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NATURAL DAIRY (NZ) HOLDINGS LIMITED

天然乳品(新西蘭)控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00462)

ANNOUNCEMENT CONDITION 1 FOR RESUMPTION OF TRADING IN THE SHARES OF NATURAL DAIRY (NZ) HOLDINGS LIMITED

This announcement is made by the Board of Directors of the Company pursuant to Rule 13.09(1) of the Listing Rules.

Reference is made to the announcement of the Company dated 22 July 2011 in relation to three (3) conditions for resumption of trading in the Shares of the Company, and the announcement of the Company dated 8 June 2012 in relation to steps undertaken by the Company to address the aforesaid conditions. Resumption Condition 2 and Resumption Condition 3 were addressed in the announcement of the Company dated 8 June 2012.

In respect of the Resumption Condition 1, the Stock Exchange requires the Company to address matters related to (i) the VSA-1; (ii) the placing of and subscription for convertible bonds announced by the Company on 4 December 2009, and (iii) informing the market of all material information that is necessary to appraise the position of the Group.

This announcement sets out the summary of events for the VSA-1 prior to 1 November 2011.

Reference is made to:–

- (i) announcements dated 13 November 2009, 3 December 2009, 18 December 2009, 30 December 2009, 22 February 2010, 27 June 2010, 29 August 2010, 1 September 2010, 2 February 2011 and 3 July 2012 in relation to further development of the VSA-1;
- (ii) announcements dated 13 November 2009, 1 June 2010, 1 September 2010, 26 October 2010, 31 December 2010 and 9 October 2011 in relation to the Sale Shares Completion under the VSA-1, and status and progress of the OIO approval application;

- (iii) announcements dated 2 February 2011 and 3 May 2011 in relation to the Financial Assistance; and
- (iv) the Circular dated 8 September 2009 and the announcements of the Company dated 4 June 2009, 20 August 2009 and 7 September 2009 prior to its issue of the Circular in relation to the VSA-1.

The VSA-1

On 22 May 2009, the Company, the Vendor and the Warrantor entered into the Agreement in relation to the VSA-1. The Agreement was subsequently amended by various supplemental agreements. Pursuant to the Agreement and its supplemental agreements prior to 1 November 2011, the VSA-1 was structured into two phases:

- (i) the sale and purchase of the Sale Shares (representing 20% of the entire issued share capital of the Target Company) and the Sale Debt for a consideration of Hong Kong dollar equivalent of NZ\$100 million minus HK\$1; and
- (ii) the grant of an option by the Vendor to the Company for a consideration of HK\$1 to purchase the remaining Option Shares (representing 80% of the entire issued share capital of the Target Company) and the Outstanding Debt, for a consideration of Hong Kong dollar equivalent of NZ\$400 million.

The Sale Shares Consideration was set at Hong Kong dollar equivalent of NZ\$100 million minus HK\$1 because the then Board was given to understand that so long as the Sale Shares Consideration was below NZ\$100 million and the Sale Shares represent less than 25% of the entire issued share capital of the Target Company, the Company was not required to apply for the consent from the OIO in respect of the acquisition of the Sale Shares.

The VSA-1 was subsequently approved by the Shareholders in the extraordinary general meeting held on 2 October 2009.

Consideration

Pursuant to the terms of the Agreement, the Sale Shares Consideration should be satisfied in the order of (i) firstly, by net proceeds from bank borrowing or fund raising activities completed by the Company in its reasonable endeavor on or before the Sale Shares Completion Date; and (ii) any amount not satisfied by (i) shall be immediately satisfied by issue of the Convertible Note B to the Vendor on the terms and conditions of the Convertible Note B on the Sale Shares Completion Date.

The Option Shares Consideration should be satisfied in the manner and order by (i) the issue of the Convertible Note A with a value in Hong Kong dollar equivalent to NZ\$50 million as deposit; (ii) net proceeds from the bank borrowing obtained or fund raising activities completed by the Company; (iii) setting-off against such consideration an amount equivalent to the financial assistance provided by the Company to the Target Company; (iv) the issue of the Convertible Note A; and (v) the issue of the Convertible Note B.

Both the Sale Shares Consideration and Option Shares Consideration were adjustable upon the following events:

- (i) In the event that the audited profit of the Business after tax and excluding finance costs and any change (increase/decrease) of fair value of livestock as shown on the audit accounts prepared under the New Zealand International Financial Reporting Standards in respect of the 12 full calendar months period commencing from the Option Shares Completion Date is less than NZ\$35 million, the Vendor and/or the Warrantor undertake to pay the Company in cash, within 30 calendar days from being notified by the Company, a sum of 20% or 80% (as the case may be) of such shortfall multiplied by 14 times; and
- (ii) in the event that the aggregate market valuation of the Properties as at a date not earlier than 10 calendar days prior to the Option Shares Completion Date provided in a valuation report issued by a valuer as acceptable to the Company shall be less than NZ\$300 million, the consideration shall be adjusted downwards on a dollar to dollar basis multiplied by 20% or 80% (as the case may be).

The consideration for the VSA-1 was considered by the then Directors to have safeguarded the interest of the Company and its shareholders and be fair and reasonable for the following reasons:

- (i) In the event of any failure on the “NZ\$35 million profit guarantee”, the Vendor or the Warrantor shall pay to the Company a sum of the shortfall multiplied by 14 times. NZ\$35 million times 14 equals NZ\$490 which is close to the aggregate consideration of the VSA-1 (i.e. NZ \$500 million minus HK\$1);
- (ii) In the event that the market valuation of the Properties is less than NZ\$300 million, the total consideration for the VSA-1 shall be adjusted downwards by such difference;
- (iii) As the payment of consideration comprised (i) some cash (from bank borrowing or fund raising activities, if any, which was not guaranteed), and/or (ii) zero coupon Convertible Notes with the principal repayable to the Vendor from 7 or 10 years afterwards, in other words, no interest nor any parts of the Convertible Notes would be payable before the due dates of the Convertible Notes; and
- (iv) The conversion prices of the Convertible Notes were HK\$2.50 and HK\$2.00, representing a premium of approximately 268% and 194% to the average closing price of HK\$0.68 per Share for the last 20 trading days up to and including the date of the Agreement respectively and a premium of approximately 762% and 590% to the net asset value per Share of approximately HK\$0.29 as at 30 September 2008, being the date of interim report, respectively.

Conditions Precedent

As set out on pages 24 to 26 of the Circular, the acquisition of the Sale Shares was subject to conditions precedent (a) to (i), among which the most crucial conditions were:

- Condition (f) (the “**Condition Precedent (f)**”) which required the obtaining of all necessary consents and approvals from any other third parties and all relevant authorities in New Zealand and Hong Kong and in any other applicable jurisdiction in respect of the transactions contemplated under the Agreement; and
- Condition (g) (the “**Condition Precedent (g)**”) which required the injection of the (i) goodwill; (ii) Properties; (iii) Fixed Assets; (iv) stocks; and (v) contracts into the Target Company (the “**Asset Acquisition**”) on or before the Sale Shares Completion.

The Company shall be entitled at its absolute discretion at any time by a written notice to the Vendor to waive the Condition Precedent (g), while the said condition (f) cannot be waived in any part. Both of the said conditions precedent must be satisfied or waived by the Company as the case may be, without which the Company would not proceed with the acquisition of the Sale Shares.

The change of condition precedent to condition subsequent

On 13 November 2009, the Company, the Vendor and the Warrantor entered into the Deed of Undertaking, pursuant to which the Condition Precedent (g) shall be changed to a condition subsequent, and that the Vendor and the Warrantor undertook that they shall procure the Asset Acquisition to be completed on or before 1 March 2010 (such date was subsequently extended to 30 September 2013 (the “**Long Stop Date**”)) (“**Condition Subsequent**”). As disclosed in the announcement of the Company dated 13 November 2009, the reason to enter into the Deed of Undertaking was to facilitate the completion of the VSA-1 and to commence the application for the OIO’s approval regarding the acquisition of Option Shares. The Directors confirms that another reason is that if all Properties and Fixed Assets were injected into the Target Company before the Sale Shares Completion, the Company’s investment in the Target Company would exceed the threshold of NZ\$100 million, which would require the OIO’s consent immediately. In the announcement of the Company dated 3 December 2009, the Company further clarified that the reason of entering into the Deed of Undertaking was to show its financial commitment in the VSA-1 to the OIO so that the application for the OIO’s approval on the acquisition of the Options Shares can be commenced without delay.

Pursuant to the Deed of Undertaking, cash, if any, to be paid as part of the Sale Shares Consideration should be delivered to the Company’s New Zealand lawyer, Knight Coldicutt, (“**NZ Escrow Agent**”) to hold in escrow, the 2009 CN-A and 2009 CN-B are to be delivered to a Hong Kong lawyer for the Vendor (“**HK Escrow Agent**”) to hold in escrow, with restrictions on transfer and conversion of or creation of encumbrances on the 2009 CN-A and 2009 CN-B save for the purpose of providing security for its funding to fulfill the Condition Subsequent provided that the funding so raised together with other financial resources possessed by or available to the Vendor shall be sufficient to complete the Asset Acquisition. Further, if the Company obtains bank borrowings or other available funds before the fulfillment of the Condition Subsequent, such 2009 CN-A and 2009 CN-B should be

redeemed by the Company with the cash payment sent to the NZ Escrow Agent to hold in escrow. Pursuant to the Deed of Undertaking, the 2009 CN-A and the 2009 CN-B held by the HK Escrow Agent in escrow and money (if any) held by the NZ Escrow Agent in escrow shall be released from the escrow after each of the NZ Escrow Agent and the HK Escrow Agent receives a written confirmation from the Company in respect of the fulfillment of the Condition Subsequent.

The details have been disclosed in the Company announcement dated 13 November 2009.

No requirement for the OIO's approval for the acquisition of the Sale Shares

Regarding the fulfillment of the Condition Precedent (f), the Company took the advice from Knight Coldicutt that as long as the Company bought less than 25% of the issued share capital of the Target Company and invested less than NZ\$100 million in New Zealand as stipulated in the New Zealand Overseas Investment Act 2005, the acquisition of the Sale Shares did not require the OIO's approval.

In addition, Knight Coldicutt further advised that the comments by a Judge in the case for the Target Company's application for restructuring the entire Carfar farms portfolio in New Zealand seemed to indicate that irrespective of whatever the acquisition position was, the Company, the Target Company and the Warrantor were all associates and deemed an overseas person, then the OIO's approval was still required. However, in the telephone conversation in 2010 (prior to the completion of the purchase of the Four Farms by the Target Company in February 2010) between Knight Coldicutt, the representative from the Warrantor and the OIO officer, it was made clear by the OIO that as long as the original transactions proceeded then the OIO approval would not be required.

Also, as confirmed by Knight Coldicutt, at the Completion of the acquisition of the Four Farms by the Target Company, there was a large group of professionals including professional receiver, the Mortgagees and the Various lawyers involved believed that the OIO's approval was not required for the acquisition of the Four Farms.

Based on the Agreement and the Deed of Undertaking and the aforesaid advice from Knight Coldicutt, the then Directors were of the view that (i) the acquisition of Sale Shares does not require the consent from the OIO; (ii) except for obtaining the listing approval from the Stock Exchange to deal in any Conversion Shares, all other conditions precedent for the acquisition of Sale Shares had been fulfilled as announced by the Company on 13 November 2009 to complete Sale Shares acquisition.

Listing approval

On 4 December 2009, the Stock Exchange granted the approval for the listing of and permission to deal in any Conversion Shares which may be issued on exercise of the conversion rights attached to the Convertible Notes subject to all other conditions set out in the Agreement, Circular and the Company's announcement dated 13 November 2009.

The issue of the 2009 CN-A and the 2009 CN-B

On 21 December 2009, the Company issued the 2009 CN-A and the 2009 CN-B to the Vendor.

The Sale Shares Completion

The acquisition of the Sale Shares was completed on 10 February 2010.

Assets injection of the Four Farms into the Target Company

After the Sale Shares Completion, from 10 to 13 February 2010, the Four Farms (out of the 22 farms as disclosed in the Circular) were registered and owned under the name of the Target Company. Since then, the Target Company has been conducting a dairy business.

The Financial Assistance

For the Sale Shares Completion, considering that all the 2009 CN-A and the 2009 CN-B were held in escrow by the HK Escrow Agent and the Company granted the Financial Assistance amounting to HK\$314,170,000 or equivalent sum in New Zealand dollar to the Vendor. It was announced by the Company on 3 May 2011 that such Financial Assistant was repaid to the Company by 29 March 2011.

The release, sale and conversion of the 2009 CN-A and the 2009 CN-B

For the purpose of raising funds for the Asset Acquisition, the Vendor proposed to the Company that it would like to sell the 2009 CN-B in the principal sum of HK\$530 million (the “**Sale Notes B**”) to third parties through Sun Hung Kai Investment Services Limited as the placing agent.

On 15 April 2010, the Company convened a board meeting whereby the Board revisited the terms in the Deed of Undertaking, especially the undertaking of the Vendor in respect of the transfer of the 2009 CN-A and the 2009 CN-B, and passed a resolution that the Release to be entered into by the Company, the Vendor, the Warrantor and the HK Escrow Agent was approved for the purpose of the release and sale of the Sale Notes B. Accordingly, the Release was executed by the relevant parties on the same date.

Under the Release, among others, the 2009 CN-B shall be released to the Vendor for the purpose of splitting the 2009 CN-B and sale of the Sale Notes B to third parties and the Vendor shall deposit the remaining HK\$22,155,999 of the 2009 CN-B (the “**Remaining Notes B**”) with the HK Escrow Agent, which shall only be released to the Vendor by Company consent. In addition, the Company shall waive and release the Vendor as holder of the Sale Notes B and all subsequent transferee(s) from complying with otherwise observing condition 2(e) of the Convertible Note B which restricts the transfer, assign, mortgage, charge, pledge, or any encumbrances on or in respect of any of the interest in the Convertible Note B, save for the purpose of providing security for funding to complete the Assets Acquisition, provided that the funding so raised together with other financial resources possessed by or available to the Vendor shall be sufficient for settlement of the consideration for the Asset Acquisition (“**Restriction**”).

In the said meeting, the then Directors have considered that the execution of the Release would be for the benefit of the Company for the following reasons:

- (a) it would facilitate the Asset Acquisition by the Target Company of which the Company already acquired 20% of the issued share capital;
- (b) it would also facilitate the application for the consent from the OIO for the acquisition by the Company of the remaining 80% of the issued share capital of the Target Company (i.e. the Option Shares); and
- (c) The removal of the Restriction is in conformity with the satisfaction by the Company of the sufficiency of the fund for the Assets Acquisition.

However, on or before 16 July 2010, only the principal amount of HK\$372 million of the Sale Notes B has been sold and the principal amount of HK\$158 million of the Sale Notes (the “**Unsold Sale Notes B**”) remained unsold.

The Vendor intended to sell the 2009 CN-A in the principal sum of HK\$25 million (the “**Sale Notes A**”).

As the purchase price for the acquisition of the remaining 16 farms were fully in place on or shortly after 21 May 2010, on 16 July 2010 and 3 August 2010, the Company, the Vendor and the HK Escrow Agent entered into the Deed of Variation and Release and the Supplemental Deed of Variation and Release respectively. Under such deeds, the parties thereto agreed that, among others, (i) the 2009 CN-A shall be released to the Vendor for the sale of the Sale Notes A provided the sale proceeds of the same is deposited with the NZ Escrow Agent; (ii) the HK Escrow Agent shall be released from all of its obligations under the Deed of Undertaking (as amended by its supplemental deeds dated 18 February 2010 and 14 April 2010); (iii) the Company shall waive and release the Vendor as holder of the Sale Notes A and all subsequent transferee(s) from complying with otherwise observing condition 2(e) of the Convertible Note A which restricts the transfer, assign, mortgage, charge, pledge, or any encumbrances on or in respect of any of the interest in the Convertible Note A, save for the purpose of providing security for funding to complete the Assets Acquisition, provided that the funding so raised together with other financial resources possessed by or available to the Vendor shall be sufficient for settlement of the consideration for the Asset Acquisition; (iv) the Vendor shall be entitled to exercise the conversion rights attached to the remaining HK\$251.078 million of the 2009 CN-A (the “**Remaining Notes A**”), the Remaining Notes B and the Unsold Sale Notes B provided that (a) the Vendor shall only sell any part of the Conversion Shares at a price not lower than their conversion price and sale proceeds of such shares shall be deposited with an escrow agent to be agreed by the Vendor and the Company (the “**Sale Condition**”); (b) the Vendor shall resell the Conversion Shares to the Company at the nominal value of HK\$0.1 per share in the event that the Option Shares Completion could not be completed within the time prescribed in the Agreement (the “**Repurchase Condition**”).

In addition, the then Board granted the permission for the Vendor to exercise conversion rights attached to the Remaining Notes A, the Remaining Notes B and the Unsold Sale Notes B for the following reasons:

- (i) it would eliminate the significant debt elements of the said convertible notes;
- (ii) it would tie the Vendor's interests with the Company so that the Company could draw on the expertise and knowhow of the Vendor in dairy business in New Zealand;
- (iii) it would preserve the limited cash reserve of the Company specially when the fund raising activities were disappointing;
- (iv) the conversion prices of the 2009 CN-A and the 2009 CN-B were HK\$2.50 and HK\$2 respectively, which were much higher than the then market price of the Shares; and
- (v) if the Vendor chooses not to convert its convertible notes, it is unlikely for the other convertible notes holders to convert their convertible notes.

From 15 April 2010 to 31 August 2010, the details of the release, sale and escrow arrangement of the 2009 CN-A and the 2009 CN-B are shown as follows:

Notes: The exchange rate used is NZ\$1.00=HK\$5.52156

	2009 CN-A	2009 CN-B
Purpose of issue	deposit for the settlement of the Option Shares Consideration	the Sales Shares Consideration
Total amount of the Convertible Notes issued on 21 December 2009 by the Company and held in escrow by the HK Escrow Agent	HK\$276,078,000, equivalent to NZ\$50 million	HK\$552,155,999, equivalent to NZ\$100 million minus HK\$1
Amount of the Convertible Notes released from the escrow on 15 April 2010	–	HK\$530,000,000
Amount of the Convertible Notes released from the escrow on 16 July 2010	HK\$276,078,000	HK\$22,155,999
Amount of the 2009 CN-A sold to a third party on 16 July 2010 by the Vendor	HK\$25,000,000	–
Amount of the 2009 CN-B sold to the third parties by the Vendor during April 2009 and July 2009	–	HK\$372,000,000
Amount of the 2009 CN-A and the 2009 CN-B held by the Vendor immediately before 1 September 2010	HK\$251,078,000	HK\$180,155,999

The preparation for Asset Acquisition

As announced by the Company on 9 October 2011, up to 21 May 2010, the Warrantor had entered into agreements with the receiver of Crafar Companies to purchase between 16 and 18 farms (depending on how the farms were defined) including stock, Fonterra Shares, plant, chattels and equipment.

As advised by Knight Coldicutt:

- (i) such agreements were binding and irrevocable contracts for the sale and purchase of the dairy farm portfolio subject only to certain receiver's rights in its capacity as a receiver; and
- (ii) If the OIO's approval had been obtained for the said purchase and ignoring the receiver's ability to cancel should it face an injunction or caveat etc., these agreements would have been unconditional and both parties would be contractually compelled to settle the transaction (i.e. pay over the purchase price and transfer legal ownership of the farms and assets).

As confirmed by Knight Coldicutt, that 100% of the purchase money for the said acquisition were fully in place on or shortly after 21 May 2010 to effect this transaction.

As further confirmed by Knight Coldicutt, a deed of nomination was entered on 4 July 2010 whereby the Warrantor nominated/assigned its rights under the above agreements to the Target Company, which means that the Target Company would purchase the said dairy farm portfolio directly from the receiver for the Crafar Companies.

The details have been disclosed in the Company's announcement dated 9 October 2011.

The OIO Applications

Under section 10 of the New Zealand Overseas Investment Act 2005, a transaction requires consent from the OIO if it will result in (a) an overseas investment in sensitive land or (b) an overseas investment in significant business assets. As advised by Knight Coldicutt, as the Company is a body corporate incorporated outside New Zealand, the Target Company owns sensitive land (i.e. Four Farms) and the value of the remaining 80% of the shares of the Target Company exceeds NZ\$100 million, the acquisition of the remaining 80% of the shares of the Target Company by the Company should require consent from the OIO.

In early July 2010, the Company applied to the OIO for its consent of an overseas investment in sensitive land, being the Company's proposed acquisition of rights or interests in the remaining 80% of the shares of the Target Company (i.e. the Option Shares) which will own or control a freehold interest in 16 dairy farms through acquisition (the "**Application**").

Although the Company was previously advised by Knight Coldicutt that the acquisition of 20% of the shares of the Target Company did not require the OIO's approval, on 10 August 2010, the Company made another application to the OIO for its retrospective consent for an overseas investment in sensitive land, of the freehold interest in the Four Farms (the "**Retrospective Application**") owned by the Target Company.

Conversion of the 2009 CN-A and the 2009 CN-B

On 13 August 2010, the then Directors received and considered a draft legal opinion from a Hong Kong legal adviser and discussed the following main issues in presence of the solicitors of the said legal adviser:

- (i) the conversion rights attached to the 2009 CN-A and the 2009 CN-B and the proper process of the conversion of the 2009 CN-A and the 2009 CN-B;
- (ii) the legal position and obligations of the Company after the release of the 2009 CN-A and the 2009 CN-B from the escrow; and
- (iii) the Company's risks in respect of the release and the conversion of the 2009 CN-A and the 2009 CN-B.

As advised by the said legal adviser, pursuant to the contractual arrangements made among the Company, the Vendor, the Warrantor and the HK Escrow Agent, in particular, the Deed of Variation and Release, subject to the terms and conditions of the Convertible Notes and the Sale Condition and the Repurchase Condition under the Deed of Variation and Release, the Vendor has the right to exercise the conversion rights attached to the Remaining Notes A, the Remaining Notes B and the Unsold Sale Notes B.

Therefore, after the said discussion, upon the receipt of the conversion notices from the holders of the 2009 CN-A and the 2009 CN-B on 13 August 2010, 31 August 2010 and 1 September 2010, the then Board approved the conversion of all the 2009 CN-A and the 2009 CN-B.

On 23 August 2010, a total of 10,000,000 CN-A Conversion Shares and 114,000,000 CN-B Conversion Shares were issued respectively after the conversion of HK\$25,000,000 of the 2009 CN-A and HK\$228,000,000 of the 2009 CN-B. On 1 September 2010, a total of 100,431,200 CN-A Conversion Shares and 162,077,999 CN-B Conversion Shares were issued respectively after the conversion of HK\$251,078,000 of the 2009 CN-A and HK\$324,155,999 of the 2009 CN-B.

Immediately after 1 September 2010, the 2009 CN-A and the 2009 CN-B have been fully converted into 110,431,200 CN-A Conversion Shares and 276,077,999 CN-B Conversion Shares respectively, out of which 100,431,200 CN-A Conversion Shares and 90,077,999 CN-B Conversion Shares were registered under the name of the Vendor. The details of the ownership of the CN-A Conversion Shares and the CN-B Conversion Shares immediately after 1 September 2010 are as follows:

Owners	CN-A Conversion Shares	CN-B Conversion Shares
The Vendor	100,431,200	90,077,999
The third parties	10,000,000	186,000,000
Total	<u>110,431,200</u>	<u>276,077,999</u>

Freezing of transfer of Shares

In view of the concerns raised by the Stock Exchange in early 02 and 06 September 2010 on the conversion of the 2009 CN-A and the 2009 CN-B, the Company requested Computershare to stop any transfer of a total of 265,509,199 Shares on 10 September 2010 by way of a stop transfer notice, whereby 190,509,199 Shares were registered under the Vendor's name while 72,000,000 Shares were registered under the name of an independent party which were mistakenly included in such notice.

On 19 August 2011, the number of Shares subject to the said stop transfer notice was changed to 110,509,199 Shares, as set out by a letter of Computershare to the Company dated 22 August 2011. As at 07 September 2010, the then Board was of the view that upon the Sale Shares Completion, the Vendor should be fully entitled to the CN-B Conversion Shares converted from the 2009 CN-B which was issued for the settlement of the Sale Shares Consideration. The purpose of the amendment of the stop transfer notice was to stop the transfer of the Shares whose number is equivalent to the total number of all CN-A Conversion Shares, i.e. 110,431,200 Shares. In order not to split the share certificates, the Company and the Vendor agreed that the number of Shares subject to the stop transfer notice was set at 110,509,199.

The Declination of the OIO's Approval

On 27 September 2010, the New Zealand government announced that it has agreed to make several changes to the Overseas Investment Regulations 2005 to address concerns around large scale overseas ownership of farm land and vertically integrated primary production companies. The changes included two new factors the OIO must consider under the benefit test used to assess investments in sensitive land:

- (i) a new "economic interests" factor allowing ministers to consider whether New Zealand's economic interests are adequately safeguarded and promoted; and

- (ii) a new “mitigating” factor enabling the ministers to consider whether an overseas investment provides opportunity for New Zealand oversight or involvement.

The said changes were set out in a new directive letter sent from the Finance Minister of New Zealand to the OIO in December 2010 and the said letter directed the OIO to give these factors high relative importance in any decision of whether overseas investment in large areas of farm land is likely to benefit New Zealand. It was also announced by the New Zealand government that the said changes to the Overseas Investment Regulations 2005 were expected to take effect from 13 January 2011.

On 22 December 2010, the OIO announced that, upon its recommendation, Hon. Maurice Williamson, the Minister for Land Information and Hon. Kate Wilkinson, acting for the Minister of Finance, had declined their consent to both of the Application and the Retrospective Application as they were not satisfied that all of the relevant criteria for consent had been met. The OIO also announced, among other things, that it would consider its options in relation to the Four Farms held by the Target Company and one option is for the OIO to apply to New Zealand court to have the Four Farms sold.

In consideration of the failure of the Application and the Retrospective Application and the changes to the Overseas Investment Regulations 2005, the then Board was of the view that if the VSA-1 is proceeded strictly pursuant to the terms of the Agreement, it is unlikely for the Company to obtain the OIO’s consent for the acquisition of the Sale Shares or the Option Shares if the Target Company owns any freehold interest of dairy farm land.

Replacement of the Vendor

Since 23 December 2010, NZDT has been appointed as the new trustee of UBNZ Trust in place of the Vendor and has assumed and performed the obligations of the Vendor under the Agreement and/or other relevant agreements and/or deeds.

Legal advice in respect of the termination of the Agreement and potential claim against the Vendor and/or the Warrantor

After the declination by the OIO, the Board had considered various alternatives, including the possibility to terminate the Agreement on the ground of substantial breach of the Agreement by the Vendor. The Company engaged a Hong Kong solicitor firm working together with an experienced barrister to review the Agreement, other relevant documents, the transaction thereunder and the acts have been done and to advise on the possibility of lodging any potential claim against the Vendor and/or the Warrantor pursuant to the Agreement.

The barrister noticed that Clause 8 of the Agreement states that *“anything in this Agreement that has the effect of defeating the OIO process as contemplated herein shall be renegotiated in good faith to ensure compliance”* and he was of the view that Clause 8 is a specific provision designated to salvage the situation where the enforcement of a particular obligation under the Agreement may result in a defeat of the OIO’s process.

On 16 August 2011, the barrister concluded his finding and advised the Company that pursuant to Clause 8 of the Agreement, the Company should not terminate the Agreement, claim for money paid and restitution, or claim for damage without renegotiation with the Vendor to ensure compliance of the OIO's process. To do so, the Company is likely to face valid claim by the Vendor for repudiatory breach of the Agreement.

Among others, the barrister also identified the following points in his legal advice, which provided the guidance how the VSA-1 should be proceeded:

- (i) the Agreement has not specified what type of interest to the Properties that the Target Company will acquire;
- (ii) the acquisition of the Sale Shares by the Company was lawfully completed under the Agreement and is incapable to be reversed; and
- (iii) according to the opinion dated 13 April 2011 from Knight Coldicutt, Knight Coldicutt was of the view that if the OIO requires the farms to be sold, then the Company will own 20% of the Target Company, which is acceptable as long as the Target Company does not own farm land.

Renegotiation

Pursuant to Clause 8 of the Agreement, the Board then renegotiated with NZDT on the alternatives to proceed with the VSA-1 under the framework of the Agreement.

Prior to the renegotiation with the Vendor, the Company looked into the details of the Agreement and noted the importance of the following items:

- (i) the term of the Properties as mentioned in the Condition Precedent (g) was defined on the page 25 of the Circular as "*the landed properties for the production of dairy products, the operation of dairy heifer and bull raising units for large dairy farming properties; the operation of support units for large farming properties, for storage of machinery and trucks with the balance being in pasture grazed by dairy cattle, being utilized as dairy milking platforms and as dairy run-off units and supplemental feed purposes, dwelling, for the operation of large scale factory dairy supply farms, in relation to the Business*" and the Properties were valued at approximately NZ\$206 million (inclusive of Fonterra Shares (where applicable), household chattels) as at 19 June 2009, which has already been specified in Appendix IV of the Circular; and
- (ii) the Fixed Assets as mentioned in the Condition Precedent (g) was defined as "*all cattle, dairy cattle, plant, machinery, the Fonterra Shares, tools, equipment, vehicles, and other chattels on the Properties or otherwise owned or used for the purpose of the Business*" and the details of the same were set out on the pages 27 to 30 of the Circular, which includes, among others, 28,298 livestock and machinery.

After reviewing the valuation reports produced by the independent valuer, the then board was of the view that the valuation of the Properties was based primarily on, among others, two factors: (i) the annual milk production by dairy cattle on the Properties and (ii) the market conditions for the sale/production of milk solids at that time. In addition, the then Board was of the view that the specific location of the Properties was not the essence of the VSA-1 and the spirit of the Agreement should be to acquire a milk production business rather than farm assets in New Zealand. Then, the Company proceeded to negotiate with the Vendor in respect of the VSA-1 based on the said spirit.

Further Announcement

The Company will issue further announcements for the summary of events for the VSA-1 on and after 1 November 2011 and how the VSA-1 to be proceeded in due course.

DEFINITIONS

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

- “2009 CN-A” means the Convertible Note A in an aggregate principal amount of HK\$276,078,000 issued by the Company to the Vendor on 21 December 2009 as the deposit for the acquisition of the Option Shares, whose maturity date is 20 December 2016 and conversion price is HK\$2.50 per Conversion Share;
- “2009 CN-B” means the Convertible Note B in an aggregate principal amount of HK\$552,155,999 issued by the Company to the Vendor on 21 December 2009 as the Sale Shares Consideration, which maturity date is 20 December 2019 and conversion price is HK\$2.00 per Conversion Share;
- “Agreement” means the sale and purchase agreement dated 22 May 2009 entered into among the Company, the Vendor and the Warrantor in respect of the VSA-1 (as amended by the supplemental agreements prior to 1 November 2011);
- “Board” means board of Directors;
- “Business” means the business of cattle and dairy cattle breeding in New Zealand and the production, sale and distribution of livestock and milk solids, to be carried on by the Target Group including the ownership of the Properties, Fixed Assets, and the Fonterra Shares;
- “Circular” means the circular of the Company dated 8 September 2009 giving details of, among other things, the VSA-1;

“CN-A Conversion Shares”	means the 110,431,200 Shares allotted and issued by the Company on 23 August and 1 September 2010 upon the conversion of the entire 2009 CN-A in an aggregate amount of HK\$276,078,000;
“CN-B Conversion Shares”	means the 276,077,999 Shares allotted and issued by the Company on 23 August and 1 September 2010 upon the conversion of the entire 2009 CN-B in an aggregate amount of HK\$552,155,999;
“Company”	means Natural Dairy (NZ) Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Stock Exchange;
“Computershare”	means Computershare Hong Kong Investor Services Limited, the Company’s branch share registrar in Hong Kong;
“Conversion Share(s)”	the new Share(s) which will be issued upon conversion of the Convertible Note A or the Convertible Note B;
“Convertible Note A”	means the zero coupon convertible notes in the aggregate amount of not more than a sum in Hong Kong dollar equivalent of NZ\$215 million that may be issued by the Company in favor of the Vendor to satisfy as part of the Option Shares Consideration pursuant to the Agreement;
“Convertible Note B”	means the zero coupon convertible notes in the aggregate amount of not more than a sum in Hong Kong dollar equivalent of NZ\$285 million that may be issued by the Company in favor of the Vendor to satisfy as part of the Sale Shares Consideration and/or the Option Shares Consideration pursuant to the Agreement;
“Convertible Notes”	means Convertible Note A and Convertible Note B, collectively;
“Crafar Companies”	means Plateau Farms Limited, Taharua Limited, Hillside Limited and Ferry View Farms Limited, the vendors for the sale of the dairy farm portfolio to UBFM, Warrantor;
“Deed of Undertaking”	means the deed of undertaking dated 13 November 2009 entered into among the Company, the Vendor and the Warrantor;
“Deed of Variation and Release”	means the deed of variation and release dated 16 July 2010 and entered into among the Vendor, the Warrantor, the Company and Fred Kan & Co.;

“Director(s)”	means directors of the Company;
“Financial Assistance”	means the financial assistance in the sum of HK\$314,170,000 or equivalent sum in New Zealand dollar granted by the Company to the Vendor;
“Fixed Assets”	means all cattle, dairy cattle, plant, machinery, the Fonterra Shares, tools, equipment, vehicles, and other chattels on the Properties or otherwise owned or used for the purpose of the Business;
“Fonterra Shares”	means the shares of Fonterra Co-operative Group Limited contemplated to be owned by the Target Company under the Agreement;
“Four Farms”	means the four dairy properties identified as Properties 7, 17, 20 and 21 from page IV-6 to page IV-10 in the Appendix IV of the Circular;
“Group”	means the Company and its subsidiaries, from time to time;
“Hong Kong”	means Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“NZDT”	means NZ Dairy Trustee Limited, a company incorporated in New Zealand with limited liability and the trustee of the UBNZ Trust, replacing UTCL appointment as announced by the Company;
“OIO”	means the Overseas Investment Office of New Zealand;
“Option Shares”	means the 8,000 shares of the Target Company, representing 80% of the entire issued share capital of the Target Company;
“Option Shares Completion”	means completion of the sale and purchase of the Option Shares pursuant to the terms of the Agreement;
“Option Shares Completion Date”	means the date on or before the fifth business day after all the conditions precedent set out in Clause 4.4 of the Agreement have been fulfilled or waived (as the case may be and as applicable) or such other date as may be agreed by the parties in writing;

- “Option Shares Consideration” means the consideration for the transfer of the Option Shares, being a sum in Hong Kong dollar equivalent of NZ\$400 million (subject to adjustments) under the Agreement;
- “Outstanding Debt” All obligations, liabilities and debts owing or incurred by the Target Company to the Vendor (other than the Sale Debt) as at the Option Shares Completion Date whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on the Option Shares Completion Date;
- “PRC” means the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
- “Properties” means the landed properties for the production of dairy products, the operation of dairy heifer and bull raising units for large dairy farming properties; the operation of support units for large farming properties, for storage of machinery and trucks with the balance being in pasture grazed by dairy cattle, being utilized as dairy milking platforms and as dairy run-off units and supplemental feed purposes, dwelling, for the operation of large scale factory dairy supply farms, in relation to the Business;
- “Release” means the release dated 15 April 2010 and entered into among the Vendor, the Warrantor, the Company and Fred Kan & Co.;
- “Resumption Condition 1” means the first Resumption Condition in the letter of the Stock Exchange dated 8 July 2011 which requires the Company to address matters related to the VSA-1 and the placing of and subscription for convertible bonds announced by the Company on 4 December 2009 and inform the market of all material information that is necessary to appraise the position of the Group;
- “Resumption Condition 2” means the second Resumption Condition in the letter of the Stock Exchange dated 8 July 2011 which requires the Company to address any concerns raised by Morison Heng Certified Public Accountants, the former auditors of the Company, through qualifications in their audit report in relation to the consolidated financial statements of the Company for the fourteen months ended 31 May 2010 as contained in the 2010 Annual Report;

“Resumption Condition 3”	means the third Resumption Condition in the letter of the Stock Exchange dated 8 July 2011 which requires the Company to demonstrate adequate financial reporting procedures and internal control system to meet obligations under the Listing Rules;
“Resumption Condition(s)”	means the condition(s) imposed by the Stock Exchange in its letter dated 8 July 2011 that must be addressed by the Company before resumption of trading in the Shares on the Stock Exchange can take place;
“Sale Debt”	means 20% of all obligations, liabilities and debts owing or incurred by the Target Company to the Vendor as at the Sale Shares Completion Date whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on the Sale Shares Completion Date;
“Sale Shares”	means the 2,000 shares of the Target Company, representing 20% of the entire issued share capital of the Target Company;
“Sale Shares Completion”	means the completion of the sale and purchase of the Sale Shares pursuant to the Agreement;
“Sale Shares Completion Date”	means the date on or before the fifth business day after the conditions precedent set in Clause 4.2 of the Agreement have been fulfilled or waived (as the case may be) or such other date as may be agreed by the parties in writing;
“Sale Shares Consideration”	means the consideration for the sale and purchase of the Sale Shares and the Sale Debt, being a sum in Hong Kong dollar equivalent of NZ\$100 million minus HK\$1.00 (subject to adjustments) under the Agreement;
“Share(s)”	means ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	means holder(s) of the Share(s);
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Supplemental Deed of Variation and Release”	means the supplemental deed of variation and release dated 3 August 2010 and entered into among the Vendor, the Warrantor, the Company and Fred Kan & Co.;
“Target Company”	means UBNZ Assets Holdings Limited, a company established in New Zealand with limited liability;

“Target Group”	means the Target Company and its subsidiaries, if any;
“UBNZ Trust”	means the private discretionary trust established in New Zealand and its sole beneficiary is Buddhist International Trust and the trustee of which is NZDT;
“Vendor”	means UBNZ Trustee Limited, UTCL, a company incorporated in New Zealand with limited liability, ceased its appointment as trustee of the UBNZ Trust on 23 December 2010;
“VSA-1”	means the acquisition of, among other things, the entire issued share capital of the Target Company by the Company subject to the terms and conditions of the Agreement;
“Warrantor”	means UBNZ Funds Management Limited, a company incorporated in New Zealand with limited liability and legally and beneficially owned by NZDT in its capacity as trustee of UBNZ Trust;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“NZ\$”	means New Zealand dollars, the lawful currency of New Zealand; and
“%”	means per cent.

By order of the Board
Natural Dairy (NZ) Holdings Limited
WU Nengkun
Chairman

Hong Kong, 28 December 2012

As at the date of this announcement, the Board comprises three executive Directors, being Mr. Wu Nengkun (Chairman), Mr. Yao Haisheng and Mr. Zhang Hanwen and three independent non-executive Directors, being Ms. Chan Man Kuen Laura, Mr. Sze Cheung Hung and Mr. Zhang Jianhong.