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AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

DISCLOSEABLE TRANSACTION IN RELATION TO ESTABLISHMENT OF BUSINESS IN NEW ZEALAND

ESTABLISHMENT OF BUSINESS IN NEW ZEALAND

The Board is pleased to announce that on 29 September 2016 (after trading hours), Ausnutria China, an indirect wholly-owned subsidiary of the Company, and Westland entered into the Subscription Agreements with the Joint Venture for the purpose of establishing the Business in New Zealand. Pursuant to the Subscription Agreements, Ausnutria China shall subscribe for 4,500,000 shares of the Joint Venture in the amount of NZD4.5 million (equivalent to approximately RMB21.8 million) in cash and Westland, through WMPI, shall subscribe for 3,000,000 shares of the Joint Venture in the amount of NZD3.0 million (equivalent to approximately RMB14.6 million) by transferring ownership of the Land, which is adjacent to an existing manufacturing plant of Westland and with a site area of approximately 2.5 hectares at Rolleston in New Zealand, to the Joint Venture. Upon completion of the Share Subscription, the Joint Venture will be owned as to 60% and 40% by Ausnutria China and WMPI respectively and the Joint Venture will be accounted for as a subsidiary of the Group.

Further, to support the operation of the Joint Venture in the start-up stage, on the same date of signing of the Subscription Agreements, Ausnutria China and WMPI agreed to enter into the Joint Venture Agreement with the Joint Venture. The Joint Venture also entered into the Shareholder Loan Agreement and the Retail Product Purchase Agreement with Ausnutria China and the Product Supply Agreement with Westland respectively.

The Group, in respect of the Subscription Agreements and the Shareholder Loan Agreement, shall invest up to NZD36.5 million (equivalent to approximately RMB177.0 million) in aggregate to the Business in New Zealand.

IMPLICATION UNDER THE LISTING RULES

Since some of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Share Subscription and provision of the Shareholder Loan to the Joint Venture, either considered separately or in aggregate, exceed 5% but are less than 25%, the transactions contemplated under the Subscription Agreements and the Shareholder Loan Agreement constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules and are subject to the requirements of reporting and announcement, but are exempted from the requirement of shareholders' approval pursuant to Chapter 14 of the Listing Rules.

The Joint Venture is an insignificant subsidiary of the Company under Rule 14A.09(1) of the Listing Rules. As Westland is an associate of WMPI by virtue of its 100% shareholdings in WMPI, which in turn holds 40% equity interest in the Joint Venture, it is a controlling shareholder of an insignificant subsidiary of the Company, and therefore notwithstanding Westland's interest in the Joint Venture, it and its ultimate beneficial owners are not regarded as connected persons of the Company pursuant to Rule 14A.09 of the Listing Rules. Therefore the Product Supply Agreement does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 29 September 2016 (after trading hours), Ausnutria China, an indirect wholly-owned subsidiary of the Company, and Westland entered into the Subscription Agreements with the Joint Venture for the purpose of establishing the Business in New Zealand. Pursuant to the Subscription Agreements, Ausnutria China shall subscribe for 4,500,000 Shares of the Joint Venture in the amount of NZD4.5 million (equivalent to approximately RMB21.8 million) in cash and Westland, through WMPI, shall subscribe for 3,000,000 shares of the Joint Venture in the amount of NZD3.0 million (equivalent to approximately RMB14.6 million) by transferring ownership of the Land, which is adjacent to an existing manufacturing plant of Westland and with a site area of approximately 2.5 hectares at Rolleston in New Zealand, to the Joint Venture. Upon completion of the Share Subscription, the Joint Venture will be owned as to 60% and 40% by Ausnutria China and WMPI respectively and the Joint Venture will be accounted for as a subsidiary of the Group.

Further, to support the operation of the Joint Venture in the start-up stage, on the same date of signing of the Subscription Agreements, Ausnutria China and WMPI agreed to enter into the Joint Venture Agreement with the Joint Venture. The Joint Venture also entered into the Shareholder Loan Agreement and the Retail Product Purchase Agreement with Ausnutria China and the Product Supply Agreement with Westland respectively.

The Group, in respect of the Subscription Agreements and the Shareholder Loan Agreement, shall invest up to NZD36.5 million (equivalent to approximately RMB177.0 million) in aggregate to the Business in New Zealand.

THE SUBSCRIPTION AGREEMENTS

As at the date of this announcement and prior to the Share Subscription, the Joint Venture, which is established for the sole purpose for the Business, has an issued capital of NZD100.0 and is owned as to 60% and 40% by Ausnutria China and WMPI respectively. For the purpose of establishing the Business, Ausnutria China and Westland agreed to enter into the Subscription Agreements.

Principal terms of the Subscription Agreements are set out below.

Date: 29 September 2016 (after trading hours)

Issuer: the Joint Venture

- Subscribers:
- (1) Ausnutria China, an indirect wholly-owned subsidiary of the Company
 - (2) Westland, who has nominated WMPI (a wholly-owned subsidiary of Westland) to subscribe for the shares and irrevocably directs that the Joint Venture issue the shares to WMPI

The Share Subscription

Pursuant to the Subscription Agreements, Ausnutria China agreed to subscribe for 4,500,000 shares of the Joint Venture at a subscription price NZD1.0 per share. The subscription amount of NZD4.5 million (equivalent to approximately RMB21.8 million) to the Joint Venture will be satisfied by cash. WMPI agreed to subscribe for 3,000,000 shares of the Joint Venture at a subscription price of NZD1.0 per share, such subscription amount will be satisfied by transferring the Land with an appraised value of NZD3.0 million (equivalent to approximately RMB14.6 million) reported under a valuation report as produced by an independent qualified appraisal company, to the Joint Venture.

Conditions precedent

Completion of the Share Subscription shall be conditional upon the fulfillment of the following conditions:

- (a) the Joint Venture Agreement being duly executed;
- (b) the Retail Product Purchase Agreement being duly executed;
- (c) the Shareholder Loan Agreement being duly executed; and
- (d) the Product Supply Agreement being duly executed.

Conditions precedent as set out above may be waived in writing with the consent of both Ausnutria China and Westland.

If any of the conditions precedent set out above are not satisfied or waived on or before 31 October 2016, Ausnutria China and Westland may terminate the Subscription Agreements by written notice.

Upon completion of the Share Subscription, the Joint Venture will be owned as to 60% and 40% by Ausnutria China and WMPI respectively.

THE JOINT VENTURE AGREEMENT

The principal terms of the Joint Venture Agreement are set out below:

Date: 29 September 2016 (after trading hours)

- Parties:
- (a) Ausnutria China
 - (b) WMPI
 - (c) the Joint Venture

Business of the Joint Venture

The Joint Venture will be engaged in the design and construction of a manufacturing plant on the Land, which is adjacent to an existing manufacturing plant of Westland and with a plot area of approximately 2.5 hectares at Rolleston in New Zealand, and production and sale of dairy based powder products, including infant formula milk powder, follow-up formula and other nutrition products for kids and adults.

Board composition of the Joint Venture

The board of the Joint Venture will consist of no more than 4 directors. Ausnutria China and Westland will each be entitled to appoint and remove 2 directors. Ausnutria China shall be entitled to nominate one of the directors appointed by it as the chairperson of the Board who shall have a casting vote.

Distribution of profits

The portion of the profits of the Joint Venture to be distributed to the shareholders shall be determined by the board of the Joint Venture within three months after the end of each accounting period. Ausnutria China and Westland shall procure that all profits of the Joint Venture of the financial years up to and including the financial year ending 31 December 2022 shall be reinvested in the Joint Venture and shall not distribute any dividends or make other distributions from any other reserves or otherwise to the shareholders, unless the shareholders of the Joint Venture unanimously agree otherwise.

Termination

The Joint Venture Agreement will be terminated with immediate effect on the earlier of the following events:

- (a) the parties agree in writing to terminate the agreement;
- (b) the date on which the liquidation of the Joint Venture is completed; and
- (c) the date on which one person holds all of the shares of the Joint Venture.

THE SHAREHOLDER LOAN AGREEMENT

On 29 September 2016 (after trading hours), Ausnutria China and the Joint Venture entered into the Shareholder Loan Agreement, pursuant to which Ausnutria China, as the lender, granted a facility of NZD32.0 million (equivalent to approximately RMB155.2 million) to the Joint Venture, as the borrower, for its start-up of the Business, including among other things, the construction of a manufacturing plant and the purchase of machinery and equipment.

Principal terms of the Shareholder Loan Agreement are set out below:

Date: 29 September 2016 (after trading hours)

Parties: (1) Ausnutria China, as the lender
(2) the Joint Venture, as the borrower

- Facility amount: up to NZD32.0 million (equivalent to approximately RMB155.2 million), which is to be drawn down in accordance with the payment schedule as set out under respective contracts/agreements to which the Joint Venture is party, relating to matters set out in the Joint Venture's approved business plan
- Interest: Bill Rate plus 2.1%, payable on the last day of each month
- Term: one year and renewable annually up to a maximum period of five years from the date of first drawdown
- Security: (1) registered mortgage, with a priority sum of NZD33.0 million plus interest over the Land granted by the Joint Venture; and
(2) a general security agreement over all present and after acquired assets of the Joint Venture.
- Early repayment: The Joint Venture may repay any or all of the Shareholder Loan at any time by giving Ausnutria China one month notice in advance.

THE PRODUCT SUPPLY AGREEMENT

On 29 September 2016 (after trading hours), Westland and the Joint Venture entered into the Product Supply Agreement, pursuant to which Westland agreed to supply the Joint Venture with the Goods for a term of five years with effect from the Commencement Date. The Joint Venture may from time to time during the term of the Product Supply Agreement purchase the Goods from Westland and the Joint Venture shall not purchase any Goods, or goods that are the same or substantially similar to the Goods, from any person other than Westland during the term of the Product Supply Agreement except where Westland has failed to deliver the Goods to the Joint Venture in accordance with the conditions as set out in the Product Supply Agreement.

Principal terms of the Product Supply Agreement set out as below.

- Date: 29 September 2016 (after trading hours)
- Parties: (1) Westland, as the supplier
(2) the Joint Venture, as the purchaser
- Term: five years from the Commencement Date
- Price: For the six-month period from the Commencement Date, the parties shall use their best endeavours to agree the initial price list to apply to the Goods not later than twenty (20) Business Days prior to the expected Commencement Date.

From then, the parties will negotiate the price list five (5) Business Days before each subsequent six-month period during the term of the Product Supply Agreement. The parties agree that such price list shall be competitive having regard to factors including, but not limited to, current market prices for the Goods in New Zealand and changes in the price of inputs and other production costs in respect of the Goods.

Minimum Quantity: Pursuant to the Product Supply Agreement, the Joint Venture should use reasonable endeavours to place purchase orders to meet the relevant minimum quantity in each of the five years commencing from the date when the commissioning of the production facilities of the manufacturing plant is completed. The minimum quantity is as follows:

Period	Minimum Quantity
First Contract Year	3,000 mt
Second Contract Year	5,000 mt
Third Contract Year	5,000 mt
Fourth Contract Year	5,000 mt
Fifth Contract Year	5,000 mt

REASONS FOR AND BENEFITS OF THE ESTABLISHMENT OF JOINT VENTURE AND THE PROVISION OF SHAREHOLDER LOAN

To the best knowledge of the Directors, Westland is the second largest dairy co-operative in New Zealand and has become one of the major suppliers of the Group since 2013.

As set out in the interim results of the Group for the six months ended 30 June 2016, turnover of the Group's own-branded products increased by approximately 49.0% when compared with the corresponding period last year. The Directors believe that the Joint Venture will be an important step for the Group to further develop and diversify its milk source and hence enhance its capabilities in the production of infant formula to cater for the anticipated continuous growth in sale of infant formula of the Group in the PRC as well as overseas countries. In addition, the Board believes that the Group can also leverage on Westland's expertise and resources through the establishment of the Joint Venture in New Zealand.

In order to facilitate the start-up of the Joint Venture, Ausnutria China agreed to provide the Shareholder Loan to the Joint Venture which is to be primarily used for the construction of the manufacturing plant and the purchase of machinery and equipment.

The Directors believe that the Joint Venture will mutually benefit the parties in their respective production, research and development, sales and marketing capabilities both on local and international scale.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PRODUCT SUPPLY AGREEMENT

According to the Product Supply Agreement, Westland will provide its dairy based nutritional powder products with milk source in New Zealand to the Joint Venture whilst pursuant to the Retail Product Purchase Agreement, the Joint Venture shall produce the infant formula and adult nutrition products under the Group's own-brands for sale to its customers in the PRC as well as overseas countries.

The Directors are of the view that the Product Supply Agreement enables the Group to secure a long-term supply of dairy based nutritional powder products.

INFORMATION ON THE GROUP, WESTLAND AND WMPI

The Group

The principal business activity of the Company is investment holding. The Group is principally engaged in the production, marketing and distribution of infant nutrition products in the PRC and in the dairy industry with production facilities based in the Netherlands which conduct activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries.

Westland

Westland is a co-operative dairy company established in New Zealand. The principal business activities of Westland include the manufacture and sale of dairy products (including yoghurt) derived from milk sourced from the co-operative who are also the shareholders of Westland from its production facilities in New Zealand.

The Westland group also conducts sale and marketing activities for dairy products under its own brands “Westland” and “EasiYo” in the PRC.

WMPI

WMPI is a wholly-owned subsidiary of Westland and established in New Zealand with limited liability. The principal business activity of WMPI is investment holding.

INFORMATION ON THE JOINT VENTURE

As at the date of this announcement, the Joint Venture has an issued capital of NZD100.0. Up to the date of this announcement, the Joint Venture has not commenced any business. Upon completion of the Subscription Agreements and the entering into of the Shareholder Loan Agreement, the Joint Venture will be engaged in the design and construction of a manufacturing plant on the Land which is adjacent to an existing manufacturing plant of Westland and with a plot area of approximately 2.5 hectares at Rolleston in New Zealand, for the production and sale of dairy based powder products, including infant formula milk powder, follow-up formula and other nutrition products for kids and adults. The manufacturing plant is designed with an annual production capacity of 30,000 tons is expected to be completed at the end of 2017. According to the business plan, the first phase of the manufacturing plant is equipped with an annual production capacity of 15,000 tons.

IMPLICATIONS UNDER THE LISTING RULES

The Subscription Agreements and the Shareholder Loan Agreement

Since some of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Share Subscription and provision of the Shareholder Loan to the Joint Venture, either considered separately or in aggregate, exceed 5% but are less than 25%, the transactions contemplated under the Subscription Agreements and the Shareholder Loan Agreement constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules and are subject to the requirements of reporting and announcement, but are exempted from the requirement of shareholders’ approval pursuant to Chapter 14 of the Listing Rules.

The Product Supply Agreement

The Joint Venture is an insignificant subsidiary of the Company under Rule 14A.09(1) of the Listing Rules. As Westland is an associate of WMPI by virtue of its 100% shareholdings in WMPI, which in turn holds 40% equity interest in the Joint Venture, it is a controlling shareholder of an insignificant subsidiary of the Company, and therefore notwithstanding Westland's interest in the Joint Venture, it and its ultimate beneficial owners are not regarded as connected persons of the connected persons of the Company pursuant to Rule 14A.09 of the Listing Rules. Therefore the Product Supply Agreement does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Since completion of the Share Subscription is subject to the fulfilment of the relevant conditions precedent as set out in the Subscription Agreements, the Share Subscription and hence the establishment of the Business may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the shares of the Company.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Ausnutria China”	Ausnutria Dairy (China) Co. Limited, a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“Bill Rate”	any rate of interest to be calculated pursuant to the mid or forward rate agreement rate for 90 day bank accepted bills (expressed as a percentage) as quoted on Reuters page BKBM (or any successor page) at or about 10:45 am on the first Business Day of the period in respect of which such rate of interest is to be calculated, and thereafter at intervals of 90 days from that Business Day
“Board”	the board of Directors
“Business”	the design and construction of a manufacturing plant on the Land in New Zealand and the production and sale of dairy based powder products, including infant formula milk powder, follow-up formulation and other nutrition products for kids and adults
“Business Day”	any day on which banks are open for general banking business in Christchurch, New Zealand, Hong Kong and Beijing, the PRC
“Commencement Date”	the date when the manufacturing plant has been completed in accordance with the terms of the relevant contract(s) (except for any minor outstanding defects or work which will not substantially affect the use of the plant) and is capable of commencing commercial production

“Company”	Ausnutria Dairy Corporation Ltd, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 1717)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Contract Year”	a period of twelve (12) months from the agreed commence date and each subsequent consecutive period of 12 calendar months during the term
“Director(s)”	director(s) of the Company
“Goods”	dairy based nutritional powder products to be supplied by Westland to the Joint Venture
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Joint Venture”	Pure Nutrition Limited, a company incorporated in New Zealand with limited liability, formed by Ausnutria China and Westland pursuant to the Joint Venture Agreement
“Joint Venture Agreement”	the joint venture agreement dated 29 September 2016 entered into among Ausnutria China, Westland and the Joint Venture
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Land”	located at Rolleston in New Zealand, being part of the land legally described as Lot 1 DP500890 in Unique Identifier 746978 (Canterbury), which is adjacent to the existing manufacturing plant of Westland
“PRC”	the People’s Republic of China. For the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Product Supply Agreement”	the product supply agreement dated 29 September 2016 in respect of the supply of dairy based nutritional powder products by Westland to the Joint Venture entered into between Westland and the Joint Venture
“Retail Product Purchase Agreement”	the retail product purchase agreement dated 29 September 2016 in respect of the production of the infant formula and adult nutrition products by the Joint Venture under the Group’s own brands for sale to its customers in the PRC as well as overseas countries entered into between Ausnutria China and the Joint Venture
“Share Subscription”	subscription of shares of the Joint Venture pursuant to the Subscription Agreements in the total amount of NZD4.5 million (equivalent to approximately RMB21.8 million) and NZD3.0 million (equivalent to approximately RMB14.6 million) by Ausnutria China and Westland respectively

“Shareholder Loan”	up to a maximum amount of NZD32.0 million (equivalent to approximately RMB155.2 million) to be advanced by Ausnutria China to the Joint Venture
“Shareholder Loan Agreement”	the shareholder loan agreement, dated 29 September 2016 in respect of the provision of the Shareholder Loan to the Joint Venture entered into between Ausnutria China and the Joint Venture
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreements”	the subscription agreements dated 29 September 2016 in respect of the subscription of shares of the Joint Venture entered into among the Joint Venture, Ausnutria China and Westland
“Westland”	Westland Co-operative Dairy Company Limited, a company incorporated in New Zealand with limited liability
“WMPI”	Westland Milk Products Investments Limited, a company incorporated in New Zealand with limited liability and a wholly-owned subsidiary of Westland
“NZD”	New Zealand dollars, the lawful currency of New Zealand
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

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

Changsha City, the PRC, 29 September 2016

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Lin Jung-Chin, Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; two non-executive Directors, namely Mr. Tsai Chang-Hai and Mr. Zeng Xiaojun; and three independent non-executive Directors, namely Ms. Ho Mei-Yueh, Mr. Jason Wan and Mr. Lau Chun Fai Douglas.