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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)

CONNECTED TRANSACTION – DISPOSAL OF PURE NUTRITION

THE AGREEMENT

The Board is pleased to announce that on 6 June 2023 (after trading hours), Ausnutria NZ (being a wholly-owned subsidiary of the Company), Westland and Pure Nutrition entered into the Agreement pursuant to which Ausnutria NZ agreed to sell and Westland agreed to purchase, (i) the Sale Share (representing 60.0% equity interest in Pure Nutrition as at the date of the Agreement); and (ii) the Sale Debt, at a maximum consideration of approximately NZD31.1 million (approximately HK\$147.7 million equivalent).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Westland is a wholly-owned subsidiary of Jingang Trade, which is in turn wholly and beneficially owned by Yili Industrial (being the controlling shareholder of the Company) and therefore is a connected person of the Company under the Listing Rules.

As such, the entering into of the Agreement and the transactions contemplated thereunder constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Disposal exceeds 0.1% but less than 5%, the Disposal is subject to the reporting and announcement but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 6 June 2023 (after trading hours), Ausnutria NZ (being a wholly-owned subsidiary of the Company), Westland and Pure Nutrition entered into the Agreement, pursuant to which Ausnutria NZ agreed to sell and Westland agreed to purchase, (i) the Sale Share (representing 60.0% equity interest in Pure Nutrition as at the date of the Agreement); and (ii) the Sale Debt, at a maximum consideration of approximately NZD31.1 million (approximately HK\$147.7 million equivalent).

THE AGREEMENT

Principal terms of the Agreement are summarised below:

Date: 6 June 2023

Parties: (1) Ausnutria NZ (as vendor)
(2) Westland (as purchaser)
(3) Pure Nutrition (as subject company)

Subject Matter: Ausnutria NZ agreed to sell, and Westland agreed to purchase:–

- (i) the Sale Share; and
- (ii) the Sale Debt.

Consideration: Maximum consideration shall be approximately NZD31.1 million (approximately HK\$147.7 million equivalent), which will be settled as follows:–

- (1) NZD25,363,104 (approximately HK\$120.3 million equivalent) shall be paid to Ausnutria NZ by Westland upon completion of the Reorganisation and the transfer of all the equity interest in Pure Nutrition held by Ausnutria NZ to Westland;
- (2) NZD500,000 (approximately HK\$2.4 million equivalent), shall be paid to Ausnutria NZ by Westland, in the event that Ausnutria NZ provides additional NZD500,000 indebtedness to Pure Nutrition prior to the date of completion of the Disposal; and
- (3) NZD5,269,764 (approximately HK\$25.0 million equivalent), shall be paid to Ausnutria NZ by Westland, in the event Pure Nutrition obtains registration (the “**Formula Registration**”) of one series of three infant formula milk powder formulas from the State Administration for Market Regulation in the PRC (“**嬰幼兒配方乳粉產品配方註冊**”) by 31 December 2024, within fifteen (15) Business Days following the Formula Registration (provided that if Pure Nutrition fails to obtain any Formula Registration by 31 December 2024, NZD5,269,764 (approximately HK\$25.0 million equivalent) shall be waived and forgiven by the Vendor).

The consideration was arrived at after arm’s length negotiation between the Vendor and the Purchaser with reference to, including but not limited to, (i) the net liabilities position of Pure Nutrition as of 31 March 2023; (ii) Pure Nutrition’s continuous loss making position; (iii) the net realizable value of the Sale Share and the Sale Debt as at the date of the Agreement; and (iv) the Group’s expected investment return in connection with Pure Nutrition.

Completion: Completion of the Disposal is subject to the completion of the Reorganisation. Upon the completion of the Disposal, the Company will not have any equity interest in Pure Nutrition and Pure Nutrition will cease to be a subsidiary of the Company.

Post-closing Debt Adjustment: Within twenty (20) Business Days following the date of completion of the Disposal, Westland and Ausnutria NZ shall use good faith to determine whether the aggregate amount of actual indebtedness and liabilities owned by Pure Nutrition to certain companies within the Group (including Ausnutria NZ) as of the date of completion of the Disposal differs from the amount as previously determined. Any overpayment (or deficiency) will then be settled accordingly.

INFORMATION ON PARTIES TO THE AGREEMENT

The Vendor

The Vendor was incorporated under the laws of New Zealand and is a wholly-owned subsidiary of the Company.

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

The Purchaser

The Purchaser is a company incorporated under the laws of New Zealand and a wholly-owned subsidiary of Jingang Trade as at the date of this announcement. Jingang Trade is a company incorporated in Hong Kong, primarily engaged in investment and trading businesses, and was wholly and beneficially owned by Yili Industrial as at the date of this announcement.

Yili Industrial is a limited liability company incorporated in the PRC, the shares of which are listed on the Shanghai Stock Exchange in the PRC (stock code: 600887). Yili Industrial is a dairy product enterprise with the largest scale and most comprehensive product categories in the PRC. It is principally engaging in the processing, manufacturing and sales of various dairy products and healthy beverages. It has several major product series, comprising of liquid milk, milk beverages, milk powder, yogurt, frozen beverages, cheese, milk fat and packaged drinking water.

Pure Nutrition

Pure Nutrition is a company incorporated under the laws of New Zealand. Pure Nutrition is principally engaged in developing and producing formulated powders. As at the date of this announcement, Pure Nutrition is owned as to 60.0% by Ausnutria NZ and 40.0% by Westland.

Set out below is the summary of the key financial information of Pure Nutrition for the years ended 31 December 2021 and 2022:

	Year ended 31 December 2022	Year ended 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Revenue	1,591	311
Net loss before taxation	(36,237)	(40,160)
Net loss after taxation	(44,879)	(42,435)

The total asset value and net liabilities of Pure Nutrition as at 31 December 2022 were approximately RMB133,877,000 and RMB199,665,000 respectively.

EXPECTED FINANCIAL IMPACT OF THE DISPOSAL AND USE OF PROCEEDS

As at the date of this announcement, Pure Nutrition is a non-wholly indirectly owned subsidiary of the Company. Immediately after the completion of the Disposal, Pure Nutrition will cease to be a subsidiary of the Company and the financial results of Pure Nutrition will no longer be consolidated into the Group's financial statements.

In accordance with the prevailing financial reporting standards, the Company expects that (i) there will be a decrease of its equity in the amount of approximately RMB68.0 million (approximately HK\$75.6 million equivalent), which is based on the unaudited net asset value of Pure Nutrition as of 31 May 2023, being charged against the shareholders' equity; and (ii) no gain (or loss) is expected to accrue to the Company in its consolidated statement of profit or loss on completion date, as a result of the Disposal. The actual changes in the Group's equity in respect of the Disposal will be recalculated based on the net asset value of Pure Nutrition on completion date and subject to an audit by the Company's auditors.

The Company intends to apply the proceeds from the Disposal for general working capital of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

In September 2016, the Group and Westland established Pure Nutrition. The joint venture was formed to build a manufacturing plant in Rolleston, New Zealand (the "NZ Factory"), with the aim of producing infant formula and other dairy-based powder products. The Group and Westland have 60.0% and 40.0% ownership in the NZ Factory, respectively as at the date of the Agreement. Further details of the establishment of the NZ Factory are set out in the announcement of the Company dated 29 September 2016. Subsequent to the establishment of the NZ Factory, on 1 August 2019, Westland became a wholly-owned subsidiary of Yili Industrial.

Since its incorporation, Pure Nutrition has been facing operational challenges and adverse market conditions (including but not limited to the adverse impact from the worldwide coronavirus outbreak) and has been loss-making.

Based on the above, the Directors are of the view that the Disposal would enable the Group to focus its capital and management resources on further development of the Group's existing business. The Disposal presents an opportunity for the Group to streamline its business direction, enhance the growth potential of the Group, minimise its losses in Pure Nutrition and allow the Group to maximise returns to the Shareholders. The Disposal will also enhance Pure Nutrition's future opportunity by potential synergy with Westland, both located closely in Rolleston, New Zealand. Besides, it is expected that Pure Nutrition will continue to produce those duly registered infant formula milk powder formulas for the Group in the event that the Formula Registration is completed.

The Directors (including the independent non-executive Directors but excluding Mr. Sun Donghong, Mr. Zhang Zhanqiang and Mr. Zhang Lingqi) are of the view that the Agreement and the transactions contemplated thereunder are conducted on arm's length basis and on normal commercial terms in the ordinary and usual course of business of the Company and the terms of the Agreement are fair and reasonable, and the Agreement and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Westland is a wholly-owned subsidiary of Jingang Trade, which is in turn wholly and beneficially owned by Yili Industrial (being the controlling shareholder of the Company) and therefore is a connected person of the Company under the Listing Rules.

As such, the entering into of the Agreement and the transactions contemplated thereunder constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Disposal exceeds 0.1% but less than 5%, the Disposal is subject to the reporting and announcement but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Sun Donghong, Mr. Zhang Zhanqiang and Mr. Zhang Lingqi are Directors nominated by Yili Industrial and therefore are considered to have a material interest in the Agreement and the transactions contemplated thereunder. As such, each of Mr. Sun Donghong, Mr. Zhang Zhanqiang and Mr. Zhang Lingqi has abstained from voting on the Board resolution(s) in relation to the approval of the Agreement and the transactions contemplated thereunder.

DEFINITIONS

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

“Agreement”	the transaction agreement dated 6 June 2023 entered into among the Vendor, the Purchaser and Pure Nutrition in relation to the Disposal
“Ausnutria NZ” or “Vendor”	Ausnutria New Zealand Limited, a company incorporated under the laws of New Zealand and a wholly-owned subsidiary of the Company as at the date of the Agreement
“Board”	the board of Directors of the Company

“Business Day”	a day (other than Saturday, Sunday and other general public holidays in Hong Kong and New Zealand and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted or in effect in Hong Kong between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong and New Zealand are generally open for business
“Company”	Ausnutria Dairy Corporation Ltd, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1717)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Disposal”	the disposal of the Sale Share and the Sale Debt by the Vendor to the Purchaser pursuant to the terms of the Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jingang Trade”	Hongkong Jingang Trade Holding Co., Limited, which is wholly and beneficially owned by Yili Industrial
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NZD”	New Zealand dollars, the lawful currency of New Zealand
“PRC”	the People’s Republic of China which, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Pure Nutrition”	Pure Nutrition Limited, a company incorporated under the laws of New Zealand
“Reorganisation”	(i) the Vendor shall convert the indebtedness and liability owed by Pure Nutrition to the Vendor in the amount of NZD39,398,634 into 39,398,634 shares of Pure Nutrition; and (ii) the Purchaser shall convert the indebtedness and liability owed by Pure Nutrition to the Purchaser in the amount of NZD6,741,589 into 6,741,589 shares of Pure Nutrition
“RMB”	Renminbi, the lawful currency of the PRC

“Sale Debt”	the outstanding amount of indebtedness (inclusive of both principal and accrued interest) payable by Pure Nutrition to companies within the Group, the maximum aggregated amount of which would be NZD70,531,502 (equivalent to approximately HK\$335,024,635)
“Sale Share”	equity interest representing 60.0% of the total equity interest of Pure Nutrition as at the date of the Agreement;
“Shareholder(s)”	the holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Westland” or “Purchaser”	Westland Milk Products Investments Limited, a company incorporated under the laws of New Zealand and a wholly-owned subsidiary of Jingang Trade as at the date of this announcement
“Yili Industrial”	Inner Mongolia Yili Industrial Group Co., Ltd.* (內蒙古伊利實業集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange of the PRC (stock code: 600887)

* *For identification purpose only*

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

The PRC, 6 June 2023

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman and Chief Executive Officer), Mr. Bartle van der Meer and Ms. Ng Siu Hung; three non-executive Directors, namely Mr. Sun Donghong (Vice-Chairman), Mr. Zhang Zhanqiang and Mr. Zhang Lingqi; and three independent non-executive Directors, namely Mr. Ma Ji, Mr. Song Kungang and Mr. Aidan Maurice Coleman.