 7 June 2013 due to his commitment in his other personal investments and businesses on a full-time basis as well as his active involvement in social community and political works, which substantially consumes his time and energy.

(ii) Mr. Chen, a former chief executive officer of the Company and the China Subsidiary and executive Director, has resigned as an executive Director and chief executive officer of the Company and the China Subsidiary on 7 June 2013 due to the public censure to the Company and him by the Stock Exchange on 28 May 2013 in relation to, among other things, the Company's failure in making timely disclosure in relation to the deterioration of the Group's financial performance in the second half of the financial year 2010.

(iii) In order to minimise the impact to the daily operation of the Company caused by the restructuring of the management, Mr. Yan, an executive Director, has been appointed in place of Mr. Wu as the chairman of the Board on 7 June 2013 as he has the knowledge of the business and management of all the operating subsidiaries of the Company and he commits to supervise the Group's operation on a full-time basis.

(iv) Mr. Bartle van der Meer, who has ample international experience in banking, investment and paediatric nutritional products, has been appointed as an executive Director and in place of Mr. Chen as chief executive officer of the Company with effect from 7 June 2013.

(v) Mr. Dai Li, a holder of doctorate degree in economics and a researcher served in the China Subsidiary on a part time basis in respect of the dairy industry, has been appointed as a non-executive Director with effect from 7 June 2013.

(vi) The audit director, the assistant general manager of the China Subsidiary and the head of the sales department of the China Subsidiary, who might have been involved in the Unresolved Issues, have left the China Subsidiary. The China Subsidiary is in the process of seeking appropriate replacement.

(vii) The accountant-in-charge of the China Subsidiary's books and records has been replaced by a new employee since 2012.

(f) Appointment of internal control advisor

The Company has appointed PKF as an internal control advisor in April 2012. PKF has reviewed the internal control system of the China Subsidiary, which relate to the Unresolved Issues. The Company has adopted PKF's advice and implemented remedial actions. However, as at the date of this announcement, the follow-up review by PKF has not been finished yet. Further announcement(s) will be issued by the Company when the review report by the PKF is finalised.

OBSERVATIONS OF THE SPECIAL REVIEW COMMITTEE

The Special Review Committee is deeply concerned with the findings in relation to the Review conducted by PwC and acknowledges the weaknesses in the internal control system of the China Subsidiary. Prior to the finalisation of the PwC report, the Special Review Committee has requested the Company to adopt measures to strengthen its corporate governance, management team and internal control system so as to address the Unresolved Issues raised by EY and also, to ensure that nothing like the Unresolved Issues will arise in the future. The Company has promptly taken actions to remedy the issues, for instance, strengthening internal control and information technology system, restructuring the Board and the senior management of the China Subsidiary (including the resignation of the chief executive officer of the Company and the China Subsidiary, Mr. Chen), as well as reporting the matter to the Bureau of Public Security and the Bureau of Finance. The Bureau of Finance has already commenced an investigation into the matter.

The Special Review Committee believes that the business of the Group is sound and does not identify any assets misappropriation in the Group. It considers that it is regrettable what might appear to be the acts or failings of certain personnel have caused serious harm to the Group.

RECENT DEVELOPMENTS OF THE GROUP

The Board is of the view that the Group's business in the production, marketing and distribution of high-end and premium paediatric nutrition products has a prosperous future. Its sole reliance on imported milk products from third parties to the PRC in the past has been a significant weakness.

On 30 June 2011, the Company, through its wholly-owned subsidiary, Ausnutria (Dutch), subscribed for approximately 19.44% of the issued share capital of Ausnutria Hyproca at the consideration of Euro 6,282,500 (equivalent to approximately HK$70.0 million).

On 19 July 2011, Ausnutria (Dutch) purchased additionally approximately 31.56% shareholding interests in Ausnutria Hyproca at the consideration of Euro 10,369,000 (equivalent to approximately HK$115.5 million). The acquisition was completed in October 2011 and following which, the Company is interested in 51% shareholding interests in Ausnutria Hyproca. Ausnutria Hyproca together with its subsidiaries are principally engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products. Ausnutria Hyproca has its own formula in milk powder productions and is a leading producer of goat milk powder in the world.

On 7 June 2013, Ausnutria (Dutch) entered into various agreements, pursuant to which the Call Option was granted by DDI to Ausnutria (Dutch). Upon the exercise of the Call Option by Ausnutria (Dutch), Ausnutria (Dutch) will acquire from DDI the remaining 49% shareholding interests in Ausnutria Hyproca held by DDI, by the issuance of new shares of the Company representing approximately 17% of the enlarged issued share capital of the Company as consideration.

To facilitate the integration of the two business segments of the Group and with an aim to strengthen the management of the Company with international perspective, Mr. Bartle van der Meer, one of the shareholders and directors of Ausnutria Hyproca and an experienced banker, was appointed as an executive Director and chief executive officer of the Company on 7 June 2013.

Despite the above investment activities which utilised a portion of the Group's cashflows, the Company would like to report that as of 30 June 2013, the Group had a total of cash and bank balances (including bank time deposits) of over RMB750 million (30 June 2011:RMB638.4 million, being the aggregate of the latest published figures on cash and bank balances of RMB438.4 million and the held-to-maturity investments of RMB200.0 million as set out in its interim report of 2011). EY is in the process of finalising the audit of the Company for the year ended 31 December 2011. Subject to the progess of the audit work to be completed, the Company has been advised that the auditors' report for the year ended 31 December 2011 is expected to be completed by September 2013. The Company will issue a relevant results announcement and despatch the annual report in due course.

The Board would like to take this opportunity to express its apology to all the Shareholders for the prolonged suspension of trading in the Shares, which was mainly caused by the weaknesses in the internal control system of the China Subsidiary. The Board has been taking appropriate actions to implement the remedial suggestions by PKF, the internal control advisors, and will continue to carry out restructuring on the management to ensure adequate and satisfactory internal control and corporate governance for the Group in the future.

At the Company's request, trading in the Shares was suspended from 9:00 a.m. on 29 March 2012, and will remain suspended until further notice. The Company has submitted the PwC report in relation to its findings on the Review to the Stock Exchange and the Stock Exchange is in the process of reviewing such report. The resumption of trading in the Shares can only take place after, among other things, the Company having addressed all the comments from the Stock Exchange in respect of such report.

DEFINITIONS

In this announcement, the following terms shall have the meanings set opposite them unless the context otherwise requires:

"Accounting Records"	the accounting records of the monthly quantity of goods delivered kept by the finance department of the China Subsidiary
"Associate"	an associate company of the China Subsidiary which is mentioned in one of the Unresolved Issues
"Ausnutria (Dutch)"	Ausnutria Dairy (Dutch) Coöperatief U.A., an indirect wholly-owned subsidiary of the Company incorporated under the laws of the Netherlands, which is interested in 51% shareholding interests in Ausnutria Hyproca
"Ausnutria Hyproca"	Ausnutria Hyproca B.V. (formerly known as Hyproca Dairy Group B.V.), a private company with limited liability incorporated under the laws of the Netherlands and is owned as to 51% by Ausnutria (Dutch) and 49% by DDI
"Board"	the board of Directors
"Call Option"	the call option granted by DDI to Ausnutria (Dutch) pursuant to the Call Option Agreement
"Call Option Agreement"	the call option agreement dated 7 June 2013 entered into, among others, Ausnutria (Dutch) and DDI in relation to the granting of the Call Option by DDI to Ausnutria (Dutch)

"China Subsidiary"	Ausnutria Dairy China Co., Ltd* (澳優乳業(中國)有限公司), a company established in the PRC which is an indirectly wholly-owned subsidiary of the Company and the principal operating company of the Company's business in the PRC
"Company"	Ausnutria Dairy Corporation Ltd (澳優乳業股份有限公司), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1717)
"DDI"	Dutch Dairy Investments B.V., a private company with limited liability incorporated under the laws of the Netherlands, which is interested in 49% shareholding interests in Ausnutria Hyproca as at the date of this announcement
"Director(s)"	the director(s) of the Company
"Electronic Data Review"	the electronic data review conducted by PwC during the Review by identifying and reviewing the data contained in the computers and emails of the 21 selected staff of the China Subsidiary and the then executive Directors
"Ex-China CFO"	the former chief financial officer of the China Subsidiary, who left the China Subsidiary in or around April 2012
"EY"	Ernst & Young, the auditors of the Company
"EY Letter"	the letter dated 29 March 2012 received from EY regarding, among other things, the Unresolved Issues and the status of the audit work carried out by EY in relation to the annual results of the Group for the financial year ended 31 December 2011
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IT Director"	the head of information technology department of the China Subsidiary
"IT System"	the new information technology system, which includes the New Sales Order System and the warehouse barcode system, developed and put into use by the China Subsidiary in various phases starting from the fourth quarter of 2011
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Logistic Company"	the independent logistic servicing company used by the China Subsidiary involved in the Unresolved Issues as stated in the EY Letter

"Management"	the management of the Group, consisting the chief financial officer of the Company and several senior managers of the China Subsidiary who were not associated in any way in the Unresolved Issues
"New Sales Order System"	the new order system in respect of the sales of the China Subsidiary which the China Subsidiary rolled out in or around October 2011
"Old Sales Order System"	the original order system in respect of the sales of the China Subsidiary which the China Subsidiary had ceased to use since October 2011
"PKF"	PKF Consulting Inc, being appointed as an internal control advisor of the Company in relation to the Unresolved Issues
"PRC"	the People's Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Accounting Law"	the PRC Accounting Law (中華人民共和國會計法) and the Enterprise Financial and Accounting Reporting Regulations (企業財務會計報告條例)
"PRC Legal Advisors"	the China Subsidiary's PRC legal advisors
"PwC"	PricewaterhouseCoopers Limited, an independent professional advisor appointed by King & Wood Mallesons, who are the legal advisors of the Special Review Committee, to carry out the Review in respect of the Unresolved Issues. PwC issued the report addressed to King & Wood Mallesons and copied to the Special Review Committee on 12 August 2013 relating to the Review
"Questionable December Transactions"	certain sale transactions of the China Subsidiary in December 2011 (amounting to approximately RMB123 million (equivalent to approximately RMB143.5 million inclusive of 17% VAT)) with order numbers starting with "6", in which the underlying documents including but not limited to warehouse packing lists (出庫單), delivery notes (配送單), return receipts (配送單回單) and subcontractors' delivery notes (托運單) etc. appeared to be different from samples of the transactions for other months in 2011
"Questionable November Transactions"	additional 25 questionable transactions of the China Subsidiary with orders dated on 30 November 2011 (amounting to approximately RMB11.5 million (inclusive of 17% VAT)) with order numbers starting with "6"

"Review"	the forensic review carried out by PwC which was appointed by King & Wood Mallesons who are the legal advisors to the Special Review Committee in relation to the Unresolved Issues
"Shares"	the ordinary shares of the Company
"Shareholders"	shareholders of the Company
"Special Review Committee"	a special review committee established by the Board to investigate into the Unresolved Issues
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Unresolved Issues"	a number of unresolved issues identified in the EY Letter, details of which were published in the announcement of the Company dated 28 June 2013
"VAT"	value-added-tax in the PRC
"Warehouse Records"	the inventory movement records kept by the logistic department of the China Subsidiary
"%"	per cent
"Euro"	the legal currency of the member states of the European Union
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

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

Changsha City, the People's Republic of China, 18 August 2013

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung, one non-executive Director, namely, Mr. Dai Li, and three independent non-executive Directors, namely, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.

* *for identification purpose only*

In case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.