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

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澳优
Ausnutria

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) SHARE AND CONNECTED TRANSACTION REGARDING THE HBC ACQUISITION; (2) AMENDMENTS OF TERMS OF DISCLOSEABLE AND CONNECTED TRANSACTION REGARDING THE HNC ACQUISITION; AND (3) NOTICE OF EGM

Financial Adviser to the Company

ASIAN CAPITAL

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

FRONTPAGE 富比

The notice convening the EGM of the Company to be held at 8th Floor, XinDaXin Building A, No. 168 Huangxing Middle Road, Changsha City, Hunan Province, the PRC on Thursday, 30 July 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the proxy form and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon 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 proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) if you so wish.

13 July 2020

CONTENTS

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

"Ausnutria China"	Ausnutria Dairy (China) Co., Ltd.* (澳優乳業(中國)有限公司), an indirect wholly-owned subsidiary of the Company
"Board"	the board of Directors
"Business Day(s)"	a day on which the Stock Exchange is open for the transaction of business
"Company"	Ausnutria Dairy Corporation Ltd (澳優乳業股份有限公司), a limited liability company incorporated under the laws of the Cayman Islands on 8 June 2009 and the Shares are listed on the Stock Exchange (stock code: 1717)
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 8th Floor, XinDaXin Building A, No. 168 Huangxing Middle Road, Changsha City, Hunan Province, the PRC on Thursday, 30 July 2020 at 10:00 a.m. for the purpose of considering, and if thought fit, approving, among other things, (i) the HBC Sale and Purchase Agreement and the transactions contemplated thereunder, including the issuance and allotment of the HBC Consideration Shares under the HBC Specific Mandate; and (ii) the HNC Supplemental Deed and the transactions contemplated thereunder
"Encumber"	to create or grant any Encumbrance
"Encumbrance"	any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), option, restriction, hypothecation, assignment, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance, priority or security interest of any kind, or any other type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect, and any agreement or obligation to create or grant any of the aforesaid
"Group"	the Company and its subsidiaries
"HBC"	Hyproca Bio-Science Co., Ltd.* (海普諾凱生物科技有限公司), a company incorporated in the PRC with limited liability and a direct wholly-owned subsidiary of HBHK

"HBC Acquisition"	the acquisition of the HBC Sale Shares by the HBC Purchaser from the HBC Vendors pursuant to the terms and conditions of the HBC Sale and Purchase Agreement
"HBC Average Growth Rate"	the average of the growth rate in the net profit after taxation of Hyproca 1897 BU for the years ending 31 December 2020, 2021 and 2022 respectively
"HBC Call Option"	the HBC Purchaser's right to require the HBC Vendors to sell part of the HBC Consideration Shares (up to 20,000,000 HBC Consideration Shares) at nil consideration to the HBC Purchaser or its nominee(s) based on the HBC Average Growth Rate, at any time after the date of publication of the Company's annual report for the financial year ending 31 December 2022
"HBC Completion"	the completion of the HBC Acquisition in accordance with the terms of the HBC Sale and Purchase Agreement
"HBC Completion Date"	(i) the third (3rd) Business Day after the last outstanding condition (other than the conditions which can only be fulfilled upon HBC Completion) shall have been fulfilled or waived; or (ii) the record date for the entitlement of final dividend to be declared by the Company for the year ended 31 December 2019, whichever is later
"HBC Consideration"	the consideration of HK$896.0 million payable by the HBC Purchaser to the HBC Vendors for the HBC Acquisition
"HBC Consideration Shares"	the 70,000,000 new Shares to be issued by the Company to the HBC Vendors for the settlement of the HBC Consideration pursuant to the HBC Sale and Purchase Agreement
"HBC Consideration Share Price"	HK$12.8 per HBC Consideration Share
"HBC Employees"	28 employees of the HBC Group, being the beneficial owners of 2,080,000 ordinary shares of HBHK, representing approximately 4.2% of all the issued shares of HBHK as at the Latest Practicable Date
"HBC Group"	collectively, HBHK together with its subsidiaries from time to time (including but not limited to HBC)
"HBC Independent Shareholders"	Shareholders who are not interested or involved in the HBC Sale and Purchase Agreement and the transactions contemplated thereunder

"HBC Purchaser"	Ausnutria Dairy Company Limited (澳優乳品有限公司), a private company with limited liability incorporated in Hong Kong, and an indirect wholly-owned subsidiary of the Company. As at the Latest Practicable Date, the HBC Purchaser owns 85.0% of all the issued shares of HBHK
"HBC Sale and Purchase Agreement"	the sale and purchase agreement date 9 April 2020 entered into between the HBC Purchaser, the HBC Vendors and the Company in respect of the HBC Acquisition
"HBC Sale Shares"	the aggregate of 7,500,000 ordinary shares in HBHK owned by the HBC Vendors, representing 15.0% of all the issued shares of HBHK as at the Latest Practicable Date
"HBC Specific Mandate"	the specific mandate for the issuance and allotment of the HBC Consideration Shares, which is subject to the approval by the HBC Independent Shareholders at the EGM
"HBC Vendor A"	Mr. Liu Yubiao, being the legal owner of 6,000,000 ordinary shares of HBHK, representing 12.0% of all issued shares of HBHK. Among which, 3,920,000 and 2,080,000 ordinary shares of HBHK, representing approximately 7.8% and 4.2% of all the issued shares of HBHK, are beneficially owned by Mr. Liu Yubiao and the HBC Employees respectively as at the Latest Practicable Date
"HBC Vendor B"	Mr. Liu Guangchu, being the legal and beneficial owner of 1,500,000 ordinary shares of HBHK, representing 3.0% of all the issued shares of HBHK as at the Latest Practicable Date
"HBC Vendors"	collectively, HBC Vendor A and HBC Vendor B
"HBHK"	Hyproca Bio-Science (Hong Kong) Company Limited (海普諾凱生物科技(香港)有限公司), a company incorporated in Hong Kong with limited liability, which is owned as to 85.0%, 12.0% and 3.0% by the HBC Purchaser, HBC Vendor A and HBC Vendor B as at the Latest Practicable Date
"HNC"	Hyproca Nutrition Co. Ltd.* (海普諾凱營養品有限公司), a company incorporated in the PRC with limited liability and a direct wholly-owned subsidiary of HNHK
"HNC Acquisition"	the acquisition of the HNC Sale Shares by the HNC Purchasers from the HNC Vendors pursuant to the terms and conditions of the HNC Sale and Purchase Agreement

"HNC Actual Subsequent Consideration"	the actual amount of HNC Subsequent Consideration payable by the HNC Purchaser as calculated based on the formulae set out in the HNC Sale and Purchase Agreement
"HNC Actual Subsequent Consideration Shares"	the actual amount of HNC Subsequent Consideration Share as calculated based on the HNC Actual Subsequent Consideration
"HNC Amendments"	the amendments of the terms in relation to, among others, the issuance and allotment of the HNC Subsequent Consideration Shares under the HNC Sale and Purchase Agreement pursuant to the terms and conditions of the HNC Supplemental Deed
"HNC Average Growth Rate"	the average of the growth rate in the audited consolidated net profit after taxation of the HNC Group for the years ended 31 December 2018 and 2019 and ending 31 December 2020 respectively
"HNC Call Option"	the HNC Purchaser's right to require the HNC Vendors to sell the shortfall (if any) between 29,879,877 Shares and the HNC Actual Subsequent Consideration Shares, which is capped at 29,879,877 Shares, to the HNC Purchaser or its nominee(s) at nil consideration
"HNC Consideration Shares"	the HNC Upfront Consideration Shares and the HNC Subsequent Consideration Shares, which shall not exceed 80,174,000 Shares in aggregate
"HNC Consideration Share Price"	HK$5.00 per HNC Consideration Share
"HNC Early Settlement Terms"	has the meaning ascribed thereto in the paragraph headed "The HNC Amendments – HNC Subsequent Consideration"
"HNC Group"	collectively, HNHK together with its subsidiaries from time to time (including but not limited to HNC)
"HNC Independent Shareholders"	Shareholders who are not interested or involved in the HNC Amendments
"HNC Original Terms"	has the meaning ascribed thereto in the paragraph headed "The HNC Amendments – HNC Subsequent Consideration"
"HNC Purchaser"	Ausnutria Nutrition B.V. (formerly known as Hyproca Nutrition B.V.), a private company with limited liability incorporated in the Netherlands, and an indirect wholly-owned subsidiary of the Company

"HNC Sale and Purchase Agreement"	the sale and purchase agreement dated 14 February 2018 entered into between the HNC Purchaser, the HNC Vendors and the Company in respect of the HNC Acquisition (details of which are set out in the Company's circular dated 12 April 2018), as amended and supplemented by the HNC Supplemental Deed
"HNC Sale Shares"	the 1,500 ordinary shares in the HNC Target Company sold by the HNC Vendors to the HNC Purchaser pursuant to the HNC Sale and Purchase Agreement, representing the entire issued share capital of the HNC Target Company
"HNC Supplemental Deed"	the supplemental deed dated 9 April 2020 entered into between the HNC Purchaser, the HNC Vendors and the Company in respect of the HNC Amendments
"HNC Subsequent Consideration"	the consideration payable by the HNC Purchaser to the HNC Vendors to adjust the HNC Total Consideration (if applicable) for the HNC Acquisition
"HNC Subsequent Consideration Shares"	the new Shares to be issued by the Company to the HNC Vendors for the settlement of HNC Subsequent Consideration (if any) pursuant to the HNC Sale and Purchase Agreement
"HNC Target Company"	Multi Brilliant Enterprises Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of HNC Purchaser
"HNC Total Consideration"	collectively, the HNC Upfront Consideration and the HNC Subsequent Consideration (if any), which in aggregate shall not exceed HK$400,870,000
"HNC Upfront Consideration"	the initial consideration of HK$251.5 million paid by the HNC Purchaser to the HNC Vendors for the HNC Acquisition pursuant to the HNC Sale and Purchase Agreement
"HNC Upfront Consideration Shares"	the 50,294,123 Shares issued and allotted by the Company to the HNC Vendors for the settlement of the HNC Upfront Consideration pursuant to the HNC Sale and Purchase Agreement
"HNC Vendor A"	Perfect Victory Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
"HNC Vendor B"	Dynamic Winners Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability

"HNC Vendor C"	Reliable Global Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
"HNC Vendors"	collectively, HNC Vendor A, HNC Vendor B and HNC Vendor C
"HNHK"	Hyproca Nutrition (Hongkong) Company Limited (海普諾凱營養品(香港)有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the HNC Purchaser
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hyproca 1897 BU"	has the meaning ascribed thereto in the paragraph headed "The HBC Acquisition – Information of the Group, the HBC Purchaser, the HBC Vendors, the HBC Group and the Hyproca 1897 BU"
"Hyproca 1897 Series"	has the meaning ascribed thereto in the paragraph headed "The HBC Acquisition – Information of the Group, the HBC Purchaser, the HBC Vendors, the HBC Group and the Hyproca 1897 BU"
"Independent Board Committee"	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising (i) the HBC Independent Shareholders in respect of, among other things, the terms of the HBC Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the HNC Independent Shareholders in respect of, among other things, the terms of the HNC Supplemental Deed and the transactions contemplated thereunder
"Independent Financial Adviser" or "Frontpage Capital"	Frontpage Capital Limited (富比資本有限公司), the independent financial adviser to the Independent Board Committee and Independent Shareholders and a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Independent Shareholders"	collectively, the HBC Independent Shareholders and the HNC Independent Shareholders
"Last Trading Day"	9 April 2020, being the last trading day immediately prior to the entering into of the HBC Sale and Purchase Agreement
"Latest Practicable Date"	9 July 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) in the capital of the Company
"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"2018 EGM"	the extraordinary general meeting held on 11 May 2018 to approve, among other things, the HNC Sale and Purchase Agreement and the transactions contemplated thereunder, including the issuance and allotment of HNC Consideration Shares under the specific mandate
"%"	per cent

* *For identification purpose only*

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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

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

Non-executive Directors:
Mr. Shi Liang *(Vice-Chairman)*
Mr. Qiao Baijun
Mr. Tsai Chang-Hai

Independent non-executive Directors:
Mr. 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

13 July 2020

To the Shareholders:

Dear Sir or Madam,

SHARE AND CONNECTED TRANSACTION REGARDING THE HBC ACQUISITION; AND AMENDMENTS OF TERMS OF DISCLOSEABLE AND CONNECTED TRANSACTION REGARDING THE HNC ACQUISITION

INTRODUCTION

Reference is made to the Company's announcements dated 9 April 2020, 28 May 2020, 12 June 2020 and 30 June 2020 in relation to, among others, the HBC Acquisition and the HNC Amendments.

The HBC Acquisition

On 9 April 2020 (after trading hours), the HBC Purchaser, being a wholly-owned subsidiary of the Company, the HBC Vendors and the Company entered into the HBC Sale and Purchase Agreement in relation to the HBC Acquisition, pursuant to which the HBC Purchaser has conditionally agreed to acquire and the HBC Vendors have conditionally agreed to sell the HBC Sale Shares, representing 15.0% of all the issued shares of HBHK, at the HBC Consideration of HK$896.0 million by way of issuance and allotment of 70,000,000 HBC Consideration Shares at the HBC Consideration Share Price of HK$12.8 each by the Company to the HBC Vendors. The HBC Consideration is subject to a downward adjustment by the HBC Call Option which can be exercised by the HBC Purchaser in its absolute discretion in accordance with the terms of the HBC Sale and Purchase Agreement.

Upon HBC Completion, HBHK and HBC (both being the Company's indirect non-wholly-owned subsidiaries) will become indirect wholly-owned subsidiaries of the Company.

The HNC Amendments

References are made to the Company's announcements dated 14 February 2018 and 11 May 2018 and the Company's circular dated 12 April 2018.

On 14 February 2018, the HNC Purchaser, being a wholly-owned subsidiary of the Company, the HNC Vendors and the Company entered into the HNC Sale and Purchase Agreement in relation to the HNC Acquisition, pursuant to which the HNC Purchaser conditionally agreed to acquire and the HNC Vendors conditionally agreed to sell the HNC Sale Shares, representing all the issued shares of the HNC Target Company, at the HNC Total Consideration of not exceeding HK$400,870,000, which shall be settled by the issuance and allotment of the HNC Consideration Shares of not exceeding 80,174,000 Shares in aggregate. The HNC Acquisition was completed in May 2018. Since then, the HNC Target Company, HNHK and HNC have become indirect wholly-owned subsidiaries of the Company.

Pursuant to HNC Sale and Purchase Agreement, the HNC Total Consideration should be adjusted by the HNC Subsequent Consideration, which shall be determined based on the actual financial performance of the HNC Group.

Having considered the outstanding financial performance of the HNC Group, on 9 April 2020 (after trading hours), the HNC Purchaser, the HNC Vendors and the Company entered into the HNC Supplemental Deed, pursuant to which the parties have conditionally agreed to amend certain terms regarding, among others, the settlement of HNC Subsequent Consideration, in the HNC Sale and Purchase Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the HBC Acquisition and the HNC Amendments; (ii) the recommendations of the Independent Board Committee in relation to the HBC Acquisition and the HNC Amendments; (iii) a letter of advice from the Independent Financial Adviser in relation to the HBC Acquisition and the HNC Amendments; (iv) the notice convening the EGM; and (v) other information as required under the Listing Rules.

THE HBC ACQUISITION

Principal terms of the HBC Sale and Purchase Agreement are set out below:

Date : 9 April 2020 (after trading hours)

Parties : (i) Ausnutria Dairy Company Limited, being the HBC Purchaser;

(ii) Mr. Liu Yubiao, being HBC Vendor A;

(iii) Mr. Liu Guangchu, being HBC Vendor B; and

(iv) the Company

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, while HBC Vendor A is considered a connected person of the Company, HBC Vendor B and the HBC Employees, being employees of the Company, are parties independent of the Company and its connected persons.

Subject matter

Pursuant to the HBC Sale and Purchase Agreement, the HBC Purchaser has conditionally agreed to acquire and the HBC Vendors have conditionally agreed to sell the HBC Sale Shares, representing 15.0% of all the issued shares of HBHK, at the HBC Consideration of HK$896.0 million by way of issuance and allotment of 70,000,000 HBC Consideration Shares at the HBC Consideration Share Price of HK$12.8 each by the Company to the HBC Vendors. The HBC Consideration is subject to a downward adjustment by the HBC Call Option which can be exercised by the HBC Purchaser in its absolute discretion in accordance with the terms of the HBC Sale and Purchase Agreement.

HBC Consideration

Pursuant to the HBC Sale and Purchase Agreement, the consideration payable by the HBC Purchaser to the HBC Vendors for the HBC Acquisition shall be the HBC Consideration of HK$896.0 million.

Upon HBC Completion, the HBC Consideration will be fully settled by the issuance and allotment of the HBC Consideration Shares at the HBC Consideration Share Price by the Company to the HBC Vendors (or their respective nominees, provided that such nominees are the HBC Employees or companies owned by the HBC Employees) in proportion to their respective equity interest in HBHK (i.e. 56,000,000 Shares and 14,000,000 Shares to HBC Vendor A and HBC Vendor B, respectively) at the HBC Completion.

The HBC Consideration was determined after arm's length negotiations between the HBC Purchaser and the HBC Vendors with reference to among others, (i) the historical financial performance of the Hyproca 1897 BU (including the HBC Group), including but not limited to the revenue and the net profit of the Hyproca 1897 BU (including the HBC Group) generated during the two years ended 31 December 2019, details of which are set out in the paragraph headed "Information of the Group, the HBC Purchaser, the HBC Vendors, the HBC Group and the Hyproca 1897 BU" below in this section; and (ii) the business development and prospects of the Hyproca 1897 BU (including the HBC Group), including but not limited to the future growth of the Hyproca 1897 BU based on the positive and continuous growth in the infant formula market in the PRC particularly in the super premium segment, details of which are set out in the paragraphs headed "Reasons for and benefits of the HBC Acquisition" below in this section.

In the negotiation between the Company and the HBC Vendors, it was principally agreed that (i) the Hyproca 1897 BU (including the HBC Group), and hence the HBC Sale Shares, should be valued with reference to the valuation of the Group's competitors; (ii) part of the HBC Consideration (i.e. 20,000,000 HBC Consideration Shares to be allotted to the HBC Vendors) should be subject to performance-related adjustments in order to incentivise the HBC Vendors to continue their contribution in the Hyproca 1897 BU upon completion; and (iii) 50,000,000 HBC Consideration Shares to be allotted to the HBC Vendors will not be subject to any performance-related adjustments.

Based on the above agreed principles, the HBC Consideration was determined after considering (i) the price-to-earnings ratio(s) (the "**P/E Ratio(s)**") of the Company (19.9 times) as at the Last Trading Day; (ii) the P/E Ratios of the industry peers (including China Feihe Limited (6186.HK), Health and Happiness (H&H) International Holdings Limited (1112.HK) and Yashili International Holdings Limited (1230.HK)) (the "**Industry Peers**") (from 18.0 times to 27.9 times) at the Last Trading Day; (iii) the P/E Ratio of a comparable transaction (disposal of Shijiazhuang Junlebao Dairy Co., Ltd by China Mengniu Dairy Company Limited (2319.HK) in 2019) (29.2 times); and (iv) that part of the HBC Consideration (i.e. 20,000,000 HBC Consideration Shares) are subject to performance-related adjustments (i.e. the HBC Call Option). As a result, the minimum and maximum value of the HBC Consideration that the HBC Vendors will eventually receive are HK$640.0 million (i.e. 50,000,000 HBC Consideration Shares) and HK$896.0 million (i.e. 70,000,000 HBC Consideration Shares) respectively, and in turn the lowest and highest P/E Ratios are 22.4 times and 31.3 times respectively, which correspond to the low-end and high-end of the P/E Ratios the Company considered as explained above.

The Company's quantitative assessment on the HBC Consideration has also taken into account of the above factors by assessing the implied price/earnings to growth ratio (the "**PEG Ratio**") of the HBC Acquisition. The Company computed the implied PEG Ratio of the HBC Acquisition and compared it against those of the Industry Peers as at the Last Trading Day. The PEG Ratios of the HBC Group and the Industry Peers were calculated by dividing their respective implied valuation or market capitalisation by their respective net profit and net profit growth rate for the latest full financial year as compared with the previous financial year.

Based on the Company's computation, the implied PEG Ratio of the HBC Acquisition (0.14) is lower than those of the abovementioned Industry Peers (from 0.17 to 0.94). The Company is of the view that the relatively low implied PEG Ratio of the HBC Acquisition is mainly attributable to the comparatively high growth in the HBC Group's earnings.

After considering the above, 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 HBC Consideration is fair and reasonable and the HBC Acquisition is in the interest of the Company and the Shareholders as a whole.

Granting of the HBC Call Option

Pursuant to the HBC Sale and Purchase Agreement, the HBC Purchaser is granted the HBC Call Option which will be exercisable after the date of publication of the Company's annual report for the financial year ending 31 December 2022. Under the HBC Call Option, the HBC Purchaser is entitled to require the HBC Vendors to sell part of the HBC Consideration Shares (up to 20,000,000 HBC Consideration Shares) at nil consideration to the HBC Purchaser or its nominee(s) in the event that the HBC Average Growth Rate falls below 30.0%. Actual number of HBC Consideration Shares to be bought back, if any, by the HBC Purchaser under the HBC Call Option shall be determined based on the HBC Average Growth Rate.

The HBC Average Growth Rate shall be calculated in accordance with the following formula:

$$\text{HBC Average Growth Rate} = \{[(P_{2020} - P_{2019}) \div P_{2019}] + [(P_{2021} - P_{2020}) \div P_{2020}] + [(P_{2022} - P_{2021}) \div P_{2021}]\} \times 100\% \div 3$$

Where (for all the calculation formulae above),

P_{2019} = the net profit after taxation of Hyproca 1897 BU for the year ended 31 December 2019;

P_{2020} = the net profit after taxation of Hyproca 1897 BU for the year ending 31 December 2020;

P_{2021} = the net profit after taxation of Hyproca 1897 BU for the year ending 31 December 2021; and

P_{2022} = the net profit after taxation of Hyproca 1897 BU for the year ending 31 December 2022.

The number of the HBC Consideration Shares that are to be bought back by the HBC Purchaser under the HBC Call Option shall in turn be determined as follows:

(i) If the HBC Average Growth Rate is 20.0% or less, the HBC Purchaser shall have the right to exercise the HBC Call Option to require the HBC Vendors to sell 20,000,000 HBC Consideration Shares to the HBC Purchaser at nil consideration;

(ii) If the HBC Average Growth Rate is more than 20.0% but less than 30.0%, the HBC Purchaser shall have the right to exercise the HBC Call Option to require the HBC Vendors to sell 10,000,000 HBC Consideration Shares to the HBC Purchaser at nil consideration; and

(iii) If the HBC Average Growth Rate is 30.0% or above, no HBC Call Option will be exercised by the HBC Purchaser.

Any Shares acquired by the HBC Purchaser or its nominee(s) pursuant to the HBC Call Option shall be dealt with at the sole discretion of the HBC Purchaser or the Company, including the possible cancellation or the disposal by way of share placement. Having considered the prevailing requirements of the Listing Rules, the Company will cancel all the Shares acquired upon purchase of such Shares in the event that the Company exercises the HBC Call Option.

HBC Consideration Shares

Number of Shares

As at the Latest Practicable Date, the Company has 1,615,420,299 Shares in issue. The number of 70,000,000 HBC Consideration Shares represents:

(i) approximately 4.3% of the total number of issued Shares of the Company as at the Latest Practicable Date; and

(ii) approximately 4.2% of the total number of issued Shares of the Company as enlarged by the issuance and allotment of the HBC Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the date of the HBC Sale and Purchase Agreement and the issuance and allotment of the HBC Consideration Shares).

The number of Shares to be issued and allotted to HBC Vendor A and HBC Vendor B for the HBC Acquisition are 56,000,000 Shares and 14,000,000 Shares respectively.

Share price

The HBC Consideration Share Price of HK$12.80 per HBC Consideration Share represents:

(i) a premium of approximately 0.2% to the closing price of HK$12.78 per Share as quoted on the Stock Exchange on 9 April 2020, being the Last Trading Day;

(ii) a premium of approximately 4.5% to the average closing price of approximately HK$12.25 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 6.1% to the average closing price of approximately HK$12.06 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

(iv) a discount of approximately 15.9% to the closing price of HK$15.22 per Share as quoted on the Stock Exchange on 9 July 2020, being the Latest Practicable Date.

The HBC Consideration Share Price was determined after arm's length negotiations between the HBC Purchaser and the HBC Vendors with reference to the current market price of the Share. 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) consider that the HBC Consideration Share Price is fair and reasonable and on normal commercial terms.

Lock-up undertakings

Pursuant to the HBC Sale and Purchase Agreement, each of the HBC Vendors undertakes to the HBC Purchaser that he will not and will procure that his nominees will not:

(i) in respect of 20.0% of the HBC Consideration Shares, for a period of 12 months from the issuance and allotment of the HBC Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HBC Consideration Shares;

(ii) in respect of another 20.0% of the HBC Consideration Shares, for a period of 24 months from the issuance and allotment of the HBC Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HBC Consideration Shares;

(iii) in respect of the other 30.0% of the HBC Consideration Shares, for a period of 36 months from the issuance and allotment of the HBC Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HBC Consideration Shares; and

(iv) in respect of the remaining 30.0% of the HBC Consideration Shares, for a period of 48 months from the issuance and allotment of the HBC Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HBC Consideration Shares,

unless prior written consent has been obtained from the HBC Purchaser. The Company is of the view that such written consent will only be granted in exceptional situation and currently does not envisage any circumstances under which the HBC Purchaser will grant such written consent. In the event that the HBC Purchaser grants such written consent, which are considered as a material change in substance to the safeguard measure, the Company will re-comply with the HBC Independent Shareholders' approval requirement for the revised terms and conditions of the HBC Acquisition.

Conditions precedent

Completion of the HBC Acquisition shall be conditional upon fulfilment of the following conditions:

(i) the representations, warranties and undertakings given by each of the HBC Vendors as set out in the HBC Sale and Purchase Agreement remaining true, accurate and not misleading throughout the period from the date of the HBC Sale and Purchase Agreement to the HBC Completion Date;

(ii) the Company having complied with all applicable requirements under the Listing Rules in respect of the HBC Sale and Purchase Agreement and the transactions contemplated thereunder, including the HBC Independent Shareholders passing at the EGM resolutions approving the entering into, execution, delivery and performance of the HBC Sale and Purchase Agreement and the transactions contemplated thereunder, including without limitation the purchase of the HBC Sale Shares and the issuance and allotment of the HBC Consideration Shares to the HBC Vendors, and giving any other approvals or notifications as may be required under the Listing Rules and other applicable laws;

(iii) all necessary consents from any relevant governmental or regulatory authorities or other relevant third parties in connection with the HBC Sale and Purchase Agreement and the transactions contemplated thereunder required to be obtained on the part of the HBC Purchaser or the Company having been obtained; and

(iv) the Company having obtained an approval from the Stock Exchange for the listing of and permission to deal in the HBC Consideration Shares and such listing and permission not being subsequently revoked prior to the issuance and allotment of the HBC Consideration Shares.

Conditions precedent (i) as set out above may be waived in writing by the HBC Purchaser at its sole and absolute discretion. If any of the conditions precedent set out above are not fulfilled or waived at or before 5:00 p.m. (Hong Kong time) on 31 July 2020 (or such other date as may be agreed by the HBC Purchaser and the HBC Vendors in writing), the HBC Sale and Purchase Agreement shall lapse and be of no further effect (except the confidentiality obligations and certain clauses as specified therein), and no party to the HBC Sale and Purchase Agreement shall have liability and obligation to the other party, save in respect of any antecedent breaches of the HBC Sale and Purchase Agreement.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

Completion

Upon the HBC Completion, HBHK and HBC will become indirect wholly-owned subsidiaries of the Company. Their financial results, assets and liabilities will continue to be consolidated into the consolidated financial statements of the Company.

Information of the Group, the HBC Purchaser, the HBC Vendors, the HBC Group and the Hyproca 1897 BU

The Group

The Company acts as an investment holding company of the Group. The Group is principally engaged in (i) the dairy industry with activities including research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC and other overseas countries; and (ii) research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia.

The HBC Purchaser

Ausnutria Dairy Company Limited is a private company with limited liability incorporated in Hong Kong, and an indirect wholly-owned subsidiary of the Company. It is principally engaged in investment holding. As at the Latest Practicable Date, the HBC Purchaser owns 85.0% of all the issued shares of HBHK.

The HBC Vendors

Mr. Liu Yubiao, being HBC Vendor A, is a vice president of the Group in the PRC region and the general manager and director of HBHK and HBC. He joined the Group upon the establishment of Ausnutria China in 2003 and served as regional manager of Hunan province, manager of the Central China region (covering five provinces). Mr. Liu Yubiao has over 17 years of experience in sales management in the dairy industry. He is mainly responsible for the overall operations of the Hyproca 1897 BU (including the HBC Group). As at the Latest Practicable Date, Mr. Liu Yubiao, also being the nominee of the HBC Employees, legally owns HBHK as to 12.0%, among which, approximately 7.8% and 4.2% of all the issued shares of HBHK are beneficially owned by Mr. Liu Yubiao and the HBC Employees (being 28 employees of the HBC Group) respectively.

Mr. Liu Guangchu, being HBC Vendor B, is the deputy general manager and sales director of HBHK and HBC. He joined the Group in 2006 and served as the head of the sales management department, southeast regional manager. Mr. Liu Guangchu has over 14 years of experience in sales management in the dairy industry. He is mainly responsible for the sales operations of the Hyproca 1897 BU. As at the Latest Practicable Date, Mr. Liu Guangchu beneficially and legally owns HBHK as to 3.0%.

The HBC Group

HBHK is beneficially owned as to approximately 85.0%, 7.8%, 4.2% and 3.0% by the HBC Purchaser, HBC Vendor A, the HBC Employees and HBC Vendor B, respectively. HBC Vendor A, also being the nominee of the HBC Employees, legally owns 12.0% of all the issued shares of HBHK. As such, HBHK is legally owned as to 85.0%, 12.0% and 3.0% by the HBC Purchaser, HBC Vendor A and HBC Vendor B respectively.

HBHK and HBC are principally engaged in marketing and distribution of the Hyproca 1897 Series (as defined below) cow milk powder products in Mainland China and Hong Kong.

The total investment of the HBC Group was contributed by the HBC Purchaser and the HBC Vendors in proportion to their shareholdings in HBHK (i.e. HK$42.5 million and HK$7.5 million respectively).

Hyproca 1897 BU

In 2013, Ausnutria China launched a series of cow milk infant formula, including the Hyproca 1897 Series (as defined below), which was targeted to penetrate into the high-end sector of the PRC market. In 2014, the Group established the Hyproca 1897 business unit (the "**Hyproca 1897 BU**") for the marketing and distribution of Hyproca 1897 series cow milk powder products (the "**Hyproca 1897 Series**"), which comprise the brands of Hyproca Hollary, Hyproca Hypure and Neolac. To cope with the marketing strategy of the Group, HBHK and HBC were incorporated in March 2015 and September 2015 respectively to promote the Hyproca 1897 Series.

In 2016, Kabrita and Hyproca 1897 were listed among the top 10 most influential brands for infant formula in the PRC at the CBME AWARDS, which is considered as the Oscars in the children, baby and maternity industry in the PRC.

The Hyproca 1897 BU involves three group companies, namely Ausnutria China, HBHK and HBC, as the distribution arm of the Hyproca 1897 Series in the PRC. After importing the Hyproca 1897 Series from the Netherlands, Ausnutria China is responsible for the administrative matters in relation to the distribution of the Hyproca 1897 Series, including logistics, inventory management, and customs. Ausnutria China will charge a mark-up in return when it sells the Hyproca 1897 Series to the HBC Group. While Ausnutria China acts as the importing arm of the Hyproca 1897 Series, it also involves in business other than those related to the Hyproca 1897 Series, including supporting functions of all the Group's operations in the PRC to facilitate the marketing and distribution of different brands and products that are managed by respective business units in the Group.

In determining the HBC Consideration, the HBC Purchaser and the HBC Vendors are of view that the financial information of the HBC Group does not fully reflect the contribution of the Hyproca 1897 Series to the Group. Instead, the financial information of the Hyproca 1897 BU should be adopted to better reflect the contribution of the Hyproca 1897 Series to the Group.

The net profit after taxation of the Hyproca 1897 BU shall be the sum of (i) the audited consolidated net profit after taxation of the HBC Group; and (ii) the net profit after taxation of the Hyproca 1897 Series products recorded by Ausnutria China. In arriving the net profit after taxation of the Hyproca 1897 Series contributed to Ausnutria China, as stated in the HBC Sale and Purchase Agreement, all direct, indirect costs, relevant expenses items (as agreed between the HBC Purchaser and the HBC Vendors) and relevant tax expenses incurred by Ausnutria China in relation to the sales of the Hyproca 1897 Series products will be subtracted from the sales amount of the Hyproca 1897 Series products recorded by Ausnutria China to the HBC Group.

Further, pursuant to the HBC Sale and Purchase Agreement, a reporting accountant will be appointed by the HBC Purchaser, being a wholly-owned subsidiary of the Company, to review the calculation of the net profit after taxation of the Hyproca 1897 BU for the years ending 31 December 2020, 2021 and 2022.

Set out below is the summary of the key financial information of the Hyproca 1897 BU based on (i) the audited consolidated financial statements of HBHK; and (ii) financial information of the Hyproca 1897 Series based on the audited financial statements of Ausnutria China for the two financial years ended 31 December 2019:

	Year ended 31 December							
	2018				2019			
	HBHK and its subsidiaries (i.e. HBC Group)	Hyproca 1897 Series recorded by Ausnutria China	Intra-business unit elimination (Note 4)	Hyproca 1897 BU	HBHK and its subsidiaries (i.e. HBC Group)	Hyproca 1897 Series recorded by Ausnutria China	Intra-business unit elimination (Note 4)	Hyproca 1897 BU
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	(Audited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Revenue	911.9	526.5	(526.5) (Note 1)	911.9	1,692.8	1,022.1	(1,022.1) (Note 1)	1,692.8
Costs	(832.6) (Note 2)	(398.9)	526.5 (Note 3)	(705.0)	(1,449.3) (Note 2)	(767.1)	1,022.1 (Note 3)	(1,194.3)
Net profit before taxation	79.3	127.6	–	206.9	243.5	255.0	–	498.5
Net profit after taxation	54.7	108.5	–	163.2	173.4	216.8	–	390.2

	As at 31 December 2019		
	HBHK and its subsidiaries (i.e. HBC Group)	**Hyproca 1897 Series recorded by Ausnutria China**	**Hyproca 1897 BU**
	RMB million	*RMB million*	*RMB million*
	(Audited)	*(Unaudited)*	*(Unaudited)*
Net assets	310.4	382.7	693.1

Notes:

1. As all of the revenue Ausnutria China generated from the Hyproca 1897 Series products for the years ended 31 December 2018 and 31 December 2019 was intra-group sales to the HBC Group, all of the revenue was eliminated against the direct costs of the HBC Group in the compilation of the financial information of the Hyproca 1897 BU disclosed above.

2. The amount represents all direct and indirect costs attributable to the Hyproca 1897 Series incurred by the HBC Group. Among which, RMB526.5 million and RMB1,022.1 million for the years ended 31 December 2018 and 31 December 2019 respectively were direct costs recorded by the HBC Group when Ausnutria China sold the Hyproca 1897 Series products to the HBC Group.

3. The direct costs recorded by the HBC Group, which are equivalent to the revenue recorded by Ausnutria China, were eliminated against the revenue recorded by Ausnutria China in the compilation of the financial information of the Hyproca 1897 BU disclosed above.

4. Save for the sales of the Hyproca 1897 Series products from Ausnutria China to the HBC Group, there is no other intra-business units transaction in relation to the Hyproca 1897 Series recorded by the Hyproca 1897 BU.

Reasons for and benefits of the HBC Acquisition

The Group is principally engaged in the dairy business, in particular on the manufacture and distribution of infant formula, where it has established a strong foundation over the years. In view of the increasing health awareness of the general public, the Group has made its "Golden Decade" strategy to further strengthen its position for infant formula, and has been expanding its marketing and distribution network in the dairy industry.

Since the establishment in 2013, sales of the Hyproca 1897 Series products have been progressed significantly, and become a major momentum for the Group's business growth. In particular, the Hyproca 1897 BU is the fastest growing business unit in the Group for the two years ended 31 December 2019. The financial results of Hyproca 1897 BU (reflected in books of both Ausnutria China and the HBC Group) have been consolidated into the consolidated financial statements of the Company since the financial year ended 31 December 2013. Since then, the Hyproca 1897 BU has provided the Group with continuous positive contribution. The management of the Company is of the view that the Hyproca 1897 BU will continue to grow steadily and positively contribute to the Group based on (i) the positive and continuous growth in the infant formula market in the PRC particularly in the super premium segment; (ii) the proven track record of the Hyproca 1897 BU; and (iii) the extensive experience of the management team of the Hyproca 1897 BU in the infant formula business sector.

As such, the Company considers the HBC Acquisition, which is in turn the acquisition of the remaining interest in the Hyproca 1897 BU, will (i) enable the Group to obtain full control in the HBC Group and the Hyproca 1897 BU for better allocation of internal resources of the Group; (ii) facilitate the operations of the HBC Group and Hyproca 1897 BU, and hence improve the operational efficiency and create better synergy with the Group as a whole, as the interest of the management team of the Hyproca 1897 BU will then be aligned with the interest of the Company; (iii) provide a good incentive scheme to the management team of the Hyproca 1897 BU, as part of the HBC Consideration Shares is linked to the performance of the Hyproca 1897 BU (including the HBC Group) up to 2022; and (iv) strengthen the Group's position for the long term growth and development in the infant formula business which is one of the major long term vision of the Company.

In view of the long term strategic plan of the Group to become one of the major global players in the nutrition sector, particularly on infant formula products, the Company continues to streamline its business structure and strategies, increase its effort on the building of the global supply chain on infant formula and establish the overseas nutritional business. The HBC Acquisition is in line with the development of the Group to continue to develop its cow milk based infant formula products sector, which is expected to give a positive impact to the operations, financial results and profitability of the Group.

Having considered the above reasons, 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) consider that the terms and conditions of the HBC Sale and Purchase Agreement are fair and reasonable and are in the interests of the Shareholders as a whole.

Mandate to issue the HBC Consideration Shares and application for listing

The HBC Consideration Shares will be issued and allotted pursuant to the HBC Specific Mandate proposed to be sought from the HBC Independent Shareholders at the EGM.

The HBC Consideration Shares, when issued, allotted and fully paid, will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of issuance and allotment of the HBC Consideration Shares save as regards (i) any right to dividend which may be declared or paid by the Company; or (ii) any other form of shareholder's rights or benefits against the Company, in either case by reference to a record date which is prior to the date of issuance and allotment.

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 HBC Consideration Shares.

THE HNC AMENDMENTS

Principal terms of the HNC Supplemental Deed are set out below:

Date : 9 April 2020 (after trading hours)

Parties : (i) Ausnutria Nutrition B.V., being the HNC Purchaser;

(ii) Perfect Victory Holdings Limited, being HNC Vendor A;

(iii) Dynamic Winners Group Limited, being HNC Vendor B;

(iv) Reliable Global Holdings Limited, being HNC Vendor C; and

(v) the Company

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, while the sole owners of HNC Vendor A and HNC Vendor C are considered to be connected persons of the Company, HNC Vendor B and its ultimate beneficial owners are parties independent of the Company and its connected persons.

HNC Subsequent Consideration

Pursuant to the HNC Sale and Purchase Agreement, the HNC Subsequent Consideration (if any) shall be payable to the HNC Vendors no later than the twentieth (20th) Business Day immediately after the date of announcement of the Company's annual results for the year ending 31 December 2020 (the "**HNC Original Terms**").

Pursuant to the HNC Supplemental Deed, the HNC Original Terms shall be amended and supplemented by the following:

(i) Early settlement of the HNC Subsequent Consideration (the "HNC Early Settlement Terms")

On the condition that the audited consolidated net profit after taxation of the HNC Group for the year ended 31 December 2019 is not less than RMB450 million, the parties agreed that upon finalisation of audited financial statements of the HNC Group for the year ended 31 December 2019, the HNC Purchaser may at its absolute discretion settle the maximum HNC Subsequent Consideration (i.e. HK$149.4 million) prior to the release of the Company's annual results for the financial year ending 31 December 2020.

As at the Latest Practicable Date, such condition has been fulfilled. Detailed financial information of the HNC Group is set out in the paragraphs headed "Information of the HNC Purchaser, the HNC Vendors and the HNC Group" below in this section.

Should the HNC Purchaser exercises its discretion to early settle the HNC Subsequent Consideration to the HNC Vendors, the maximum cap of the HNC Subsequent Consideration shall be settled in full by issuing and allotting 29,879,877 Shares to the HNC Vendors no later than (i) the seventh (7th) Business Day after the date when the conditions as set out in the paragraphs headed "The HNC Amendments – Conditions precedent" are fulfilled; or (ii) the record date for the entitlement of the final dividend to be declared by the Company for the year ended 31 December 2019, whichever is later.

(ii) Grant of the HNC Call Option

Pursuant to the HNC Supplemental Deed, the HNC Vendors conditionally agreed to grant the HNC Purchaser the HNC Call Option.

Provided that the HNC Purchaser having early settled the HNC Subsequent Consideration by the issuance and allotment of 29,879,877 HNC Subsequent Consideration Shares by the Company to the HNC Vendors, upon finalisation of audited financial statements of the HNC Group for the year ending 31 December 2020, the HNC Purchaser shall reassess the HNC Actual Subsequent Consideration based on the audited consolidated net profit after taxation of the HNC Group for the four years ending 31 December 2020 in accordance with the formulae set out in the HNC Sale and Purchase Agreement.

Pursuant to the HNC Sale and Purchase Agreement, the HNC Actual Subsequent Consideration is determined based on the HNC Average Growth Rate. The HNC Average Growth Rate shall be calculated in accordance with the following formula:

$$\text{HNC Average Growth Rate} = \{[(A_{2018} - A_{2017}) \div A_{2017}] + [(A_{2019} - A_{2018}) \div A_{2018}] + [(A_{2020} - A_{2019}) \div A_{2019}]\} \text{ x } 100\% \div 3$$

The HNC Actual Subsequent Consideration shall in turn be determined as follows:

(i) If the HNC Average Growth Rate is 20% or less, the HNC Actual Subsequent Consideration shall equal to zero;

(ii) In the event that the HNC Average Growth Rate is less than 25% but more than 20%, the HNC Actual Subsequent Consideration shall be determined in accordance with the following formula:

HNC Actual Subsequent Consideration = (2.5 x X + 2 x Y + 1.5 x Z) x 15%

(iii) In the event that the HNC Average Growth Rate is 25% or above, the HNC Actual Subsequent Consideration shall be determined in accordance with the following formula:

HNC Actual Subsequent Consideration = (5 x X + 4 x Y + 3 x Z) x 15%

Where (for all the calculation formulae above),

A_{2017} = the audited consolidated net profit after taxation of the HNC Group for the year ended 31 December 2017;

A_{2018} = the audited consolidated net profit after taxation of the HNC Group for the year ended 31 December 2018;

A_{2019} = the audited consolidated net profit after taxation of the HNC Group for the year ended 31 December 2019;

A_{2020} = the audited consolidated net profit after taxation of the HNC Group for the year ending 31 December 2020;

X = (A_{2018} – A_{2017}) or zero, whichever is higher;

Y = (A_{2019} – A_{2018}) or zero, whichever is higher; and

Z = (A_{2020} – A_{2019}) or zero, whichever is higher.

Shall there be any shortfall between the HNC Actual Subsequent Consideration and the then settled amount of HNC Subsequent Consideration (i.e. HK$149.4 million), the HNC Purchaser may at its absolute discretion exercise the HNC Call Option to require the HNC Vendors to sell the shortfall (if any) between 29,879,877 Shares and the HNC Actual Subsequent Consideration Shares, which is capped at 29,879,877 Shares, to the HNC Purchaser or its nominee(s) at nil consideration. Such shortfall (if any) shall be calculated in accordance with the following formula:

$$\text{Shortfall} = 29{,}879{,}877 \quad - \quad \frac{\text{HNC Actual Subsequent Consideration}}{\text{HNC Consideration Share Price (i.e. HK\$5.00)}}$$

Any Shares acquired by the HNC Purchaser or its nominee(s) pursuant to the HNC Call Option will be dealt with at the sole discretion of the HNC Purchaser or the Company, including the possible cancellation or the disposal by way of share placement. Having considered the prevailing requirements of the Listing Rules, the Company will cancel all the Shares acquired upon purchase of such Shares in the event that the Company exercises the HNC Call Option.

Save for the HNC Early Settlement Terms and the HNC Call Option as disclosed above, other terms and conditions as set out in the HNC Sale and Purchase Agreement, including but not limited to the HNC Consideration Share Price and the maximum cap of the HNC Total Consideration remain the same.

Upon fulfilment of all conditions precedent of the HNC Supplemental Deed (details of which are set out under paragraph headed "The HNC Amendments – Conditions precedent" below), 10,577,476 Shares, 11,334,433 Shares and 7,967,967 Shares will be issued and allotted to HNC Vendor A, HNC Vendor B and HNC Vendor C respectively.

Having considered the reasons and benefits as set out in the paragraphs headed "Reasons for and benefits of the HNC Amendments" below in this section, 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 HNC Amendments can recognise the efforts of the HNC Vendors in achieving such outstanding growth in the HNC Group and protect the Group's interest at the same time, and hence consider that the HNC Amendments are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion of the HNC Amendments shall be conditional upon the fulfilment of the following conditions:

(i) the HNC Independent Shareholders passing at the EGM resolutions approving the entering into, execution, delivery and performance of the HNC Supplemental Deed and the transactions contemplated thereunder, including without limitation the issuance and allotment of the HNC Subsequent Consideration Shares to the HNC Vendors, and giving any other approvals or notifications as may be required under the Listing Rules and other applicable laws; and

(ii) the approval obtained from the Stock Exchange for the listing of and permission to deal in the HNC Subsequent Consideration Shares not being subsequently revoked prior to the issuance and allotment of the HNC Subsequent Consideration Shares.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

Information of the HNC Purchaser, the HNC Vendors and the HNC Group

The HNC Purchaser

Ausnutria Nutrition B.V. (formerly known as Hyproca Nutrition B.V.) is a private company with limited liability incorporated in the Netherlands and an indirect wholly-owned subsidiary of the Company and is principally engaged in marketing and distribution of goat milk nutrition products. As at the Latest Practicable Date, the HNC Purchaser owns the entire issued shares of HNHK.

The HNC Vendors

Perfect Victory Holdings Limited, being HNC Vendor A, is a company incorporated under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, HNC Vendor A is wholly-owned by Ms. Li Yimin, being a director and general manager of HNC.

Dynamic Winners Group Limited, being HNC Vendor B, is a company incorporated under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, HNC Vendor B is owned by 26 individuals, namely Ms. Jiang Hui as to 17.6%, Ms. Xu Sha as to 17.6%, Ms. Hou Yanmei as to 8.7%, Mr. Wang Wei as to 5.2%, Mr. Wen Tao as to 5.2%, Mr. Zhou Yang as to 5.2%, Ms. Zheng Qiong as to 5.2%, Mr. Liu Zhen as to 4.4%, Ms. Zhang Xueqin as to 3.5%, Mr. Chen Liang as to 3.5%, Mr. Xiao Luo as to 3.5%, Ms. Huang Yanhui as to 3.5%, Mr. Zhang Hui as to 1.8%, Mr. Wang Zhuohui as to 1.8%, Mr. Guo Jinbiao as to 1.8%, Mr. Zeng Hui as to 1.8%, Ms. Zang Kejiao as to 1.8%, Mr. Liu Wei as to 1.8%, Mr. Li Xiangyu as to 1.8%, Mr. Huang Xin as to 1.8%, Ms. Tan Chunyan as to 0.8%, Mr. Tian Bo as to 0.5%, Mr. Su Feng as to 0.4%, Ms. Yang Danfeng as to 0.3%, Ms. Liu Sudan as to 0.3% and Ms. Li Qiuping as to 0.2%. The 26 individuals, being employees of HNC, are parties independent of the Company and its connected persons.

Reliable Global Holdings Limited, being HNC Vendor C, is a company incorporated under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, HNC Vendor C is wholly-owned by Mr. Wong Wei Hua Derek, being the company secretary of the Company and a director of HNHK.

The HNC Group

The HNC Group is principally engaged in marketing and distribution of nutrition products, in particular the goat milk infant formula under the brand name Kabrita, in Mainland China and Hong Kong.

Since the completion of the HNC Acquisition in May 2018, the HNC Group has been indirectly wholly-owned by the Company through the HNC Purchaser and the HNC Target Company (being a company incorporated under the laws of the British Virgin Islands with limited liability and principally engaged in investment holding).

Set out below is the summary of the key financial information of HNC Group based on the audited consolidated financial statements of HNC Group for the three years ended 31 December 2019:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB million	*RMB million*	*RMB million*
	(Audited)	*(Audited)*	*(Audited)*
Revenue	1,078.2	1,772.5	2,570.3
Net profit before taxation	217.3	343.2	546.1
Net profit after taxation	158.1	246.4	452.5

	As at 31 December 2019
	RMB million
	(Audited)
Net assets	483.3

Based on the above financial information, the growth rate in net profit after taxation of HNC Group for the year ended 31 December 2018 and 31 December 2019 were 55.9% and 83.6% respectively.

Reasons for and benefits of the HNC Amendments

Since the completion of the HNC Acquisition, the HNC Group has been continuously performing well and has made substantial contribution to the Group's financial performance. As disclosed above, the growth rate in the consolidated net profits after taxation of the HNC Group for the year ended 31 December 2018 and 31 December 2019 were 55.9% and 83.6% respectively, which well exceeded the highest hurdle of the average growth rate (being 25.0%) for the adjustment of the HNC Total Consideration under the HNC Sale and Purchase Agreement. Under the HNC Early Settlement Terms, the HNC Subsequent Consideration can be settled prior to the release of the Company's annual results for the financial year ending 31 December 2020. The Company is of the view that providing an early settlement mechanism of HNC Subsequent Consideration is an appreciation to the management team (being the HNC Vendors) and to recognise the contribution of the management team in the continued strong profitable growth momentum of the HNC Group to the Group. While it can further motivate the management team to optimise their performance for the benefit of the HNC Group, there is no extra consideration incurred as the HNC Early Settlement Terms will not alter the number of HNC Subsequent Consideration Shares to be issued to the HNC Vendors. Further, the early settlement of HNC Subsequent Consideration will be well received by the management team as the Company's recognition on their contribution. Accordingly, the Directors consider that the early settlement mechanism provides reciprocal benefits between the Group and the management team of the HNC Group.

While the HNC Subsequent Consideration is proposed to be settled prior to the prescribed time as specified in the HNC Sale and Purchase Agreement, the Company has put in place sufficient safeguard for the protection of the Company's interests, including that (i) the HNC Purchaser has the absolute discretion to buy back the HNC Subsequent Consideration Shares at nil consideration by exercising the HNC Call Option in the event that the financial performance of HNC Group does not reach the performance benchmarks as set out under the HNC Sale and Purchase Agreement; (ii) the HNC Vendors will not be entitled to receive dividend payment for the year ended 31 December 2019 as the HNC Subsequent Consideration will be payable to the HNC Vendors after the record date for the entitlement of the final dividend to be declared by the Company for the year ended 31 December 2019; and (iii) the lock-up undertaking in respect of the HNC Subsequent Consideration Shares remains unchanged, pursuant to which each of the HNC Vendors undertakes to the HNC Purchaser that it will not, for a period of 12 months from the issuance and allotment of the HNC Subsequent Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HNC Subsequent Consideration Shares.

Moreover, in accordance with International Accounting Standard 32, the HNC Subsequent Consideration, being a contingent consideration, is classified as a financial instrument and is measured at fair value through profit or loss. Accordingly, valuation of the HNC Subsequent Consideration and thus the fair value of the financial instrument hinges on the market price of the Shares. Fluctuation of the market prices of the Shares and hence the change in fair value of the HNC Subsequent Consideration have led to significant accounting impact to the Group's profit attributable to equity holders of the Company.

Subsequent to the completion of the HNC Acquisition in May 2018, the Group has recorded a fair value gain of RMB22.3 million and a fair value loss of RMB63.6 million for the year ended 31 December 2018 and 31 December 2019 respectively. Despite such accounting gain/loss has no adverse implications to the Group's cash flow and operating position, the Company considers this may lead to misinterpretation in the Group's actual financial performance. With early settlement of the HNC Subsequent Consideration, the Group can cease the significant accounting impact of the financial derivatives instrument arising from the HNC Subsequent Consideration.

Having considered the above reasons, 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) consider that the terms and conditions of the HNC Supplemental Deed are fair and reasonable and are in the interests of the Shareholders as a whole.

EFFECTS ON THE SHAREHOLDING STRUCTURE

The HBC Acquisition

For illustrative purpose only, the following table sets out the effect of the issuance and allotment of the HBC Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date and assuming (i) the HBC Completion having taken place; and (ii) the HBC Consideration Shares having been issued and allotted, without taking into account any other new Shares, if any, after the Latest Practicable Date and prior to the issuance and allotment of the HBC Consideration Shares.

	As at the Latest Practicable Date		**Immediately upon the issuance and allotment of the HBC Consideration Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
HBC Vendor A, HBC Employees and their associates *(Note 1)*	1,083,000	0.1	57,083,000	3.4
HBC Vendor B and its associate *(Note 2)*	560,000	0.0	14,560,000	0.9
Citagri Easter Limited	379,000,000	23.5	379,000,000	22.5
Center Laboratories, Inc. ("**Center Lab**") *(Note 3)*	343,931,772	21.3	343,931,772	20.4
Mr. Bartle van der Meer *(Note 4)*	125,405,230	7.8	125,405,230	7.4
Mr. Yan Weibin *(Notes 5)*	119,939,085	7.4	119,939,085	7.1
Public Shareholders	645,501,212	39.9	645,501,212	38.3
Total	1,615,420,299	100.0	1,685,420,299	100.0

The HNC Amendments

For illustrative purpose only, the following table sets out the effect of the issuance and allotment of the maximum number of HNC Subsequent Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date and assuming the maximum HNC Subsequent Consideration Shares having been issued and allotted, without taking into account any other new Shares, if any, after the Latest Practicable Date and prior to the issuance and allotment of the maximum HNC Subsequent Consideration Shares.

	As at the Latest Practicable Date		**Immediately upon the issuance and allotment of the maximum HNC Subsequent Consideration Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
HNC Vendor A and its associate *(Note 6)*	18,894,120	1.2	29,471,596	1.8
HNC Vendor B and its associate *(Note 6)*	18,220,905	1.1	29,555,338	1.8
HNC Vendor C and its associate *(Note 6)*	12,406,766	0.7	20,374,733	1.2
Citagri Easter Limited	379,000,000	23.5	379,000,000	23.1
Center Lab *(Note 3)*	343,931,772	21.3	343,931,772	20.9
Mr. Bartle van der Meer *(Note 4)*	125,405,230	7.8	125,405,230	7.6
Mr. Yan Weibin *(Note 5)*	119,939,085	7.4	119,939,085	7.3
Public Shareholders	597,622,421	37.0	597,622,421	36.3
Total	1,615,420,299	100.0	1,645,300,175	100.0

The HBC Acquisition and the HNC Amendments

For illustrative purpose only, the following table sets out the effect of the issuance and allotment of the HBC Consideration Shares and the maximum number of HNC Subsequent Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date and assuming (i) the HBC Completion having taken place; (ii) the HBC Consideration Shares having been issued and allotted; and (iii) the maximum HNC Subsequent Consideration Shares having been issued and allotted, without taking into account any other new Shares, if any, after the Latest Practicable Date and prior to the issuance and allotment of the HBC Consideration Shares and the maximum HNC Subsequent Consideration Shares.

	As at the Latest Practicable Date		Immediately upon the issuance and allotment of the HBC Consideration Shares and the maximum HNC Subsequent Consideration Shares	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
HBC Vendor A, HBC Employees and their associates *(Note 1)*	1,083,000	0.1	57,083,000	3.3
HBC Vendor B and its associate *(Note 2)*	560,000	0.0	14,560,000	0.8
HNC Vendor A and its associate *(Note 6)*	18,894,120	1.2	29,471,596	1.7
HNC Vendor B and its associate *(Note 6)*	18,220,905	1.1	29,555,338	1.7
HNC Vendor C and its associate *(Note 6)*	12,406,766	0.7	20,374,733	1.2
Citagri Easter Limited	379,000,000	23.5	379,000,000	22.1
Center Lab *(Note 3)*	343,931,772	21.3	343,931,772	20.1
Mr. Bartle van der Meer *(Note 4)*	125,405,230	7.8	125,405,230	7.3
Mr. Yan Weibin *(Notes 5)*	119,939,085	7.4	119,939,085	7.0
Public Shareholders	595,979,421	36.9	595,979,421	34.8
Total	1,615,420,299	100.0	1,715,300,175	100.0

Notes:

1. As at the Latest Practicable Date, Mr. Liu Yubiao, being HBC Vendor A, beneficially owns 1,083,000 Shares. The HBC Employees do not hold any Shares.

2. As at the Latest Practicable Date, Mr. Liu Guangchu, being HBC Vendor B, and his spouse beneficially own 529,000 and 31,000 Shares respectively. Accordingly, Mr. Liu Guangchu is deemed to be interested in a total of 560,000 Shares under the SFO. The percentage of the Shares are rounded to the nearest one decimal place in the shareholding table above.

3. As at the Latest Practicable Date, Center Lab beneficially owns 307,940,089 Shares. BioEngine Capital Inc., which holds 35,991,683 Shares, is a non-wholly-owned subsidiary of Center Lab. Accordingly, Center Lab is deemed to be interested in a total of 343,931,772 Shares under the SFO.

4. As at the Latest Practicable Date, Mr. Bartle van der Meer beneficially owns 1,200,000 Shares. Dutch Dairy Investments HK Limited, which holds 124,205,230 Shares, is wholly-owned by Dutch Dairy Investments B.V.. Dutch Dairy Investments B.V. is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer. Accordingly, Mr. Bartle van der Meer is deemed to be interested in a total of 125,405,230 Shares under the SFO. Apart from these, Mr. Bartle van der Meer also holds share options granted by the Company on 15 January 2019 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enable him to further subscribe for 1,500,000 Shares.

5. As at the Latest Practicable Date, Mr. Yan Weibin beneficially owns 1,200,000 Shares. Ausnutria Holding Co. Ltd., which holds 118,739,085 Shares, is wholly-owned by Mr. Yan Weibin. Accordingly, Mr. Yan Weibin is deemed to be interested in 119,939,085 Shares under the SFO. Apart from these, Mr. Yan Weibin also holds share options granted by the Company on 15 January 2019 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enable him to further subscribe for 1,500,000 Shares.

6. Due to the round-down treatment as set out in the HNC Sale and Purchase Agreement, the sum of the maximum HNC Subsequent Consideration Shares to be issued and allotted to each of the HNC Vendors is 29,879,876 Shares.

IMPLICATIONS UNDER THE LISTING RULES

The HBC Acquisition

As all of the applicable percentage ratios (as defined in Rule 14.07) in respect of the HBC Acquisition are less than 5.0%, the HBC Acquisition constitutes a share transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 13.36(1), the HBC Consideration Shares will be issued under the HBC Specific Mandate subject to the approval by the HBC Independent Shareholders.

As at the Latest Practicable Date, HBC Vendor A is a director of HBHK and HBC, and hence is a connected person of the Company by virtue of Rule 14A.07(1). Accordingly, the HBC Acquisition consititutes a connected transaction for the Company and is also subject to the HBC Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, HBC Vendor A, HBC Vendor B and the spouse of HBC Vendor B hold 1,643,000 Shares in aggregate (representing approximately 0.1% of the total issued share capital of the Company). Accordingly, HBC Vendor A, HBC Vendor B and the spouse of HBC Vendor B, who are interested in the HBC Acquisition, shall abstain from voting on the proposed resolution(s) to approve the HBC Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no Director or other Shareholders has any material interest in the HBC Acquisition and is required to abstain from voting on the proposed resolution(s) to approve the HBC Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

The HNC Amendments

As at the Latest Practicable Date, the sole owner of HNC Vendor A is a director of HNC and the sole owner of HNC Vendor C is the company secretary of the Company and a director of HNHK. Both are considered to be connected persons of the Company by virtue of Rule 14A.07(1).

The HNC Acquisition constituted a discloseable and connected transaction for the Company under Chapter 14A of the Listing Rules and relevant resolutions were approved by the HNC Independent Shareholders in the 2018 EGM. Given the HNC Amendments are considered as material changes in substance and give rise to a new transaction, the Company is required to re-comply with the HNC Independent Shareholders' approval requirement for the revised terms and conditions of the HNC Acquisition under Chapter 14A of the Listing Rules.

The HNC Vendors and their associates are interested in the HNC Amendments and hold 49,521,791 Shares in aggregate as at the Latest Practicable Date (representing approximately 3.0% of the total issued share capital of the Company) and shall abstain from voting on the proposed resolution(s) to approve the HNC Supplemental Deed and the transactions contemplated thereunder at the EGM.

Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no Director or other Shareholders has any material interest in the HNC Amendments and is required to abstain from voting on the proposed resolution(s) to approve the HNC Supplemental Deed and the transactions contemplated thereunder at the EGM.

EGM

The EGM will be convened and held for, among other things, the HBC Independent Shareholders and the HNC Independent Shareholders (as the case may be) to consider and, if thought fit, to approve, among other things, (i) the HBC Sale and Purchase Agreement and the transactions contemplated thereunder and the granting of the HBC Specific Mandate to issue and allot the HBC Consideration Shares; and (ii) the HNC Supplemental Deed and the transactions contemplated thereunder, by way of a poll.

The notice convening the EGM of the Company to be held at 8th Floor, XinDaXin Building A, No. 168 Huangxing Middle Road, Changsha City, Hunan Province, the PRC, on Thursday, 30 July 2020, at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use by the Independent Shareholders at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to read the notice of EGM and complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, 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 the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meetings should you so wish.

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) consider that (i) the terms of the HBC Sale and Purchase Agreement and the transactions contemplated thereunder and the granting of the HBC Specific Mandate to issue and allot the HBC Consideration Shares; and (ii) the terms of the HNC Supplemental Deed and the transactions contemplated thereunder are fair and reasonable, are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Accordingly the Directors recommend the HBC Independent Shareholders and the HNC Independent Shareholders (as the case may be) to vote in favour of the resolutions to be proposed at the EGM to approve (i) the HBC Sale and Purchase Agreement and the transactions contemplated thereunder and the granting of the HBC Specific Mandate to issue and allot the HBC Consideration Shares; and (ii) the HNC Supplemental Deed and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise (i) the HBC Independent Shareholders on the terms of the HBC Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the HNC Independent Shareholders on the terms of the HNC Supplemental Deed and the transactions contemplated thereunder. Frontpage 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 33 to 34 of this circular, which contains its recommendation to the Independent Shareholders; (ii) the letter from the Independent Financial Adviser set out on pages 35 to 77 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders; and (iii) the general information set out in the Appendix to this circular.

Completions of the HBC Acquisition and the HNC Amendments are conditional upon the fulfilment of the conditions set out in the paragraphs headed "The HBC Acquisition – Conditions precedent" and "The HNC Amendments – Conditions precedent" in this circular, which may or may not be fulfilled. Accordingly, the HBC Acquisition and the HNC Amendments may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares and other securities of the Company.

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

澳优
Ausnutria

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)

13 July 2020

To the Independent Shareholders

Dear Sirs,

SHARE AND CONNECTED TRANSACTION REGARDING THE HBC ACQUISITION; AND AMENDMENTS OF TERMS OF DISCLOSEABLE AND CONNECTED TRANSACTION REGARDING THE HNC ACQUISITION

We refer to the circular dated 13 July 2020 (the "**Circular**") issued by the Company of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular have the same meanings herein.

We have been appointed by the Board as members of the Independent Board Committee to advise (i) the HBC Independent Shareholders on the terms of the HBC Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the HNC Independent Shareholders on the terms of the HNC Supplemental Deed and the transactions contemplated thereunder. Frontpage Capital has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to (i) the letter from the Board set out on pages 8 to 32 of the Circular; (ii) the letter from the Independent Financial Adviser as set out on pages 35 to 77 of the Circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the HBC Sale and Purchase Agreement and the HNC Supplemental Deed and the respective transactions contemplated thereunder as well as the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation; and (iii) the additional information as set out in the Appendix to the Circular.

After taking account of the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with its views and consider that (i) the terms of the HBC Sale and Purchase Agreement and the transactions contemplated thereunder and the granting of the HBC Specific Mandate to issue and allot the HBC Consideration Shares; and (ii) the terms of the HNC Supplemental Deed and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the HBC Independent Shareholders and the HNC Independent Shareholders (as the case may be) to vote in favour of the resolutions to be proposed at the EGM to approve (i) the HBC Sale and Purchase Agreement and the transactions contemplated thereunder and the granting of the HBC Specific Mandate to issue and allot the HBC Consideration Shares; and (ii) the HNC Supplemental Deed and the transactions contemplated thereunder.

Yours faithfully
For and on behalf of the
Independent Board Committee

Mr. Lau Chun Fai Douglas **Mr. Jason Wan** **Mr. Aidan Maurice Coleman**
Independent non-executive Directors

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

FRONTPAGE 富比

13 July 2020

To the Independent Board Committee and the Independent Shareholders of
Ausnutria Dairy Corporation Ltd

Dear Sirs or Madams,

(1) SHARE AND CONNECTED TRANSACTION REGARDING THE HBC ACQUISITION; AND (2) AMENDMENTS OF TERMS OF DISCLOSEABLE AND CONNECTED TRANSACTION REGARDING THE HNC ACQUISITION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the HBC Acquisition; and (ii) the HNC Amendments, details of which are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company dated 13 July 2020 and issued to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless the context requires otherwise.

On 9 April 2020 (after trading hours), the HBC Purchaser, being a wholly-owned subsidiary of the Company, the HBC Vendors and the Company entered into the HBC Sale and Purchase Agreement in relation to the HBC Acquisition, pursuant to which the HBC Purchaser has conditionally agreed to acquire and the HBC Vendors have conditionally agreed to sell the HBC Sale Shares, representing 15.0% of all the issued shares of HBHK, at the HBC Consideration of HK$896.0 million by way of issuance and allotment of 70,000,000 HBC Consideration Shares at the HBC Consideration Share Price of HK$12.8 each by the Company to the HBC Vendors. The HBC Consideration is subject to a downward adjustment by the HBC Call Option which can be exercised by the HBC Purchaser in its absolute discretion in accordance with the terms of the HBC Sale and Purchase Agreement. Upon HBC Completion, HBHK and HBC (both being the Company's indirect non-wholly-owned subsidiaries) will become indirect wholly-owned subsidiaries of the Company.

As all of the applicable percentage ratios (as defined in Rule 14.07) in respect of the HBC Acquisition are less than 5.0%, the HBC Acquisition constitutes a share transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, HBC Vendor A is a director of HBHK and HBC, and hence is a connected person of the Company by virtue of Rule 14A.07(1). Accordingly, the HBC Acquisition constitutes a connected transaction for the Company and is also subject to the HBC Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, HBC Vendor A, HBC Vendor B and the spouse of HBC Vendor B hold 1,643,000 Shares in aggregate (representing approximately 0.1% of the total issued share capital of the Company). Accordingly, HBC Vendor A, HBC Vendor B and the spouse of HBC Vendor B, who are interested in the HBC Acquisition, shall abstain from voting on the proposed resolution(s) to approve the HBC Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM. Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no Director or other Shareholders has any material interest in the HBC Acquisition and is required to abstain from voting on the proposed resolution(s) to approve the HBC Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

Moreover, on 9 April 2020 (after trading hours), the HNC Purchaser, the HNC Vendors and the Company entered into the HNC Supplemental Deed, pursuant to which the parties have conditionally agreed to amend certain terms regarding, among others, the settlement of the HNC Subsequent Consideration, in the HNC Sale and Purchase Agreement.

As at the Latest Practicable Date, the sole owner of HNC Vendor A is a director of HNC and the sole owner of HNC Vendor C is the company secretary of the Company and a director of HNHK. Both are considered to be connected persons of the Company by virtue of Rule 14A.07(1). The HNC Acquisition constituted a discloseable and connected transaction for the Company under Chapter 14A of the Listing Rules and the relevant resolutions were approved by the HNC Independent Shareholders in the 2018 EGM. Given the HNC Amendments are considered as material changes in substance and give rise to a new transaction, the Company is required to re-comply with the HNC Independent Shareholders' approval requirement for the revised terms and conditions of the HNC Acquisition under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, the HNC Vendors and their associates are interested in the HNC Amendments and hold 49,521,791 Shares in aggregate (representing approximately 3.0% of the total issued share capital of the Company) and shall abstain from voting on the proposed resolution(s) to approve the HNC Supplemental Deed and the transactions contemplated thereunder at the EGM. Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no Director or other Shareholders has any material interest in the HNC Amendments and is required to abstain from voting on the proposed resolution(s) to approve the HNC Supplemental Deed and the transactions contemplated thereunder at the EGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Lau Chun Fai Douglas, Mr. Jason Wan and Mr. Aidan Maurice Coleman, being all the independent non-executive Directors, has been formed to advise (i) the HBC Independent Shareholders on the terms of the HBC Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the HNC Independent Shareholders on the terms of the HNC Supplemental Deed and the transactions contemplated thereunder. Our role as independent financial adviser is to give our opinion and recommendation as to whether (i) the HBC Acquisition; and (ii) the HNC Amendments are on normal commercial terms, in the ordinary and usual course of business of the Company, are fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the terms of the HBC Sale and Purchase Agreement; (ii) the terms of HNC Sale and Purchase Agreement; (iii) the terms of the HNC Supplemental Deed; (iv) the 2019 annual report and interim report of the Company; and (v) other information as set out in the Circular.

We have also relied on all relevant information, opinions and facts supplied and representations made to us by the Company, the Directors and the management of the Company. We have assumed that all such information, opinions, facts and representations provided to us or contained or referred to in the Circular, for which the Company and the Directors are fully responsible, are true and accurate in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out independent verification of the information provided by the Company and the Directors, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Company, the HBC Group, the HBC Purchaser, the HBC Vendors, the HNC Group, the HNC Purchaser, the HNC Vendors or any of their respective subsidiaries or associates. Our advice was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms of the HBC Acquisition and the HNC Amendments.

OUR INDEPENDENCE

We are not connected with the Directors, chief executive and substantial shareholders of the Company, the HBC Group, the HBC Purchaser, the HBC Vendors, the HNC Group, the HNC Purchaser, the HNC Vendors or any of their respective subsidiaries or associates and do not have any shareholding, direct or indirect, in any member of the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company as at the date hereof. No arrangement exists whereby we will receive any benefits from the Company or the Directors, chief executive and substantial shareholders of the Company, the HBC Group, the HBC Purchaser, the HBC Vendors, the HNC Group, the HNC Purchaser, the HNC Vendors or any of their respective subsidiaries or associates for our services to the Company in connection with this appointment aside from our professional fees.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to (i) the HBC Acquisition; and (ii) the HNC Amendments, we have taken into account the following principal factors:

I. THE HBC ACQUISITION

1. Background and financial information of the Group

The Company acts as an investment holding company of the Group. The Group is principally engaged in (i) the dairy industry with activities including research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC and other overseas countries; and (ii) research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia.

The Group has made its "Golden Decade" strategy in late 2015 to further strengthen its position for infant formula products, and has been expanding its marketing and distribution network in the dairy industry. In view of the long term strategic plan of the Group to become one of the major global players in the nutrition sector, particularly on infant formula products, the Company continues to streamline its business structure and strategies, increase its effort on the building of the global supply chain on infant formula and establish the 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 (which are all produced 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 worldwide customers on an original equipment manufacturing basis. Further, since the Group acquired Nutrition Care, an Australian nutrition business, in 2016, and the subsequent establishment of a sales platform, the Group also provided nutrition products in the PRC and Australia.

The following table summarises the audited consolidated statements of profit or loss and other comprehensive income of the Group for the years ended 31 December 2018 and 2019 ("**Year 2018**" and "**Year 2019**", respectively) as extracted from the 2019 annual report of the Company:

	Year ended 31 December	
	2018	**2019**
	RMB million	*RMB million*
Revenue		
Own-branded formula milk powder products		
– Cow milk	2,368.0	3,167.2
– Goat milk	2,033.4	2,856.2
	4,401.4	6,023.4
Private labels and others (including milk powder, butter and others)	852.1	594.1
Dairy and related products	5,253.5	6,617.5
Nutrition products	136.1	118.7
	5,389.6	6,736.2
Gross profit	2,660,6	3,533.3
Profit before tax	792.0	1,107.2
Profit for the year		
Attributable to owners of the parent	635.1	878.4
Attributable to non-controlling interests	9.5	0.5

Source: 2019 annual report of the Company

The revenue of the Group increased by approximately RMB1,346.6 million, or 25.0%, from approximately RMB5,389.6 million for the Year 2018 to approximately RMB6,736.2 million for the Year 2019. Such increase was mainly driven by the increase in sales of the Group's own-branded cow and goat milk based formula products by approximately 33.8% and 40.5%, respectively, as compared with that for the Year 2018, as a result of the continuous strengthening of sales network and brand building.

The revenue of the Group from sales of own-branded cow milk based formula products increased by approximately RMB799.2 million, or 33.8%, from approximately RMB2,368.0 million for the Year 2018 to approximately RMB3,167.2 million for the Year 2019. Such increase was mainly attributable to (i) the constant enhancement in its product mix in accordance with its multiple-brand strategy that caters to the rising market demand for high-end products; and (ii) the synergies between its brands and channels resulting from the Group's efforts in developing mama and baby store channels by high-frequency and high-quality marketing activities.

The revenue of the Group from sales of own-branded goat milk formula products increased by approximately RMB822.8 million, or 40.5%, from approximately RMB2,033.4 million for the Year 2018 to approximately RMB2,856.2 million for the Year 2019. Such increase was mainly attributable to (i) the Group's marketing strategy to raise its brand awareness and market acceptance; and (ii) the expansion of the Group's up-stream production capacity and its ability to secure quality raw materials for production.

The revenue of the Group from private labels and others decreased by approximately RMB258.0 million, or 30.3%, from approximately RMB852.1 million for the Year 2018 to approximately RMB594.1 million for the Year 2019, as the Group changed its strategies to prioritise more resources to better serve its own-branded formula milk powder business, which led to a temporary interruption of both the private label business and sales of dairy related products for the Year 2019.

The revenue of the Group from nutrition products decreased by approximately RMB17.4 million, or 12.8%, from approximately RMB136.1 million for the Year 2018 to approximately RMB118.7 million for the Year 2019. Such decrease was mainly due to (i) the decrease in sales of Soforla products (a supplement that resolves lactose intolerance in infants), as a result of a product suspension during the Year 2019 caused by a packaging issue incurred by an outsourced contractor; and (ii) the temporary interruption of cross-border sales resulted from the social unrest in Hong Kong and the adoption of the e-commerce law in the PRC during the Year 2019.

The gross profit of the Group increased by approximately RMB872.7 million, or 32.8%, from approximately RMB2,660.6 million for the Year 2018 to approximately RMB3,533.3 million for the Year 2019. The gross profit margin of the Group increased from approximately 49.4% for the Year 2018 to approximately 52.5% for the Year 2019. Such increase in gross profit margin was mainly attributable to the proportionate increase in the sales of the higher profit margin of own-branded formula milk powder products, particularly those products that are in the super premium and niche segments, as compared with the other business sectors. Own-branded formula milk powder products' contribution to the Group's revenue increased from approximately 81.6% for the Year 2018 to approximately 89.4% for the Year 2019.

The profit attributable to owners of the parent of the Group increased by approximately RMB243.3 million, or 38.3%, from approximately RMB635.1 million for the Year 2018 to approximately RMB878.4 million for the Year 2019. Such increase was mainly driven by (i) better brand awareness and acceptance of the Group's goat and cow milk based infant formula 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 based infant formula products. Should the fair value change of derivative financial instruments be excluded (loss for the Year 2019 of approximately RMB63.6 million and gain for the Year 2018 of approximately RMB53.6 million), the adjusted profit attributable to owners of the parent of the Group would have increased by approximately RMB360.5 million, or 62.0%, from approximately RMB581.5 million for the Year 2018 to approximately RMB942.0 million for the Year 2019.

The following table summarises the audited consolidated statements of financial position of the Group as at 31 December 2018 and 2019 as extracted from the 2019 annual report of the Company:

	As at 31 December	
	2018	**2019**
	RMB million	*RMB million*
Non-current assets	2,690.5	3,369.0
Current assets	4,138.5	4,974.2
Total assets	**6,829.0**	**8,343.2**
Non-current liabilities	781.3	1,266.3
Current liabilities	2,653.2	3,013.0
Total liabilities	**3,434.5**	**4,279.3**
Equity attributable to owners of the parent	3,253.7	4,015.7
Non-controlling interests	140.8	48.2
Total equity	**3,394.5**	**4,063.9**

Source: 2019 annual report of the Company

As at 31 December 2019, total assets of the Group amounted to approximately RMB8,343.2 million, representing an increase of approximately 22.2% as compared with that as at 31 December 2018. Such increase was mainly attributable to (i) the increase in inventories of approximately RMB507.0 million as a result of the scale-up of the Group's operations; (ii) the subscription of convertible bonds in the principal amount of US$30.0 million (equivalent to approximately RMB207.4 million); (iii) the increase in long term prepayments and deposits of a total of approximately RMB158.2 million mainly for the expansion of the facilities in the Netherlands and acquisition of the land properties in Changsha City in the PRC; (iv) the recognition of right-of-use assets of approximately RMB349.3 million as a result of the adoption of IFRS 16 *Leases* with effect from 1 January 2019; and (v) the net increase in cash and cash equivalents and pledged deposits of a total of approximately RMB193.0 million derived mainly from cash generated from operating activities.

As at 31 December 2019, net assets of the Group amounted to approximately RMB4,063.9 million, representing an increase of approximately 19.7% as compared with that as at 31 December 2018. Such increase was mainly a result of the net effect of (i) the net profit of the Group generated for the Year 2019; (ii) the increase in share capital and share premium accounts from the issuance of Shares for completion of acquisitions; (iii) the decrease in the share premium account of the Company arising from the payment of 2018 final dividend of approximately RMB208.8 million; and (iv) the decrease in capital reserve arising from the elimination of the goodwill for the acquisitions of the minority interests in the Group's subsidiaries during the Year 2019.

2. Background and financial information of the HBC Group and the Hyproca 1897 BU

2.1 The HBC Group

HBHK is beneficially owned as to approximately 85.0%, 7.8%, 4.2% and 3.0% by the HBC Purchaser, HBC Vendor A, the HBC Employees and HBC Vendor B, respectively. HBC Vendor A, also being the nominee of the HBC Employees, legally owns 12.0% of all the issued shares of HBHK. As such, HBHK is legally owned as to 85.0%, 12.0% and 3.0% by the HBC Purchaser, HBC Vendor A and HBC Vendor B respectively.

HBHK and HBC are principally engaged in marketing and distribution of the Hyproca 1897 Series cow milk powder products in Mainland China and Hong Kong.

The total investment of the HBC Group was contributed by the HBC Purchaser and the HBC Vendors in proportion to their shareholdings in HBHK (i.e. HK$42.5 million and HK$7.5 million respectively).

Set out below is the summary of the key financial information of the HBC Group based on the audited consolidated financial statements of HBHK for the Year 2018 and the Year 2019:

	Year ended 31 December	
	2018	**2019**
	RMB million	*RMB million*
Revenue	911.9	1,692.8
Net profit before taxation	79.3	243.5
Net profit after taxation	54.7	173.4

	As at 31 December 2019
	RMB million
Net assets	310.4

The revenue of the HBC Group increased by approximately RMB780.9 million, or 85.6%, from approximately RMB911.9 million for the Year 2018 to approximately RMB1,692.8 million for the Year 2019. As discussed with the management of the Group, the substantial increase in the revenue was primarily due to the general increase in the infant formula market, particularly in the super premium segment where the HBC Group positions its Hyproca 1897 Series. In addition, the success by the HBC Group in penetrating the mama and baby store, which is the fastest growing sales channel, also helped in boosting the sales of the HBC Group. As the Hyproca 1897 Series are produced and imported from Netherlands, it is increasingly recognised by consumers of its premium quality.

Net profit after taxation of the HBC Group also increased by approximately RMB118.7 million, or 217.0%, from approximately RMB54.7 million for the Year 2018 to approximately RMB173.4 million for the Year 2019. The increase in net profit after taxation is a result of the growth in sales as discussed in the paragraph above.

Set out below is the HBC Group's contribution to the Group's revenue and net profit for the Year 2018 and the Year 2019:

	Year ended 31 December	
	2018	**2019**
Percentage of the Group's revenue	16.9%	25.1%
Percentage of the Group's net profit	8.6%	19.8%
Percentage of the Group's adjusted net profit *(Note)*	9.4%	18.4%

Note: The Group's net profit was adjusted for (i) the loss on the fair value change of derivative financial instruments in the Year 2019 of approximately RMB63.6 million (2018: gain of approximately RMB22.3 million); and (ii) a one-off net gain of approximately RMB31.3 million arising from the re-measurement of an asset and the change in fair value of derivative financial instrument in 2018.

As shown in the above table, the HBC Group's contribution to the Group's revenue and net profit has been increasing during the Year 2018 and the Year 2019.

2.2 The Hyproca 1897 BU

As stated in the Board Letter, Ausnutria China launched a series of cow milk based infant formula products, including the Hyproca 1897 Series in 2013, which was targeted to penetrate into the high-end sector of the PRC market. In 2014, the Group established the Hyproca 1897 BU for the marketing and distribution of Hyproca 1897 Series. To cope with the marketing strategy of the Group, HBHK and HBC were incorporated in March 2015 and September 2015 respectively to promote the Hyproca 1897 Series.

In 2016, Kabrita and Hyproca 1897 were listed among the top 10 most influential brands for infant formula in the PRC at the CBME AWARDS, which is considered as the Oscars in the children, baby and maternity industry in the PRC.

The Hyproca 1897 BU involves three group companies, namely Ausnutria China, HBHK and HBC, as the distribution arm of the Hyproca 1897 Series in the PRC. After importing the Hyproca 1897 Series from the Netherlands, Ausnutria China is responsible for the administrative matters in relation to the distribution of the Hyproca 1897 Series, including logistics, inventory management, and customs. Ausnutria China will charge a mark-up in return when it sells the Hyproca 1897 Series to the HBC Group. While Ausnutria China acts as the importing arm of the Hyproca 1897 Series, it is also involved in business other than those related to the Hyproca 1897 Series, including supporting functions of all the Group's operations in the PRC to facilitate the marketing and distribution of different brands and products that are managed by respective business units in the Group.

In determining the HBC Consideration, the HBC Purchaser and the HBC Vendors are of the view that the financial information of the HBC Group does not fully reflect the contribution of the Hyproca 1897 Series to the Group. Instead, the financial information of the Hyproca 1897 BU should be adopted to better reflect the contribution of the Hyproca 1897 Series to the Group. In assessing this, we have discussed the financial information and business model of the Hyproca 1897 BU with the management of the Group.

The net profit after taxation of the Hyproca 1897 BU shall be the sum of (i) the audited consolidated net profit after taxation of the HBC Group; and (ii) the net profit after taxation of the Hyproca 1897 Series products recorded by Ausnutria China. In arriving the net profit after taxation of the Hyproca 1897 Series contributed to Ausnutria China, as stated in the HBC Sale and Purchase Agreement, all direct, indirect costs, relevant expenses items (as agreed between the HBC Purchaser and HBC Vendors) and relevant tax expenses incurred by Ausnutria China in relation to the sales of the Hyproca 1897 Series products will be subtracted from the sales amount of the Hyproca 1897 Series products recorded by Ausnutria China to the HBC Group.

Set out below is the summary of the key financial information of the Hyproca 1897 BU based on (i) the audited consolidated financial statements of HBHK; and (ii) the financial information of the Hyproca 1897 Series based on the audited financial statements of Ausnurtia China for the Year 2018 and the Year 2019:

	Year ended 31 December							
	2018				2019			
	HBHK and its subsidiaries (i.e. the HBC Group)	**Hyproca 1897 Series recorded by Ausnutria China**	**Intra-business unit elimination** (Note 4)	**Hyproca 1897 BU**	**HBHK and its subsidiaries (i.e. the HBC Group)**	**Hyproca 1897 Series recorded by Ausnutria China**	**Intra-business unit elimination** (Note 4)	**Hyproca 1897 BU**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	(Audited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Revenue	911.9	526.5	(526.5) (Note 1)	911.9	1,692.8	1,022.1	(1,022.1) (Note 1)	1,692.8
Costs	(832.6) (Note 2)	(398.9)	526.5 (Note 3)	(705.0)	(1,449.3) (Note 2)	(767.1)	1,022.1 (Note 3)	(1,194.3)
Net profit before taxation	79.3	127.6	–	206.9	243.5	255.0	–	498.5
Net profit after taxation	54.7	108.5	–	163.2	173.4	216.8	–	390.2

	As at 31 December 2019		
	HBHK and its subsidiaries (i.e. the HBC Group)	**Hyproca 1897 Series recorded by Ausnutria China**	**Hyproca 1897 BU**
	RMB million	*RMB million*	*RMB million*
	(Audited)	*(Unaudited)*	*(Unaudited)*
Net assets	310.4	382.7	693.1

Notes:

1. As all of the revenue Ausnutria China generated from the Hyproca 1897 Series products for the Year 2018 and the Year 2019 was intra-group sales to the HBC Group, all of the revenue was eliminated against the direct costs of the HBC Group in the compilation of the financial information of the Hyproca 1897 BU disclosed above.

2. The amount represents all direct and indirect costs attributable to the Hyproca 1897 Series incurred by the HBC Group. Among which, RMB526.5 million and RMB1,022.1 million for the Year 2018 and the Year 2019 respectively were direct costs recorded by the HBC Group when Ausnutria China sold the Hyproca 1897 Series products to the HBC Group.

3. The direct costs recorded by the HBC Group, which are equivalent to the revenue recorded by Ausnutria China, were eliminated against the revenue recorded by Ausnutria China in the compilation of the financial information of the Hyproca 1897 BU disclosed above.

4. Save for the sales of the Hyproca 1897 Series products from Ausnutria China to the HBC Group, there is no other intra-business units transaction in relation to the Hyproca 1897 Series recorded by the Hyproca 1897 BU.

Net profit after taxation of the Hyproca 1897 BU increased by approximately RMB227.0 million, or 139.1%, from approximately RMB 163.2 million for the Year 2018 to approximately RMB390.2 million for the Year 2019. This growth is the result driven by the growth in sales contributed by the HBC Group.

As explained above, Ausnutria China is involved in the operations of the Group's business units, and part of the revenue and costs attributable to these business units are recorded in the books of Ausnutria China. In this regard, we have obtained explanations and documentary evidence from the Company on how Ausnutria China attributes its revenue and costs to the Group's business units. We noted that the revenue and costs of Ausnutria China for different product series are identifiable and clearly segregated. As each of the Group's product series is only managed by one of the Group's business units, Ausnutria China's revenue and costs can therefore be objectively attributed to the business units. Further, pursuant to the HBC Sale and Purchase Agreement, a reporting accountant will be appointed by the HBC Purchaser, being a wholly-owned subsidiary of the Company, to review the calculation of the net profit after taxation of the Hyproca 1897 BU for the years ending 31 December 2020, 2021 and 2022. Having considered the above, we are of the view that Ausnutria China's business operation that is unrelated to Hyproca 1897 Series would not affect the determination of the HBC Consideration.

Set out below is the Hyproca 1897 BU's contribution to the Group's revenue and net profit for the Year 2018 and the Year 2019:

	Year ended 31 December	
	2018	**2019**
Percentage of the Group's revenue	16.9%	25.1%
Percentage of the Group's net profit	25.7%	44.4%
Percentage of the Group's adjusted net profit *(Note)*	28.1%	41.4%

Note: The Group's net profit was adjusted for (i) the loss on the fair value change of derivative financial instruments in the Year 2019 of approximately RMB63.6 million (2018: gain of approximately RMB22.3 million); and (ii) for a one-off net gain of approximately RMB31.3 million arising from the re-measurement of an asset and the change in fair value of derivative financial instrument in 2018.

As shown in the table above, the Hyproca 1897 BU's contribution to the Group's revenue and net profit has been increasing during the Year 2018 and the Year 2019. We have reviewed the performance of various business units within the Group, which is segregated by the various brands carried under the Group, and noted that the Hyproca 1897 BU is the fastest growing business unit among the Group in terms of net profit growth for the Year 2018 and the Year 2019. As advised by the management of the Group, the Group will continue to increase its support in the Hyproca 1897 BU, and consider the Hyproca 1897 BU as one of the priority business units of the Group in the future.

3. Reasons for and benefits of the HBC Acquisition

As set out in the Board Letter, since the establishment in 2013, sales of the Hyproca 1897 Series products has progressed significantly, and has become a major momentum for the Group's business growth. In particular, the Hyproca 1897 BU was the fastest growing business unit in the Group for the Year 2018 and the Year 2019. The financial results of the Hyproca 1897 BU (which includes results from both Ausnutria China and the HBC Group) have been consolidated into the consolidated financial statements of the Company since the financial year ended 31 December 2013. The management of the Company is of the view that the Hyproca 1897 BU will continue to grow steadily and contribute positively to the Group based on (i) the positive and continuous growth in the infant formula market in the PRC particularly in the super premium segment; (ii) the proven track record of the Hyproca 1897 BU; and (iii) the extensive experience of the management team of the Hyproca 1897 BU in the infant formula business sector.

As such, the Company considers the HBC Acquisition, which is the acquisition of the remaining interest in the Hyproca 1897 BU, will (i) enable the Group to obtain full control in the HBC Group and the Hyproca 1897 BU for better allocation of internal resources of the Group, as the elimination of the minority interests would mean the Company no longer has to consider the minority interests when issues such as funding the HBC Group arise; (ii) facilitate the operations of the HBC Group and the Hyproca 1897 BU without having to consider the minority interests of the HBC Group, and hence improve the operational efficiency and create better synergy with the Group as a whole; (iii) provide a good incentive scheme to the management team of the Hyproca 1897 BU, as the interest of the management team of the Hyproca 1897 BU will now be aligned with the interest of the Shareholders; (iv) motivates the Hyproca 1897 BU (including the HBC Group) to perform better, as part of the HBC Consideration Shares is linked to the performance of the Hyproca 1897 BU (including the HBC Group) up to 2022; and (v) strengthen the Group's position for the long term growth and development in the infant formula business which is one of the major long term vision of the Company.

In view of the long term strategic plan of the Group to become one of the major global players in the nutrition sector, particularly on infant formula products, the Company continues to streamline its business structure and strategies, increase its effort on the building of the global supply chain on infant formula and establish the overseas nutritional business. We concur with the Directors that the HBC Acquisition is in line with the development of the Group to continue to develop its cow milk based infant formula products in the super premium and premium segments, which is expected to give a positive impact to the operations, financial results and profitability of the Group.

Given the future profitability of the Group will be dependent on, among others, the future profitability of the Hyproca 1897 BU (including the HBC Group), in assessing the fairness and reasonableness of entering into the HBC Acquisition, we have taken into account the outlook of the infant formula industry in the PRC. We have studied the growth trends in the infant formula industry in the PRC, and in particular, the super premium and premium segments which are considered the target market segments of the Hyproca 1897 Series.

Based on the information available in the public domain, we extracted the market data from Frost and Sullivan, a global business consulting firm involved in market research and analysis, growth strategy consulting, and corporate training across multiple industries (https://www.cmbi.com/upload/201911/20191119470548.pdf). According to Frost and Sullivan, the market size of the infant formula industry in the PRC has increased from approximately RMB160.5 billion in 2014 to approximately RMB244.9 billion in 2018, representing a compound annual growth rate ("**CAGR**") of approximately 11.2%. The market growth is forecasted to reach approximately RMB342.7 billion in 2023, implying a CAGR of approximately 6.9% from 2018. Notwithstanding the growth of the infant formula industry is forecasted to slow down, the market size for super premium products (infant formula products that are priced at or above RMB450 per kilogram for the average retail price) and premium products (infant formula products that have a price range from RMB350 per kilogram to RMB449 per kilogram for the average retail price) is expected to continue to grow at a CAGR of 17.0% and 16.3% from 2018 to 2023, respectively. The super premium and premium products in aggregate are expected to account for approximately 58% of the overall infant formula market in the PRC by 2023, up from approximately 38% in 2018. As the super premium and premium segments are expected to grow the highest, we concur with the Company that the Hyproca 1897 BU (including the HBC Group), whose Hyproca 1897 Series targets the super premium and premium segments, should be one of their key focus business units.

In addition, pursuant to the HBC Sale and Purchase Agreement, the HBC Consideration will be fully settled by the issuance and allotment of the HBC Consideration Shares at the HBC Consideration Price by the Company to the HBC Vendors, and the HBC Vendors undertake that the HBC Consideration Shares will be subject to a lock up period of 12 months to 48 months. In this regard, we agree that settling the consideration in equity with lock-up undertakings is able to align the HBC Vendors' financial interest towards the long term growth of the Company by ensuring the HBC Vendors will continue to work towards generating positive returns that will translate to higher profits for the HBC Group and the Group, which translates into higher value for the Shares.

Having considered the above, in particular the facts that (i) the increasing contribution of revenue and net profit to the Group by the Hyproca 1897 BU (including the HBC Group); (ii) the HBC Acquisition would enable the Group to further enhance its operating results and enjoy the entire financial results of the HBC Group; (iii) the HBC Acquisition would improve the operational efficiency of the HBC Group and create better synergy with the Group; (iv) the outlook of the infant formula industry in the PRC, in particular the super premium and premium segments being positive with significant room for growth; and (v) the HBC Acquisition is in line with the Group's long term strategic plan, we concur with the view of Directors that the entering into of the HBC Acquisition is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

4. Principle terms of the HBC Sale and Purchase Agreement

4.1 Parties

(i) Ausnutria Dairy Company Limited, being the HBC Purchaser;

(ii) Mr. Liu Yubiao, being HBC Vendor A;

(iii) Mr. Liu Guangchu, being HBC Vendor B; and

(iv) the Company

4.2 Assets to be acquired

Pursuant to the HBC Sale and Purchase Agreement, the HBC Purchaser has conditionally agreed to acquire and the HBC Vendors have conditionally agreed to sell the HBC Sale Shares, representing 15.0% of all the issued shares of HBHK.

Upon HBC Completion, HBHK and HBC (both being the Company's indirect non-wholly-owned subsidiaries) will become indirect wholly-owned subsidiaries of the Company.

4.3 The HBC Consideration

Pursuant to the HBC Sale and Purchase Agreement, the consideration payable by the HBC Purchaser to the HBC Vendors for the HBC Acquisition shall be the HBC Consideration of HK$896.0 million.

Upon HBC Completion, the HBC Consideration will be fully settled by the issuance and allotment of the HBC Consideration Shares at the HBC Consideration Share Price by the Company to the HBC Vendors (or their respective nominees, provided that such nominees are the HBC Employees or companies owned by the HBC Employees) in proportion to their respective equity interest in HBHK (i.e. 56,000,000 Shares and 14,000,000 Shares to HBC Vendor A and HBC Vendor B, respectively) at the HBC Completion.

As stated in the Board Letter, the HBC Consideration was determined after arm's length negotiations between the HBC Purchaser and the HBC Vendors with reference to among others, (i) the historical financial performance of the Hyproca 1897 BU (including the HBC Group); and (ii) the business development and prospects of the Hyproca 1897 BU (including the HBC Group), details of which has been disclosed under the paragraphs headed "The HBC Acquisition – Reasons for and benefits of the HBC Acquisition".

Further as stated in the Board Letter, in the negotiation between the Company and the HBC Vendors, it was principally agreed that (i) the Hyproca 1897 BU (including the HBC Group), and hence the HBC Sale Shares, should be valued with reference to the valuation of the Group's competitors; (ii) part of the HBC Consideration (i.e. 20,000,000 HBC Consideration Shares to be allotted to the HBC Vendors) should be subject to performance-related adjustments in order to incentivise the HBC Vendors to continue their contribution in the Hyproca 1897 BU upon completion; and (iii) 50,000,000 HBC Consideration Shares to be allotted to the HBC Vendors will not be subject to any performance-related adjustments.

Based on the above agreed principles, the HBC Consideration was determined after considering (i) the P/E Ratio of the Company (19.9 times) as at the Last Trading Day; (ii) the P/E Ratios of the Industry Peers (from 18.0 times to 27.9 times) as at the Last Trading Day; (iii) the P/E Ratio of a comparable transaction (disposal of Shijiazhuang Junlebao Dairy Co., Ltd by China Mengniu Dairy Company Limited (2319.HK) in 2019) (29.2 times); and (iv) that part of the HBC Consideration (i.e. 20,000,000 HBC Consideration Shares) are subject to performance-related adjustments (i.e. the HBC Call Option). As a result, the minimum and maximum value of the HBC Consideration that the HBC Vendors will eventually receive are HK$640.0 million (i.e. 50,000,000 HBC Consideration Shares) and HK$896.0 million (i.e. 70,000,000 HBC Consideration Shares) respectively, and in turn the lowest and highest P/E Ratios are 22.4 times and 31.3 times respectively, which correspond to the low-end and high-end of the P/E Ratios the Company considered as explained above.

The Company's quantitative assessment on the HBC Consideration has also taken into account of the above factors by assessing the PEG Ratio of the HBC Acquisition. The Company computed the implied PEG Ratio of the HBC Acquisition and compared it against those of the Industry Peers as at the Last Trading Day. The PEG Ratios of the HBC Group and the Industry Peers were calculated by dividing their respective implied valuation or market capitalisation by their respective net profit and net profit growth rate for the latest full financial year as compared with the previous financial year. Based on the Company's computation, the implied PEG Ratio of the HBC Acquisition (0.14) is lower than those of the Industry Peers (from 0.17 to 0.94). The Company is of the view that the relatively low implied PEG Ratio of the HBC Acquisition is mainly attributable to the comparatively high growth in the HBC Group's earnings. After considering the above, the Directors (including the independent non-executive Directors, whose view has been included in the section headed "Letter from the Independent Board Committee" in the Circular) are of the view that the HBC Consideration is fair and reasonable and the HBC Acquisition is in the interests of the Company and its Shareholders as a whole.

Granting of the HBC Call Option

Pursuant to the HBC Sale and Purchase Agreement, the HBC Purchaser is granted the HBC Call Option which will be exercisable after the date of publication of the Company's annual report for the financial year ending 31 December 2022. Under the HBC Call Option, the HBC Purchaser is entitled to require the HBC Vendors to sell part of the HBC Consideration Shares (up to 20,000,000 HBC Consideration Shares) at nil consideration to the HBC Purchaser or its nominee(s) in the event that the HBC Average Growth Rate falls below 30.0%. Actual number of HBC Consideration Shares to be bought back, if any, by the HBC Purchaser under the HBC Call Option shall be determined based on the HBC Average Growth Rate.

The HBC Average Growth Rate shall be calculated in accordance with the following formula:

$$\text{HBC Average Growth Rate} = \{[(P_{2020} - P_{2019}) \div P_{2019}] + [(P_{2021} - P_{2020}) \div P_{2020}] + [(P_{2022} - P_{2021}) \div P_{2021}]\} \times 100\% \div 3$$

Where (for all the calculation formulae above),

P_{2019} = the net profit after taxation of the Hyproca 1897 BU for the year ended 31 December 2019;

P_{2020} = the net profit after taxation of the Hyproca 1897 BU for the year ending 31 December 2020;

P_{2021} = the net profit after taxation of the Hyproca 1897 BU for the year ending 31 December 2021; and

P_{2022} = the net profit after taxation of the Hyproca 1897 BU for the year ending 31 December 2022.

The number of the HBC Consideration Shares that are to be bought back by the HBC Purchaser under the HBC Call Option shall in turn be determined as follows:

(i) If the HBC Average Growth Rate is 20.0% or less, the HBC Purchaser shall have the right to exercise the HBC Call Option to require the HBC Vendors to sell 20,000,000 HBC Consideration Shares to the HBC Purchaser at nil consideration;

(ii) If the HBC Average Growth Rate is more than 20.0% but less than 30.0%, the HBC Purchaser shall have the right to exercise the HBC Call Option to require the HBC Vendors to sell 10,000,000 HBC Consideration Shares to the HBC Purchaser at nil consideration; and

(iii) If the HBC Average Growth Rate is 30.0% or above, no HBC Call Option will be exercised by the HBC Purchaser.

Any Shares acquired by the HBC Purchaser or its nominee(s) pursuant to the HBC Call Option shall be dealt with at the sole discretion of the HBC Purchaser or the Company, including the possible cancellation or the disposal by way of share placement. Having considered the prevailing requirements of the Listing Rules, the Company will cancel all the Shares acquired upon purchase of such Shares in the event that the Company exercises the HBC Call Option.

4.4 Conditions precedent

Completion of the HBC Acquisition is subject to, among others, the passing by the HBC Independent Shareholders in accordance with the Listing Rules and all applicable laws at the EGM.

Further details of the conditions precedent to the HBC Completion are set out in the paragraphs headed "The HBC Acquisition – Conditions precedent" in the Board Letter.

According to the Board Letter, as at the Latest Practicable Date, none of the conditions has been fulfilled.

5. Evaluation of the HBC Consideration

According to the Board Letter, the HBC Consideration was determined after arm's length negotiations between the HBC Purchaser and the HBC Vendors with reference to among others, (i) the historical financial performance of the Hyproca 1897 BU (including the HBC Group); and (ii) the business development and prospects of the Hyproca 1897 BU (including the HBC Group), details of which have been disclosed under the paragraphs headed "The HBC Acquisition – Reasons for and benefits of the HBC Acquisition".

In order to determine the fairness and reasonableness of the HBC Consideration, we have adopted the comparable approach whereby the HBC Consideration is compared to the valuation of its industry peers, as this approach is direct and commonly used as a valuation methodology. For our purpose of comparison, we have identified 4 companies (the "**Comparable Companies**") that (i) the shares of which are listed on nationally recognised stock exchange; (ii) principally operate in the dairy industry with at least 40% of their respective consolidated revenue generated from the sales of infant formula products; (iii) have its own-branded infant formula products; (iv) have a presence in the PRC market as industry peers; and (v) are profit generating in their respective latest full financial year, which to the best of our knowledge represent the exhaustive samples that meet the aforesaid selection criteria. For our comparable approach, we have extracted the P/E Ratios and the PEG Ratios of the Comparable Companies based on the financial information as disclosed in their respective latest publication of annual results announcement or annual report. However, we did not consider using the price-to-book ratio (the "**P/B Ratio**") analysis to assess the fairness and reasonableness of the HBC Consideration, given that the principal business of the HBC Group, being the sales and marketing of the Hyproca 1897 Series in Mainland China and Hong Kong does not include the production and distribution facilities for the Hyproca 1897 Series.

As such, we consider the P/B Ratio not comparable to the Comparable Companies whereby factories and distribution facilities are included in their asset base. In addition, we also did not consider using the price-to-sales ratio (the "**P/S Ratio**") because the P/S Ratio is mainly used to value non-profitable companies, while the HBC Group and the Comparable Companies are profitable, hence it may not be a good metric to use for their comparison purposes. Below sets out the table detailing our selection basis of the Comparable Companies:

Company name	Stock code	Principal activities	Approximate percentage of revenue generated from sales of infant formula or related products (%) (Note 1)	Approximate percentage of revenue generated from the PRC market (%) (Note 1)	Key brands of infant formula products (Note 2)
Health and Happiness (H&H) International Holdings Limited	1112.HK	The group is principally engaged in the manufacture and sale of premium pediatric nutritional.	46.4	77.3	Biostime
Yashili International Holdings Limited	1230.HK	The group is principally engaged in the manufacture and sale of dairy and nourishment products.	77.7	82.9	Yashily, Ruibuen, Doraler, Dumex
China Feihe Limited	6186.HK	The group is principally engaged in the production and sale of dairy products and the sale of nutritional supplements.	91.4	95.9	Feihe, Firmus
A2 Milk Company Limited	ATM.NZ A2M.AUS	The group is principally engaged in the sale of cow milk products.	81.5	31.1 (Note 3)	a2 Milk

Notes:

1. The information was extracted from the 2019 annual reports of the Comparable Companies.

2. The information was extracted from the websites or listing documents of the Comparable Companies.

3. The figure included the revenue from China and other Asia regions.

4. In identifying the Comparable Companies, we have also considered Beingmate Company Limited (002570.SZ), Nuchev Limited (NUC.AUS) and Bubs Australia Limited (BUB.AUS). However, as they were not profit generating in their respective latest full financial year, we have not included them as the Comparable Companies.

While A2 Milk Company Limited, an Australia and New Zealand based company, had a relatively lower reported percentage of its revenue generated from the PRC market in its latest published annual report, we noted that its actual sales to the PRC market may be much higher if the daigou trade is taken into consideration. Daigou, meaning 'buying on behalf of' in Mandarin, involves shoppers overseas buying products for customers in Mainland China. According to the Infant Nutrition Council of Australia and New Zealand, cross-border ecommerce trade contributes significantly towards the total sales for some Australia and New Zealand infant formula companies. Based on the estimate of the Infant Nutrition Council of Australia and New Zealand (https://www.infantnutritioncouncil.com/wp-content/uploads/2019/05/INC-Submission-Draft-Export-Control-Rules-2020-Milk-and-Milk-Products.pdf), the daigou market may account for over 25% of the total retailed infant formula products and toddler milk drink exports from Australia to the PRC. We also noted that there were various news articles estimating that the daigou trade could account for a significant portion of the total infant formula sales of A2 Milk Company Limited. For instance, according to the news article published by Reuters titled "Competition heats up for controversial A2 Milk Company" on 16 May 2018, it was estimated that daigou trade generated around 60% of the total infant formula sales of A2 Milk Company Limited. Also, according to the news article published by Bloomberg Businessweek titled "跨境電商稅收新政將令代購市場降溫" on 20 April 2016, it was estimated that the PRC grey market accounted for approximately 55% of the total infant formula sales of A2 Milk Company Limited. The above was further supported by claims made by A2 Milk Company Limited in its 2019 annual report that they have an infant formula consumption market share of 6.4% in Tier 1 and Key A, B, C and D cities in China for the 12 months ended 14 July 2019. We also noted that according to a research report issued by Beijing Gao Hua Securities Limited dated 14 January 2019 which quoted data provided by Euromonitor (http://pdf.dfcfw.com/pdf/H3_AP201901171285937159_1.pdf), A2 Milk Company Limited was listed as one of the leading players in the China infant milk formula retail sales market with an estimated market share of approximately 2.7% in 2018. Based on the estimated market size of the China infant milk formula retail sales market in the same research report, the value of A2 Milk Company Limited's market share in the China infant milk formula retail sales market can be estimated to be over RMB4.3 billion in 2018. In view of the above, we consider that the sales to the PRC market through the daigou trade, or the cross border e-commerce channel, represents a material portion of A2 Milk Company Limited's revenue and A2 Milk Company Limited acknowledged this sales channel as well in their 2019 annual report. However, due to the lack of transparency of daigou trade, whereby individuals purchase products locally for trans-shipment to the PRC, there is limited official data recorded for these trades hence this amount cannot be easily ascertained. In addition, the infant formula products of A2 Milk Company Limited are manufactured overseas and imported into the PRC, which is similar to the Hyproca 1897 Series which is imported from the Netherlands into the PRC for distribution, and both priced their products in the premium or super premium segment. Therefore, while the current reported percentage of A2 Milk Company Limited directly involved with the PRC may be relatively lower than a domestic PRC based company, it still possesses similar characteristics in terms of growth potential and outlook with that of the HBC Group. We are of the view that the Comparable Companies are fair and representative samples, having considered that each of the Comparable Companies (i) is listed on a nationally recognised stock exchange; (ii) generated a substantial portion of its consolidated revenue from the sales of infant formula products; (iii) had a presence in the PRC market; (iv) had its own-branded infant formula products; and (v) was profit generating in its latest full financial year.

Further, in assessing the fairness and reasonableness of the HBC Consideration, we have also considered the information on transaction involving companies that are similar to the HBC Group and compared the HBC Consideration to the valuation implied in such transactions. For our purpose of comparison, we have identified 2 transactions (the "**Comparable Transactions**") that (i) involved the acquisition or disposal of listed companies or subsidiaries of listed companies principally operating in the sales of infant formula products; (ii) of which the target company has its own-branded infant formula products and has a presence in the PRC market; and (iii) were entered into in 2019 and 2020, which time is considered sufficiently close to the date of the HBC Sale and Purchase Agreement, which to the best of our knowledge represent the exhaustive samples that meet the aforesaid selection criteria. For our comparison approach, we have computed the implied P/E Ratios and PEG Ratios from the transactions based on the financial information as disclosed in the announcement or scheme booklet published by the listed companies.

Although the Comparable Companies are not the same in all aspects as the HBC Group and the Comparable Transactions were not the same in all aspects as the HBC Acquisition, we consider that the analysis on the Comparable Companies and the Comparable Transactions can still provide a meaningful reference to the Shareholders given that the Comparable Companies and the target companies in the Comparable Transactions are all involved in the production and/or sales of infant formula products in the PRC and are considered having similar characteristics in terms of business model, industry background and outlook as the HBC Group, and therefore can provide a general overview on their market valuation with respect to their corresponding earnings for comparisons purpose. In addition, although there are only 4 Comparable Companies and 2 Comparable Transactions, we are of the view that they are sufficient as they are good representatives of the HBC Group, having considered (i) the relevance in the selection criteria adopted in identifying the Comparable Companies and the Comparable Transactions, which selects the most relevant companies or transactions; (ii) the Comparable Companies and the Comparable Transactions supplement each other, as the number of Comparable Companies or Comparable Transactions are limited and the inclusion of both will ensure a bigger coverage, given that the Comparable Transactions also provide an accurate representation as they are transactions similar to the HBC Acquisition; and (iii) by comparing the valuation multiples of the Comparable Companies with those of the Comparable Transactions, the Comparable Companies and the Comparable Transactions serve to verify each other to ensure that their valuation multiples are somewhat similar and not outliers, we consider the Comparable Companies and the Comparable Transactions, which represent an exhaustive list of comparables having fulfilled the selection criteria, are fair and representative samples for assessing the HBC Consideration.

Below sets out the table detailing the ratios of the Comparable Companies:

Company name	Stock code	P/E Ratio *(Note 2)*	PEG Ratio *(Note 3)*	Net Profit growth *(%)* *(Note 4)*
Health and Happiness (H&H) International Holdings Limited	1112.HK	17.96	4.73	3.80
Yashili International Holdings Limited *(Note 5)*	1230.HK	19.00	0.17	114.95
China Feihe Limited *(Note 6)*	6186.HK	27.86	0.33	84.15
A2 Milk Company Limited	ATM.NZ A2M.AUS	44.76	0.57	78.17
	Maximum	44.76	4.73	114.95
	Minimum	17.96	0.17	3.80
	Average	27.40	1.45	70.27
	Average (excluding Health and Happiness (H&H) International Holdings Limited)	30.54	0.36	92.42
The Company *(Note 7)*	1717.HK	19.87	0.27	74.85
The HBC Group *(Note 8)*		31.32	0.19	167.13
The Hyproca 1897 BU *(Note 8)*		13.92	0.12	118.54

Notes:

1. For the purpose of computing the P/E Ratios and PEG Ratios of the Comparable Companies and the Company, the market capitalisation of the Comparable Companies and the Company were calculated based on the closing share price and the number of issued shares as at the Last Trading Day.

2. The P/E Ratios of the Comparable Companies, the Company, the HBC Group and the Hyproca 1897 BU were calculated by dividing their respective market capitalisation or implied valuation with their respective net profit for the latest full financial year.

3. The PEG Ratios of the Comparable Companies, the Company, the HBC Group and the Hyproca 1897 BU were calculated by dividing their respective P/E Ratios with their respective net profit growth (as discussed in notes 4 and 5 below).

4. Save for Yashili International Holdings Limited, the net profit growth of the Comparable Companies, the Company, the HBC Group and the Hyproca 1897 BU represents the CAGR of their respective net profit in their respective latest two full financial years.

5. Yashili International Holdings Limited recorded a net loss for the year ended 31 December 2017 and therefore its 2018 net profit growth rate is not applicable. For the purpose of the computation of its PEG Ratio, the net profit growth rate for its latest full financial year of 2019 as compared with the previous financial year of 2018 was adopted.

6. China Feihe Limited has incurred certain listing expenses for its global offering during its financial years under review. If the listing expenses were excluded, the adjusted P/E Ratio and PEG Ratio of China Feihe Limited would be approximately 27.55 times and 0.34, respectively.

7. For computing the P/E Ratio and PEG Ratio of the Company, the consolidated net profit of the Company has been adjusted for the gain/loss on the fair value changes of derivative financial instruments.

8. For the purpose of computing the P/E Ratios and PEG Ratios of the HBC Group and the Hyproca 1897 BU, the implied valuation of the HBC Group and the Hyproca 1897 BU was calculated by dividing the HBC Consideration by 15%.

As shown in the table above, the P/E Ratios of the Comparable Companies range from approximately 17.96 times to approximately 44.76 times, with an average of approximately 27.40 times. The implied P/E Ratio represented by the HBC Consideration is approximately 31.32 times, which is within the range of the P/E Ratios of the Comparable Companies and is slightly higher than the average P/E Ratios of the Comparable Companies. Although the implied P/E Ratio of the HBC Group represented by the HBC Consideration is higher than (i) the average P/E Ratio of the Comparable Companies; and (ii) the P/E Ratio of the Company, we noted that the HBC Group has recorded a significantly higher net profit growth as compared with the Comparable Companies and the Company. We are of the view that a higher P/E Ratio used by the Company when determining the HBC Consideration is justifiable when growth potential of the HBC Group is taken into account as the HBC Group has demonstrated a higher net profit growth based on the table above. In order to determine if the growth rate of the HBC Group justifies the HBC Consideration in terms of higher than average P/E Ratio, we factored in the different growth rates of the Comparable Companies, the Company, the HBC Group and the Hyproca 1897 BU while considering the P/E Ratio by utilising the PEG Ratio, which is P/E Ratio divided by the growth rate of its earnings. Therefore, low earnings growth rate will generate a high PEG Ratio while a high earnings growth rate will create a low PEG Ratio if the P/E Ratio is held constant. As shown in the above table, the PEG Ratio of the Comparable Companies range from approximately 0.17 to approximately 4.73, with an average of approximately 1.45. The implied PEG Ratio of the HBC Group represented by the HBC Consideration is approximately 0.19, which is similar to the low end of the range of the PEG Ratios of the Comparable Companies and lower than the PEG Ratio of the Company at approximately 0.27. We noted that the PEG Ratio of Health and Happiness (H&H) International Holdings Limited is significantly higher at 4.73. This can be attributable to its low net profit CAGR of approximately 3.80%. Therefore, the P/E Ratio of the HBC Group while slightly higher than the average P/E Ratios of the Comparable Companies and the Company, is actually significantly lower than the average P/E Ratios of the Comparable Companies and the Company when earnings growth rate is taken into consideration by using PEG Ratio.

In order to substantiate the assessment of the fairness and reasonableness of the HBC Consideration, we have performed a further analysis to compare the valuation multiples of the HBC Group represented by the HBC Consideration with those of the Comparable Companies excluding Health and Happiness (H&H) International Holdings Limited. If Health and Happiness (H&H) International Holdings Limited was excluded, the PEG Ratios of the remaining Comparable Companies range from approximately 0.17 to approximately 0.57, with an average of approximately 0.36. The implied PEG Ratio of the HBC Group represented by the HBC Consideration is approximately 0.19, which is similar to the low end of the range of the PEG Ratios of the remaining Comparable Companies, and is below the average of the PEG Ratios of the remaining Comparable Companies, and is considered favourable. As such, we are of the view that the HBC Consideration is inline or better than the Comparable Companies, is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

Below sets out the table detailing the ratios of the Comparable Transactions:

Target company name	**Transaction description**	**Date announced**	**Date of completion**	**P/E Ratio** *(Note 1)*	**PEG Ratio** *(Note 2)*
Bellamy's Australia Limited *(Note 3)*	China Mengniu Dairy Company Limited (2319.HK), a Hong Kong listed dairy company, acquired all of the issued shares in Bellamy's Australia Limited (BAL.AUS), an infant formula provider listed on the Australian Stock Exchange for a total consideration of approximately AUD1.5 billion (the "**Bellamy Acquisition**")	16 September 2019	10 December 2019	46.06	N/A
Shijiazhuang Junlebao Dairy Co., Ltd. *(Note 4)*	China Mengniu Dairy Company Limited (2319.HK) disposed of 51% equity interest in Shijiazhuang Junlebao Dairy Co., Ltd., a Chinese infant formula and yogurt provider based in China, to Shijiazhuang Penghai Venture Capital Fund (Limited Partnership) and Shijiazhuang Junqian Enterprises Management Corporation Ltd for approximately RMB4 billion (the "**Junlebao Disposal**")	1 July 2019	19 November 2019	29.21	0.49

Notes:

1. The P/E Ratios implied in the Comparable Transactions were calculated by dividing their respective implied valuation of Bellamy's Australia Limited and Shijiazhuang Junlebao Dairy Co., Ltd. (as explained below) with their respective net profit for their respective full financial year immediately prior to the respective dates of the completion of the Bellamy Acquisition and the Junlebao Disposal (the "**Assessment Year**").

2. The PEG Ratio was not applicable to Bellamy's Australia Limited which incurred negative net profit growth for the Assessment Year as compared with each of the two years prior to the Assessment Year. As the net profit of Shijiazhuang Junlebao Dairy Co., Ltd for year ended 31 December 2016 was not available, the net profit CAGR in the two years prior to the Junlebao Disposal cannot be computed. For the purpose of the computation of the implied PEG Ratio in the Junlebao Disposal, the PEG Ratio was calculated by dividing its implied P/E Ratio with the net profit growth rate for its Assessment Year as compared with that for the year prior to the Assessment Year.

3. The implied valuation of Bellamy's Australia Limited was calculated by multiplying the total cash amount offered in the Bellamy's Acquisition of AUD13.25 per share by the number of ordinary shares on issue of approximately 113.4 million shares and the number of options over ordinary shares granted and outstanding which will be vested and exercised or settled of approximately 5.2 million options as at 28 October 2019. For computing the P/E Ratio and the PEG Ratio implied in the Bellamy's Acquisition, the consolidated net profit of Bellamy Australia Limited has been adjusted for one-off write-off of legacy inventory required to transition to Country of Origin Labelling (CoOL) laws in Australia and as a result of changes in Chinese regulations.

4. The implied valuation of Shijiazhuang Junlebao Dairy Co., Ltd. was calculated by dividing the total cash proceeds received by the vendor of approximately RMB4,579.8 million by 51%.

As shown in the above table, the P/E Ratios implied in the Bellamy Acquisition and the Junlebao Disposal were approximately 46.06 times and 29.21 times, respectively. The implied P/E Ratio of the HBC Group represented by the HBC Consideration of approximately 31.32 times, although slightly higher, was generally in line with that of the Junlebao Disposal, and significantly lower than that of the Bellamy Acquisition. Further, the implied PEG Ratio of the HBC Group of approximately 0.19 represented by the HBC Consideration was lower than the implied PEG Ratio of the Junlebao Disposal of approximately 0.49. As such, we are of the view that the HBC Consideration is inline or better than the Comparable Transactions, is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

Having compared the P/E Ratios and PEG Ratios of the Comparable Companies and the Comparable Transactions to the HBC Group, we are of the view that the HBC Consideration is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In addition, as stated in the Board Letter, in determining the HBC Consideration, the HBC Purchaser and the HBC Vendors are of view that the financial information of the HBC Group does not fully reflect the contribution of the Hyproca 1897 Series to the Group. Instead, the financial information of the Hyproca 1897 BU should be adopted to better reflect the contribution of the Hyproca 1897 Series to the Group. We noted that should the financial information of the Hyproca 1897 BU be considered in the analysis, (i) the implied P/E Ratio represented by the HBC Consideration would be approximately 13.92 times, which is below the low end of the range of the P/E Ratios of the Comparable Companies, and lower than the P/E Ratio of the Company and the implied P/E ratios in the Comparable Transactions; and (ii) the implied PEG Ratio represented by the HBC Consideration would be approximately 0.12, which is also below the low end of the range of the PEG Ratios of the Comparable Companies, and lower than the PEG Ratio of the Company and the implied PEG Ratios in the Comparable Transactions.

We have discussed with the Company to understand the rationale of considering the Hyproca 1897 BU and were given the understanding that the HBC Group only consists of sales and marketing business activities of the Hyproca 1897 Series. Therefore, by considering the HBC Group in terms of the Hyproca 1897 BU was more reflective of the performance of the Hyproca 1897 Series as profit (or losses if any) from the administrative and distribution will be accounted in the performance of the Hyproca 1897 BU, as compared to only assessing the sales and marketing business of the Hyproca 1897 BU. We are of the view that this rationale is fair and reasonable as the profits generated within Ausnutria China by the Hyproca 1897 Series would not have materialised if the Hyproca 1897 brand does not exist, and considering the business profitability as a whole business unit is more meaningful as compared to just its sales and marketing subsidiaries or based on its legal entity. We have further confirmed with the Company that the profitability associated with the administration and distribution of Hyproca 1897 Series was mainly driven by the successful growth of the Hyproca 1897 Series. Therefore, if the performance of the Hyproca 1897 BU was poor, there would not be profit or possibly a loss in Ausnutria China due to the poor performance of the Hyproca 1897 Series, and hence accounting it in totality will provide a more meaningful representation of the business performance. As the Hyproca 1897 Series performed exceptionally well over the last few years, additional profits were generated in Ausnutria China that is attributable to it. As such, we are of the view that is it fair and reasonable to consider the performance of the Hyproca 1897 BU instead of the HBC Group, which consists of the sales and marketing activities of the Hyproca 1897 BU only. Having considered that the business growth and performance of the Hyproca 1897 BU as a whole is principally driven by the sales and marketing and brand building function carried out by the HBC Group, we concur with the Directors' view that it is fair and reasonable to consider the financial information of the Hyproca 1897 BU in measuring the contribution of the Hyproca 1897 Series to the Group.

5.1 Granting of HBC Call Option

For prudent purposes, we have assessed the fairness and reasonableness of the HBC Consideration without taking into account the HBC Call Option, details of which are set out in the paragraphs headed "The HBC Acquisition – Principle terms of the HBC Sale and Purchase Agreement – The HBC Consideration" above. The HBC Call Option in essence is a guarantee provided by the HBC Vendors to the Company that they will ensure that the Hyproca 1897 BU will continue to grow in terms of net profits generated in the next 3 years, failing which the HBC Consideration is subject to a downward adjustment by the HBC Call Option which can be exercised by the HBC Purchaser in its absolute discretion in accordance with the terms of the HBC Sale and Purchase Agreement. Under the HBC Call Option which will be exercisable after the date of publication of the Company's annual report for the financial year ending 31 December 2022, the HBC Purchaser is entitled to require the HBC Vendors to sell part of the HBC Consideration Shares (up to 20,000,000 HBC Consideration Shares) at nil consideration to the HBC Purchaser or its nominee(s) in the event that the HBC Average Growth Rate falls below 30.0%. Based on the HBC Call Option formula with a 30% growth rate and the current net profit after taxation of RMB390.2 million for the Year 2019, the HBC Vendors implied that they will target to grow the Hyproca 1897 BU net profit after taxation to no lower than RMB857.3 million for the financial year ending 31 December 2022. Failing to achieve such target, the HBC Vendors would return a maximum of 20,000,000

HBC Consideration Shares to the HBC Purchaser, which at the HBC Acquisition price would be approximately HK$256 million. We are of the view that the HBC Call Option with a value of approximately HK$256 million, which is already priced into the HBC Consideration, is fair and reasonable as it would motivate the management of the Hyproca 1897 BU to try to grow the profits of the Hyproca 1897 BU to more than double, from the current RMB390.2 million per annum to not less than RMB857.3 million for the financial year ending 2022. If the value of the HBC Call Option of approximately HK$256 million is deducted from the current HBC Consideration, the resulting consideration would be approximately HK$640 million, which implies an even lower P/E Ratio for the HBC Acquisition of approximately 22.4 times, which is lower than the average P/E Ratio of the Comparable Companies and the Comparable Transactions, but slightly higher than the P/E Ratio of the Company. We are of the view that the HBC Call Option is fair and reasonable and in the interests of the Company and its Shareholders as a whole, as it encourages the growth of the Hyproca 1897 BU in the next 3 years to a profit level that is more than doubled the current level at an implied cost of approximately HK$256 million, or failing which the Company has the right to call back such cost incurred.

Further, under the HBC Call Option pursuant to the HBC Sale and Purchase Agreement, the HBC Purchaser is entitled to require the HBC Vendors to sell part of the HBC Consideration Shares (up to 20,000,000 HBC Consideration Shares) at nil consideration to the HBC Purchaser or its nominee(s) in the event that the HBC Average Growth Rate falls below 30.0% (the "**Growth Hurdle**"). As advised by the management of the Group, the Growth Hurdle was determined with reference to the business prospects of the Hyproca 1897 BU taking into consideration the PRC infant formula market outlook.

To assess the fairness and reasonableness of the Growth Hurdle, we have considered the market outlook of the infant formula industry in the PRC. As discussed in the paragraphs headed "The HBC Acquisition – Reasons for and benefits of the HBC Acquisition" above, the market size of the super premium and premium infant formula products are expected to grow at a CAGR of 16.9% and 16.3% from 2018 to 2023, respectively. In view that the Growth Hurdle was set at a rate higher than the estimated CAGR of market size of the super premium and premium infant formula products from 2018 to 2023, we consider that the Growth Hurdle is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

Having considered the above, we are of the view that the HBC Call Option, is fair and reasonable insofar as the Independent Shareholders are concerned, and in the interests of the Company and its Shareholders as a whole.

5.2 The HBC Consideration Shares and the HBC Consideration Share Price

As at the Latest Practicable Date, the Company has 1,615,420,299 Shares in issue. The 70,000,000 HBC Consideration Shares to be issued represent:

(i) approximately 4.3% of the total number of issued Shares of the Company as at the Latest Practicable Date; and

(ii) approximately 4.2% of the total number of issued Shares of the Company as enlarged by the issuance and allotment of the HBC Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the date of the HBC Sale and Purchase Agreement and the issuance and allotment of the HBC Consideration Shares).

The number of Shares to be issued and allotted to HBC Vendor A and HBC Vendor B for the HBC Acquisition are 56,000,000 Shares and 14,000,000 Shares respectively.

The HBC Consideration Share Price of HK$12.80 per HBC Consideration Share represents:

(i) a premium of approximately 0.2% to the closing price of HK$12.78 per Share as quoted on the Stock Exchange on 9 April 2020, being the Last Trading Day;

(ii) a premium of approximately 4.5% to the average closing price of approximately HK$12.25 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 6.1% to the average closing price of approximately HK$12.06 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

(iv) a discount of approximately 15.9% to the closing price of HK$15.22 per Share as quoted on the Stock Exchange on 9 July 2020, being the Latest Practicable Date.

Pursuant to the HBC Sale and Purchase Agreement, each of the HBC Vendors undertakes to the HBC Purchaser that he will not and will procure that his nominees will not:

(i) in respect of 20.0% of the HBC Consideration Shares, for a period of 12 months from the issuance and allotment of the HBC Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HBC Consideration Shares;

(ii) in respect of another 20.0% of the HBC Consideration Shares, for a period of 24 months from the issuance and allotment of the HBC Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HBC Consideration Shares;

(iii) in respect of the other 30.0% of the HBC Consideration Shares, for a period of 36 months from the issuance and allotment of the HBC Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HBC Consideration Shares; and

(iv) in respect of the remaining 30.0% of the HBC Consideration Shares, for a period of 48 months from the issuance and allotment of the HBC Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HBC Consideration Shares,

unless prior written consent has been obtained from the HBC Purchaser. The Company is of the view that such written consent will only be granted in exceptional situation and currently does not envisage any circumstances under which the HBC Purchaser will grant such written consent. In the event that the HBC Purchaser grants such written consent, which is considered as a material change in substance to the safeguard measure, the Company will re-comply with the HBC Independent Shareholders' approval requirement for the revised terms and conditions of the HBC Acquisition.

5.3 Evaluation of the issuance of the HBC Consideration Shares as the settlement method

As stated in the Board Letter, the HBC Consideration will be fully settled by the issuance and allotment of the HBC Consideration Shares at the HBC Consideration Share Price by the Company to the HBC Vendors at the HBC Completion.

As disclosed in the 2019 annual report of the Company, as at 31 December 2019, the Group had (i) cash and cash equivalents of approximately RMB1,674.5 million; and (ii) pledged deposits of approximately RMB396.2 million. As at the same date, the Group's outstanding interest-bearing bank loans and other borrowings amounted to approximately RMB1,203.8 million. As the settlement of the HBC Consideration will not involve any cash outlays of the Group (save for the payment of expenses in relation to the HBC Acquisition), this will allow the Company to reserve working capital and without having to incur additional finance costs if the Company was to finance the HBC Acquisition by borrowings. The Board therefore considers the issuance of the HBC Consideration Shares to be more cost-effective without imposing additional pressure on the Group's cash flow position.

Also, as advised by the management of the Group, both the Company and the HBC Vendors are optimistic about the prospects of the HBC Group. Whilst the Company intends to further consolidate the business currently conducted by the HBC Group into the Group so as to facilitate the future business expansion, the HBC Vendors also intend to retain their investment in the HBC Group. The issuance of the HBC Consideration Shares was considered the most appropriate way to proceed with the HBC Acquisition such that the Company can achieve its goal to (i) enable the Group to obtain full control in the HBC Group and the Hyproca 1897 BU for better allocation of internal resources of the Group; (ii) facilitate the operations of the HBC Group and the Hyproca 1897 BU without having to consider the minority interests of HBC Group, and hence improve the operational efficiency and create better synergy with the Group as a whole; (iii) provide a good incentive scheme to the management team of the Hyproca 1897 BU, as the interest of the management team of the Hyproca 1897 BU will now be aligned with the interest of the Shareholders; (iv) motivates the Hyproca 1897 BU (including the HBC Group) to perform better, as part of the HBC Consideration Shares is linked to the performance of the Hyproca 1897 BU (including the HBC Group) up to 2022; and (v) strengthen the Group's position for the long term growth and development in the infant formula business which is one of the major long term vision of the Company, while the HBC Vendors, being the Shareholders immediately upon Completion, can still retain its investment in the HBC Group through their shareholdings in the Company. Moreover, we have also noted that the HBC Consideration Shares have a lock-up period ranging from 12 months to 48 months, which would also help to align the long-term interest of the HBC Vendors with the Shareholders of the Company for the next 4 years as well as to prevent any sudden liquidation of the HBC Consideration Shares that could give rise to undue price fluctuation of the Shares.

Based on the above, we consider the issuance of the HBC Consideration Shares under specific mandate for the HBC Acquisition that does not give rise to additional cash flow needs and aligns the interest of the HBC Vendors with the Shareholders to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

5.4 Evaluation of the HBC Consideration Share Price

Historical Share price performance

As stated in the Board Letter, the HBC Consideration Share Price was determined after arm's length negotiations between the HBC Purchaser and the HBC Vendors with reference to the current market price of the Share. In order to assess the fairness and reasonableness of the HBC Consideration Share Price, we have reviewed the movement in the closing prices of the Shares for the period commencing from 9 October 2019 to 9 April 2020, being the 6-month period prior to the Last Trading Day, and up to the Latest Practicable Date (the "**Review Period**").

The chart below shows the daily closing prices of the Shares during the Review Period and the HBC Consideration Share Price:

Source: Website of the Stock Exchange

From the chart above, the closing prices of the Shares ranged from HK$9.14 to HK$17.40 per Share during the Review Period, with an average of approximately HK$12.36 per Share during the Review Period. The Shares were traded in a general upward trend during the Review Period. We noted that on 19 February 2020, the Company announced that the Group's adjusted profit for the Year 2019 (excluding the effect of the accounting loss resulted from the change in fair value of the Group's derivative financial instrument) was anticipated to increase by not less than 56.8% as compared with that for the Year 2018, leading the Share price to rise gradually and reached HK$13.32 per Share on 25 February 2020. The Share price then trended downwards as the worldwide stock indices suffered from the outbreak of the COVID-19 Pandemic. Subsequently, the Share price returned to a higher level but still below the peak of HK$13.32. The Share price eventually closed at HK$12.78 per Share on the Last Trading Day.

The HBC Consideration Share Price of HK$12.80 per HBC Consideration Share represents a premium of approximately 0.2% to the closing price of HK$12.78 per Share on the Last Trading Day and represents a premium of approximately 3.6% to the average closing price of the Share of approximately HK$12.36 during the Review Period.

The HBC Consideration Share Price of HK$12.80 per HBC Consideration Share represents a discount of approximately of 15.9% to the closing price of the Share of HK$15.22 on the Latest Practicable Date.

The HBC Consideration Share Price of HK$12.80 per Consideration Share also represents a premium of approximately of 362.1% to the net asset value per Share of the Group of approximately HK$2.77 as at 31 December 2019.

Based on the above analyses, we concur with the Board that the determination of the HBC Consideration Share Price at a price higher than the Last Trading Day is on normal commercial terms, fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

6. Effects on the shareholding structure of the Company

For illustrative purpose only, the following table sets out the effect of the issuance and allotment of the HBC Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date and assuming (i) the HBC Completion having taken place; and (ii) the HBC Consideration Shares having been issued and allotted, without taking into account any other new Shares, if any, after the Latest Practicable Date and prior to the issuance and allotment of the HBC Consideration Shares:

	As at the Latest Practicable Date		**Immediately upon the issuance and allotment of the HBC Consideration Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
HBC Vendor A, HBC Employees and their associates *(Note 1)*	1,083,000	0.1	57,083,000	3.4
HBC Vendor B and its associate *(Note 2)*	560,000	0.0	14,560,000	0.9
Citagri Easter Limited	379,000,000	23.5	379,000,000	22.5
Center Lab *(Note 3)*	343,931,772	21.3	343,931,772	20.4
Mr. Bartle van der Meer *(Note 4)*	125,405,230	7.8	125,405,230	7.4
Mr. Yan Weibin *(Notes 5)*	119,939,085	7.4	119,939,085	7.1
Public Shareholders	645,501,212	39.9	645,501,212	38.3
Total	1,615,420,299	100.0	1,685,420,299	100.0

Notes:

1. As at the Latest Practicable Date, Mr. Liu Yubiao, being HBC Vendor A, beneficially owns 1,083,000 Shares.

2. As at the Latest Practicable Date, Mr. Liu Guangchu, being HBC Vendor B, and his spouse beneficially own 529,000 and 31,000 Shares respectively. Accordingly, Mr. Liu Guangchu is deemed to be interested in a total of 560,000 Shares under the SFO. The percentage of the Shares are rounded to the nearest one decimal place in the shareholding table above.

3. As at the Latest Practicable Date, Center Lab beneficially owns 307,940,089 Shares. BioEngine Capital Inc., which holds 35,991,683 Shares, is a non-wholly-owned subsidiary of Center Lab. Accordingly, Center Lab is deemed to be interested in a total of 343,931,772 Shares under the SFO.

4. As at the Latest Practicable Date, Mr. Bartle van der Meer beneficially owns 1,200,000 Shares. Dutch Dairy Investments HK Limited, which holds 124,205,230 Shares, is wholly-owned by Dutch Dairy Investments B.V.. Dutch Dairy Investments B.V. is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer. Accordingly, Mr. Bartle van der Meer is deemed to be interested in a total of 125,405,230 Shares under the SFO. Apart from these, Mr. Bartle van der Meer also holds share options granted by the Company on 15 January 2019 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enable him to further subscribe for 1,500,000 Shares.

5. As at the Latest Practicable Date, Mr. Yan Weibin beneficially owns 1,200,000 Shares. Ausnutria Holding Co. Ltd., which holds 118,739,085 Shares, is wholly-owned by Mr. Yan Weibin. Accordingly, Mr. Yan Weibin is deemed to be interested in 119,939,085 Shares under the SFO. Apart from these, Mr. Yan Weibin also holds share options granted by the Company on 15 January 2019 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enable him to further subscribe for 1,500,000 Shares.

As shown in the above table, the shareholding of the Company held by existing public Shareholders will be diluted from 39.9% as at the Latest Practicable Date to approximately 38.3%, representing a dilution of 1.6 percentage points upon the issuance and allotment of the HBC Consideration Shares. Taking a hypothetical assumption that the Hyproca 1897 BU could perform in accordance to their guarantee of approximately 30% net profit after taxation growth per annum, and based on the net profit after taxation of the Hyproca 1897 BU for the Year 2019, it would imply the management of the Hyproca 1897 BU aim to generate an additional RMB117.1 million, which would represent approximately 13.3% of the net profit after taxation of the Group for the Year 2019. As such, we are of the view that the dilution of 1.6% is fair and reasonable as it encourages a potential additional return on net profit after taxation of approximately 13.3%.

Taking into account (i) the reasons and benefits of the HBC Acquisition as discussed in the paragraphs headed "Reasons and benefits of the HBC Acquisition" above; and (ii) the terms of the HBC Sale and Purchase Agreement, including the HBC Consideration, the HBC Call Option and the HBC Consideration Share Price, are fair and reasonable insofar as the HBC Independent Shareholders are concerned, we are of the view that the dilution effect to the shareholding interests of the existing Shareholders as a result of the HBC Acquisition is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

7. Financial effects of the HBC Acquisition

7.1 Earnings

According to the 2019 annual report of the Company, the Group's profit attributable to owners of the parent for the year ended 31 December 2019 amounted to approximately RMB878.4 million. Upon HBC Completion, the Company's equity interest in the HBC Group would increase from 85% to 100% and therefore the profit from the HBC Group attributable to the owners of the Company would increase by approximately 15%.

7.2 Net asset value

According to the 2019 annual report of the Company, the net asset value of the Group was approximately RMB4,063.9 million.

As mentioned in the Board Letter, as at the Latest Practicable Date, the consolidated financial results of the HBC Group have been consolidated into the financial statements of the Group. Upon the HBC Completion, the HBC Group will continue to be a subsidiary of the Company, and the assets and liabilities and the financial results of the HBC Group will continue to be consolidated to the financial statements of the Group. The management of the Group is of the view that the HBC Acquisition will not have any material impact on the assets and liabilities of the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position or results of the Group will be upon the HBC Completion.

II. THE HNC AMENDMENTS

1. Financial information of the HNC Group

Set out below is the summary of the key financial information of HNC Group based on the audited consolidated financial statements of HNC Group for the years ended 31 December 2017 ("**Year 2017**"), the Year 2018 and the Year 2019:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB million	*RMB million*	*RMB million*
Revenue	1,078.2	1,772.5	2,570.3
Net profit before taxation	217.3	343.2	546.1
Net profit after taxation	158.1	246.4	452.5

	As at 31 December 2019
	RMB million
Net assets	483.3

The revenue of the HNC Group increased by approximately RMB694.3 million, or 64.4%, from approximately RMB 1,078.2 million for the Year 2017 to approximately RMB1,772.5 million for the Year 2018. The revenue of the HNC Group further increased by approximately RMB797.8 million, or 45.0%, to approximately RMB2,570.3 million for the Year 2019. As discussed with the management of the Group, the substantial increase in the revenue was primarily due to (i) the expansion of the Group's up-stream production capacity and its ability to secure quality raw materials for production, which translates into high quality products produced by the HNC Group; (ii) the HNC Group's marketing strategy to raise its brand awareness and market acceptance by providing quality customer services associated with a super premium brand; and (iii) the continual focus on mother and baby stores which is one of the highest growth distribution channel and closely associated with the HNC Group's super premium segment.

Net profit after taxation of the HNC Group also increased by approximately RMB88.3 million, or 55.9%, from approximately RMB 158.1 million for the Year 2017 to approximately RMB246.4 million for the Year 2018. The net profit after taxation of the HNC Group further increased by approximately RMB206.1 million, or 83.6%, to approximately RMB452.5 million for the Year 2019. As discussed with the management of the Group, the growth in net profit after taxation was mainly attributable to the sales growth with effective marketing strategies, the economies of scale as the HNC Group scales up and effective cost control.

2. Reasons for and benefits of the HNC Amendments

As set out in the Board Letter, since the completion of the HNC Acquisition, the HNC Group has been continuously performing well and has made substantial contribution to the Group's financial performance. As disclosed above, the growth rate in the consolidated net profits after taxation of the HNC Group for the Year 2018 and the Year 2019 were approximately 55.9% and 83.6%, respectively, which has well exceeded the highest hurdle of the average growth rate (being 25.0%) for the adjustment of the HNC Total Consideration under the HNC Sale and Purchase Agreement. Under the HNC Early Settlement Terms, the HNC Subsequent Consideration can be settled prior to the release of the Company's annual results for the financial year ending 31 December 2020. The Company is of the view that providing an early settlement mechanism of HNC Subsequent Consideration is an appreciation to the management team (being the HNC Vendors) and to recognise the contribution of the management team in the continued strong profitable growth momentum of the HNC Group to the Group. While it can further motivate the management team to optimise their performance for the benefit of the HNC Group, there is no extra consideration incurred as the HNC Early Settlement Terms will not alter the number of HNC Subsequent Consideration Shares to be issued to the HNC Vendors. Further, the early settlement of HNC Subsequent Consideration will be well received by the management team as the Company's recognition on their contribution. Accordingly, the Directors consider that the early settlement mechanism provides reciprocal benefits between the Group and the management team of the HNC Group.

While the HNC Subsequent Consideration is proposed to be settled prior to the prescribed time as specified in the HNC Sale and Purchase Agreement, the Company has put in place sufficient safeguard for the protection of the Company's interests, including that (i) the HNC Purchaser has the absolute discretion to buy back the HNC Subsequent Consideration Shares at nil consideration by exercising the HNC Call Option in the event that the financial performance of HNC Group does not reach the performance benchmarks as set out under the HNC Sale and Purchase Agreement; (ii) the HNC Vendors will not be entitled to receive dividend payment for the Year 2019 as the HNC Subsequent Consideration will be payable to the HNC Vendors after the record date for the entitlement of the final dividend to be declared by the Company for the Year 2019; and (iii) the lock-up undertaking in respect of the HNC Subsequent Consideration Shares remains unchanged, pursuant to which each of the HNC Vendors undertakes to the HNC Purchaser that it will not, for a period of 12 months from the issuance and allotment of the HNC Subsequent Consideration Shares, sell, give, transfer, assign or dispose of or otherwise Encumber any of such HNC Subsequent Consideration Shares.

Moreover, in accordance with International Accounting Standard 32, the HNC Subsequent Consideration, being a contingent consideration, is classified as a financial instrument and is measured at fair value through profit or loss. Accordingly, valuation of the HNC Subsequent Consideration and thus the fair value of the financial instrument hinges on the market price of the Shares. Fluctuation of the market prices of the Shares and hence the change in fair value of the HNC Subsequent Consideration have led to significant accounting impact to the Group's profit attributable to equity holders of the Company.

Subsequent to the completion of the HNC Acquisition in May 2018, the Group has recorded a fair value gain of RMB22.3 million and a fair value loss of RMB63.6 million for the Year 2018 and the Year 2019, respectively. Despite such accounting gain/loss has no adverse implications to the Group's cash flow and operating position, the Company considers this may lead to misinterpretation in the Group's actual financial performance. With early settlement of the HNC Subsequent Consideration, the Group can cease the significant accounting impact of the financial derivatives instrument arising from the HNC Subsequent Consideration.

Having considered (i) the fact that the growth rate of the net profit of the HNC Group for the Year 2018 and Year 2019 have significantly exceeded the highest hurdle of the average growth rate (being 25.0%) for the adjustment of the HNC Total Consideration under the HNC Sale and Purchase Agreement; (ii) the HNC Amendments can recognise the efforts of the HNC Vendors in achieving such outstanding growth in the HNC Group, which in turn can further motivate the HNC Vendors to optimise their performance for the benefit of the Group without extra consideration incurred; (iii) the granting of the HNC Call Option pursuant to the HNC Supplemental Deed as a safeguard for the protection of the Company's interests; (iv) the HNC Vendors will not be entitled to receive dividend payment for the Year 2019; (v) the HNC Amendments only expedite the timing and does not affect the number of Shares to be issued under the HNC Subsequent Consideration pursuant to the HNC Sale and Purchase Agreement; and (vi) the HNC Amendments can cease the negative accounting impact of the financial derivatives instrument arising from the HNC Subsequent Consideration assuming the Share price will continue to exhibit positive trend based on the historical Share price performance, we concur with the Director's view that the reasons and benefit of entering into of the HNC Supplemental Deed is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Principle terms of the HNC Supplemental Deed

3.1 Parties

(i) Ausnutria Nutrition B.V., being the HNC Purchaser;

(ii) Perfect Victory Holdings Limited, being HNC Vendor A;

(iii) Dynamic Winners Group Limited, being HNC Vendor B;

(iv) Reliable Global Holdings Limited, being HNC Vendor C; and

(v) the Company

3.2 HNC Subsequent Consideration

Pursuant to the HNC Sale and Purchase Agreement, the HNC Subsequent Consideration (if any) shall be payable to the HNC Vendors no later than the twentieth (20th) Business Day immediately after the date of announcement of the Company's annual results for the year ending 31 December 2020.

Pursuant to the HNC Supplemental Deed, the HNC Original Terms shall be amended and supplemented by the followings:

(i) The HNC Early Settlement Terms

On the condition that the audited consolidated net profit after taxation of the HNC Group for the Year 2019 is not less than RMB450 million, the parties agreed that upon finalisation of the audited financial statements of the HNC Group for the Year 2019, the HNC Purchaser may at its absolute discretion settle the maximum HNC Subsequent Consideration (i.e. HK$149.4 million) prior to the release of the Company's annual results for the financial year ending 31 December 2020.

As at the Latest Practicable Date, such condition has been fulfilled. Detailed financial information of the HNC Group is set out in the paragraphs headed "The HNC Amendments – Financial information of the HNC Group".

Should the HNC Purchaser exercise its discretion to early settle the HNC Subsequent Consideration to the HNC Vendors, the maximum cap of the HNC Subsequent Consideration shall be settled in full by issuing and allotting 29,879,877 Shares to the HNC Vendors no later than (i) the seventh (7th) Business Day after the date when the conditions as set out in the paragraphs headed "The HNC Amendments – Conditions precedent" in the Board Letter are fulfilled; or (ii) the record date for the entitlement of the final dividend to be declared by the Company for the Year 2019, whichever is later.

In assessing the fairness and reasonableness of the HNC Supplemental Deed, we have reviewed the terms of the HNC Sale and Purchase Agreement and the conditions for the HNC Subsequent Consideration. Under the HNC Sale and Purchase Agreement, the HNC Vendors are entitled to the HNC Subsequent Consideration if the average growth rate of the net profit after taxation of the HNC Group for the 3 financial years ending 31 December 2020 averages above 25%, or at a lower rate if below 25% but exceeds 20%.

As stated above, the net profit after taxation of HNC Group grew at 55.9% and 83.6% for the Year 2018 and the Year 2019, respectively. With the growth rate of the first two years, we can derive the growth rate of the net profit after taxation for the third year ending 31 December 2020, which shall be no lower than a reduction of 64.4% growth, or a net profit no lower than RMB160.7 million for the financial year ending 31 December 2020, in order for the HNC Vendors to be entitled to the maximum HNC Subsequent Consideration at the 25% average net profit after taxation hurdle.

Assuming the maximum HNC Subsequent Consideration is considered, the HNC Subsequent Consideration is calculated using the formula below:

5X	Increase in net profit after taxation of HNC Group for 2018	+4X	Increase in net profit after taxation of HNC Group for 2019	+3X	Higher of 0 or increase in net profit after taxation of HNC Group for 2020	X 15%

which is equivalent to

5X	RMB88.3 million	+4X	RMB206.1 million	+3X	Higher of 0 or increase in net profit after taxation of HNC Group for 2020	X 15%

RMB441.5 million	+ RMB 824.4 million	+3X	Higher of 0 or increase in net profit after taxation of HNC Group for 2020	X 15%

Based on the calculation above, the HNC Subsequent Consideration currently stands at 15% of RMB1,265.9 million (or approximately RMB189.9 million) before taking into account the net profit after taxation calculation for the financial year ending 31 December 2020, which could only be as low as 0 based on the formula above. As the HNC Subsequent Consideration is capped at HK$149.4 million, and the calculation for the change in net profit after taxation for the financial year ending 31 December 2020 cannot be lower than 0, the HNC Subsequent Consideration cap has been reached.

Based on the historical performance of the HNC Group, barring any extraordinary or catastrophic events that could affect the net profit after taxation, the likelihood of its profits to drop more than 64.4% at the current business environment is rather low, considering (i) the infant formula market is still growing in the PRC; (ii) infant formula product is a necessity and its demand is rather inelastic; and (iii) the HNC Group has already built its market share and brand as a premium brand of alternative to cow milk based infant formula products. In the event of unforeseen circumstances and the HNC Subsequent Consideration cap cannot be reached, the difference between the HNC Actual Subsequent Consideration and the HNC Subsequent Consideration cap, which if required, can be clawed back using the HNC Call Option discussed below.

Based on our analysis above, we noted that the HNC Vendors have (i) met most of their obligations under the HNC Sale and Purchase Agreement; (ii) improved the sales and profitability of the HNC Group significantly, which was what the implementation of the HNC Subsequent Consideration was intended to perform; (iii) the early settlement incentivises the HNC Vendors to work harder towards improving the performance of the HNC Group as they can now foresee their hard work will be rewarded by the Group, as well as contribute positively to the Shares they will hold; and (iv) the early settlement of the HNC Subsequent Consideration has no impact to the cashflow of the Group. As such, we are of the view the HNC Supplemental Deed that leads to the early settlement of the HNC Subsequent Consideration is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

(ii) Grant of the HNC Call Option

Pursuant to the HNC Supplemental Deed, the HNC Vendors conditionally agreed to grant the HNC Purchaser the HNC Call Option.

Provided that the HNC Purchaser having early settled the HNC Subsequent Consideration by the issuance and allotment of 29,879,877 HNC Subsequent Consideration Shares by the Company to the HNC Vendors, the HNC Purchaser shall reassess the HNC Actual Subsequent Consideration in accordance with the formulae set out in the HNC Sale and Purchase Agreement upon finalisation of audited financial statements of the HNC Group for the year ending 31 December 2020. Shall there be any shortfall between the HNC Actual Subsequent Consideration and the then settled amount of HNC Subsequent Consideration (i.e. HK$149.4 million), the HNC Purchaser may at its absolute discretion exercise the HNC Call Option to require the HNC Vendors to sell the shortfall (if any) between 29,879,877 Shares and the HNC Actual Subsequent Consideration Shares to the HNC Purchaser or its nominee(s) at nil consideration. Any Shares acquired by the HNC Purchaser or its nominee(s) pursuant to the HNC Call Option will be dealt with at the sole discretion of the HNC Purchaser or the Company, including the possible cancellation or the disposal by way of share placement. Having considered the prevailing requirements of the Listing Rules, the Company will cancel all the Shares acquired upon purchase of such Shares in the event that the Company exercises the HNC Call Option

As discussed above, the grant of the HNC Call Option allows the HNC Purchaser to claw back the shortfall between the HNC Actual Subsequent Consideration and the then settled amount of HNC Subsequent Consideration. Therefore, the HNC Call Option will protect the HNC Purchaser against any unforeseen circumstances whereby the HNC Group fails to meet its HNC Subsequent Consideration cap.

Save for the HNC Early Settlement Terms and the HNC Call Option as disclosed above, other terms and conditions as set out in the HNC Sale and Purchase Agreement, including but not limited to the HNC Consideration Share Price and the maximum cap of the HNC Total Consideration remain the same.

3.3 Conditions precedent

Completion of the HNC Amendments is subject to, among others, the passing by the HNC Independent Shareholders in accordance with the Listing Rules and all applicable laws at the EGM.

Further details of the conditions precedent to the HNC Amendments are set out in the paragraphs headed "The HNC Amendments – Conditions precedent" in the Board Letter.

According to the Board Letter, as at the Latest Practicable Date, none of the conditions has been fulfilled.

Having reviewed the HNC Supplemental Deed and the HNC Sale and Purchase Agreement, and considered the various points discussed above, we consider that the terms of the HNC Supplemental Deed are fair and reasonable insofar as the HNC Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

4. Effects on the shareholding structure of the Company

For illustrative purpose only, the following table sets out the effect of the issuance and allotment of the maximum number of HNC Subsequent Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date, without taking into account any other new Shares, if any, after the Latest Practicable Date and prior to the issuance and allotment of the maximum HNC Subsequent Consideration Shares.

	As at the Latest Practicable Date		Immediately upon the issuance and allotment of the maximum HNC Subsequent Consideration Shares	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
HNC Vendor A and its associate *(Note 1)*	18,894,120	1.2	29,471,596	1.8
HNC Vendor B and its associate *(Note 1)*	18,220,905	1.1	29,555,338	1.8
HNC Vendor C and its associate *(Note 1)*	12,406,766	0.7	20,374,733	1.2
Citagri Easter Limited	379,000,000	23.5	379,000,000	23.1
Center Lab *(Note 2)*	343,931,772	21.3	343,931,772	20.9
Mr. Bartle van der Meer *(Note 3)*	125,405,230	7.8	125,405,230	7.6
Mr. Yan Weibin *(Note 4)*	119,939,085	7.4	119,939,085	7.3
Public Shareholders	597,622,421	37.0	597,622,421	36.3
Total	1,615,420,299	100.0	1,645,300,175	100.0

Notes:

1. Due to the round-down treatment as set out in the HNC Sale and Purchase Agreement, the sum of the maximum HNC Subsequent Consideration Shares to be issued and allotted to each of the HNC Vendors is 29,879,876 Shares.

2. As at the Latest Practicable Date, Center Lab beneficially owns 307,940,089 Shares. BioEngine Capital Inc., which holds 35,991,683 Shares, is a non-wholly-owned subsidiary of Center Lab. Accordingly, Center Lab is deemed to be interested in a total of 343,931,772 Shares under the SFO.

3. As at the Latest Practicable Date, Mr. Bartle van der Meer beneficially owns 1,200,000 Shares. Dutch Dairy Investments HK Limited, which holds 124,205,230 Shares, is wholly-owned by Dutch Dairy Investments B.V.. Dutch Dairy Investments B.V. is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer. Accordingly, Mr. Bartle van der Meer is deemed to be interested in a total of 125,405,230 Shares under the SFO. Apart from these, Mr. Bartle van der Meer also holds share options granted by the Company on 15 January 2019 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enable him to further subscribe for 1,500,000 Shares.

4. As at the Latest Practicable Date, Mr. Yan Weibin beneficially owns 1,200,000 Shares. Ausnutria Holding Co. Ltd., which holds 118,739,085 Shares, is wholly-owned by Mr. Yan Weibin. Accordingly, Mr. Yan Weibin is deemed to be interested in 119,939,085 Shares under the SFO. Apart from these, Mr. Yan Weibin also holds share options granted by the Company on 15 January 2019 (under the share option scheme of the Company approved by the Shareholders on 19 September 2009) which enable him to further subscribe for 1,500,000 Shares.

As shown in the above table, the shareholding of the Company held by existing public Shareholders will be diluted from 37.0% as at the Latest Practicable Date to approximately 36.3%, representing a dilution of 0.7 percentage points upon the issuance and allotment of the maximum number of HNC Subsequent Consideration Shares.

However, taking into account (i) the reasons and benefits of the HNC Amendments as discussed in the paragraphs headed "Reasons and benefits of the HNC Amendments" above; (ii) the dilution effect is already anticipated since the entering of the HNC Sale and Purchase Agreement but is now expedited; (iii) the exceptional performance of the management of the HNC Group who managed to achieve most of their targets set out within a 3-year period in 2 years; and (iv) the terms of the HNC Supplemental Deed are fair and reasonable insofar as the HNC Independent Shareholders are concerned, we are of the view that the dilution effect to the shareholding interests of the existing Shareholders as a result of the HNC Amendments is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons as stated above, we consider that although the entering into of the HBC Sale and Purchase Agreement and the HNC Supplemental Deed are not in the ordinary and usual course of business of the Group, the terms of the HBC Sale and Purchase Agreement and the HNC Supplemental Deed are fair and reasonable insofar as the Independent Shareholders are concerned, and the transactions contemplated under the HBC Sale and Purchase Agreement and the HNC Supplemental Deed are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend that the Independent Board Committee advise the Independent Shareholders, and we recommend that, the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve (i) the HBC Sale and Purchase Agreement and the transactions contemplated thereunder and the granting of the HBC Specific Mandate to issue and allot the HBC Consideration Shares; and (ii) the HNC Supplemental Deed and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Frontpage Capital Limited
Chai Yee Choong
Director

Note: Mr. Chai Yee Choong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Frontpage Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance. He has more than 10 years of experience in corporate finance.

1. RESPONSIBILITY STATEMENT

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.

2. SHARE CAPITAL

The following table sets out the authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately following the issuance and allotment of the HBC Consideration Shares and the HNC Subsequent Consideration Shares.

Authorised share capital		*HK$*
3,000,000,000	Shares as at the Latest Practicable Date	300,000,000
Issued and fully paid share capital		
1,615,420,299	Shares in issue as at the Latest Practicable Date	161,542,030
70,000,000	HBC Consideration Shares to be issued and allotted	7,000,000
29,879,876	HNC Subsequent Consideration Shares to be issued and allotted (assuming the maximum number of the HNC Subsequent Consideration Shares having been issued and allotted)	2,987,988
1,715,300,175	Shares in issue immediately following the issuance and allotment of the HBC Consideration Shares and the HNC Subsequent Consideration Shares	171,530,018

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 share options outstanding under the Company's share option scheme, which was approved by the Shareholders on 19 September 2009, was 40,745,000 in total. The exercise prices were HK$2.45 and HK$10.0 for 745,000 and 40,000,000 share options respectively.

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 percentage of issued share capital *(Note 5)*
Mr. Yan Weibin	1,200,000 (L)	Beneficial owner	0.07%
	1,500,000 (L)	Beneficial owner *(Note 2)*	0.09%
	118,739,085 (L)	Interest of a controlled corporation *(Note 3)*	7.35%
Mr. Bartle van der Meer	1,200,000 (L)	Beneficial owner	0.07%
	1,500,000 (L)	Beneficial owner *(Note 2)*	0.09%
	124,205,230 (L)	Interest of a controlled corporation *(Note 4)*	7.69%
Ms. Ng Siu Hung	1,000,000 (L)	Beneficial owner	0.06%
	1,500,000 (L)	Beneficial owner *(Note 2)*	0.09%
Mr. Shi Liang	500,000 (L)	Beneficial owner *(Note 2)*	0.03%
Mr. Qiao Baijun	500,000 (L)	Beneficial owner *(Note 2)*	0.03%
Mr. Tsai Chang-Hai	300,000 (L)	Beneficial owner	0.02%
	500,000 (L)	Beneficial owner *(Note 2)*	0.03%
Mr. Lau Chun Fai Douglas	250,000 (L)	Beneficial owner	0.02%
	550,000 (L)	Beneficial owner *(Note 2)*	0.03%
Mr. Jason Wan	300,000 (L)	Beneficial owner	0.02%
	500,000 (L)	Beneficial owner *(Note 2)*	0.03%
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 share options granted by the Company to the Directors on 21 January 2016 and 15 January 2019 under the Company's share option scheme.

3. The Shares are held by Ausnutria Holding Co Ltd ("**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 Dutch Dairy Investments HK Limited ("**DDIHK**"), which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI 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 DDIHK under the SFO.

5. Based on 1,615,420,299 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 percentage of issued share capital** *(Note 12)*
Citagri Easter Ltd. *(Note 2)*	379,000,000 (L)	Beneficial owner	23.46%
Changsha Kunxin Xin'Ao Investment LP* (長沙鯤信信澳股權投資合夥企業(有限合夥)) *(Note 3)*	379,000,000 (L)	Interest of controlled corporation	23.46%
Chengtong CITIC Agriculture Investment Fund *(Note 3)*	379,000,000 (L)	Interest of controlled corporation	23.46%
CITIC Agri Fund Management Co., Ltd. *(Note 4)*	379,000,000 (L)	Interest of controlled corporation	23.46%
CITIC Agriculture Technology Co., Ltd. *(Note 4)*	379,000,000 (L)	Interest of controlled corporation	23.46%
CITIC Limited *(Note 5)*	379,000,000 (L)	Interest of controlled corporation	23.46%

Name	Number of shares *(Note 1)*	Nature of interest	Approximate percentage of issued share capital *(Note 12)*
CITIC Group Corporation *(Note 5)*	379,000,000 (L)	Interest of controlled corporation	23.46%
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 6)*	379,000,000 (L)	Interest of controlled corporation	23.46%
CCB (Beijing) Investment Funds Management Co., Ltd.* (建信(北京)投資基金管理有限責任公司) *(Note 6)*	379,000,000 (L)	Interest of controlled corporation	23.46%
CCB Trust Co., Ltd.* (建信信託有限責任公司) *(Note 6)*	379,000,000 (L)	Interest of controlled corporation	23.46%
Postal Savings Bank of China* (中國郵政儲蓄銀行股份有限公司) *(Note 7)*	379,000,000 (L)	Beneficiary of a trust (other than a discretionary interest)	23.46%
Center Lab *(Note 8)*	307,940,089 (L)	Beneficial owner	19.06%
	35,991,683 (L)	Interest of a controlled corporations	2.23%
DDIHK *(Note 9)*	124,205,230 (L)	Beneficial owner	7.69%
DDI *(Note 9)*	124,205,230 (L)	Interest of a controlled corporation	7.69%
Fan Deming B.V. *(Note 9)*	124,205,230 (L)	Interest of a controlled corporation	7.69%
Ms. Chen Miaoyuan *(Note 10)*	121,439,085 (L)	Interest of spouse	7.52%
Ausnutria BVI *(Note 11)*	118,739,085 (L)	Beneficial owner	7.35%

Notes:

1. The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.

2. Citagri Easter Ltd. is owned as to approximately 53.14% by Changsha Kunxin Xin' Ao Investment LP* ("**Kunxin Xin' Ao**").

3. 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* and indirectly owned as to 37.2% by CITIC Limited respectively.

4. CITIC Agri Fund Management Co., Ltd., 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.).

5. CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation.

6. China Structural Reform Fund Co., Ltd* is owned as to 38.20% by CCB (Beijing) Investment Funds Management Co., Ltd.*, being a wholly-owned subsidiary of CCB Trust Co., Ltd.*.

7. Postal Savings Bank of China* is the beneficiary of CCB Trust Co., Ltd.*.

8. Center Lab is beneficially interested in 307,940,089 Shares and BioEngine Capital Inc., a non-wholly-owned subsidiary of Center Lab, is beneficially interested in 35,991,683 Shares. Center Lab is therefore deemed to be interested in 343,931,772 Shares in total under the SFO.

9. DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V., which is in turn wholly-owned by Mr. Bartle van der Meer. Each of DDI, Fan Deming B.V. and Mr. Bartle van der Meer is therefore deemed to be interested in the Shares held by DDIHK under the SFO.

10. Ms. Chen Miaoyuan is the spouse of Mr. Yan Weibin. Ms. Chen Miaoyuan is therefore deemed to be interested in 119,939,085 Shares held by Mr. Yan Weibin (himself and through Ausnutria BVI) and the 1,500,000 shares options held by Mr. Yan Weibin under the SFO.

11. 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.

12. Based on 1,615,420,299 Shares of HK$0.10 each in issue as at the Latest Practicable Date.

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.

* *For identification purpose only*

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 2019, 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 Latest Practicable Date, 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 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. 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
Frontpage Capital Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Frontpage Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report, as the case may be, dated 13 July 2020, and reference to its name, and/or its advice in the form and context in which it appears.

As at the Latest Practicable Date, Frontpage 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 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on Business Days at the office of the Company at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong, from the date of this circular up to and including the date of EGM:

(i) the HBC Sale and Purchase Agreement;

(ii) the HNC Sale and Purchase Agreement;

(iii) the HNC Supplemental Deed;

(iv) the letter from the Independent Board Committee, the text of which is set out on pages 33 to 34 to this circular;

(v) the letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 35 to 77 to this circular;

(vi) the written consent referred to in the paragraph headed "Expert and consent" in this appendix; and

(vii) this circular.

8. MISCELLANEOUS

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

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 8th Floor, XinDaXin Building A, No. 168 Huangxing Middle Road, Changsha City, Hunan Province, the PRC, on Thursday, 30 July 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, without modifications, the following ordinary resolutions 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 13 July 2020 of which this notice convening the EGM forms part.

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the conditional HBC Sale and Purchase Agreement (a copy of which is tabled at the EGM and marked "A" and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the issuance and allotment of 70,000,000 HBC Consideration Shares at the HBC Consideration Share Price to the HBC Vendors pursuant to the terms of the HBC Sale and Purchase Agreement be and are hereby approved;

(c) subject to and conditional upon the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the HBC Consideration Shares, the Directors be and are hereby granted the HBC Specific Mandate and any one Director be and is hereby specifically authorised to exercise all the powers of the Company to issue, allot and credit as fully paid, the HBC Consideration Shares, on and subject to the terms and conditions of the HBC Sale and Purchase Agreement, provided that the HBC 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; and

(d) any one Director (or any two Directors in the case of execution of documents under seal) 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 or she may in his or her absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with (i) the HBC Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the issuance and allotment of the HBC Consideration Shares."

2. "**THAT**

(a) the conditional HNC Supplemental Deed (a copy of which is tabled at the EGM and marked "B" and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) any one Director be and is hereby specifically authorised to issue and allot the HNC Subsequent Consideration Shares in accordance with the terms of the HNC Supplemental Deed pursuant to the specific mandate granted to the Directors in the 2018 EGM; and

(c) any one Director (or any two Directors in the case of execution of documents under seal) 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 or she may in his or her absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the HNC Supplemental Deed and the transactions contemplated thereunder."

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

Hong Kong, 13 July 2020

Notes:

(a) The register of members of the Company will be closed from Monday, 27 July 2020 to Thursday, 30 July 2020, 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, 17M Floor, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong for registration no later than 4:30p.m. on Friday, 24 July 2020.

(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 authorized 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.

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