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## **CONTINUING CONNECTED TRANSACTION**

### **Independent Financial Adviser**



### **BRIDGE PARTNERS CAPITAL LIMITED**

The Board announces that on 28th June, 2013, the Company entered into the Distribution Agreement with LD&D Australia pursuant to which LD&D Australia agreed to supply to the Company the Products for distribution in the Territory, and to grant to the Company an exclusive right to distribute the Products in the Territory.

LD&D Australia is a connected person of the Company under the Listing Rules, as it is an associate of National Foods Holdings Limited which is a substantial shareholder holding 49% of the entire issued share capital of VAP, and VAP is an indirect subsidiary of the Company. Accordingly, the Transaction contemplated under the Distribution Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rules 14A.33(3)(b) and 14A.34 of the Listing Rules, each of the relevant percentage ratios applicable to the aggregate Prices expected to be paid by the Company for each of the five years ending 30th June, 2014, 2015, 2016, 2017 and 2018 will exceed 1% but will be less than 5%. Accordingly, the Transaction is only subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Rule 14A.35(1) of the Listing Rules provides that the term of an agreement governing a continuing connected transaction must not exceed three years, except in special circumstances which are limited to cases where the nature of the transaction requires the contract to be of a duration longer than three years. Accordingly, Bridge Partners has been appointed as the independent financial adviser to the Company to explain why a longer period for the Distribution Agreement is required and to confirm that it is a normal business practice for agreements of this type to be of such duration.

The Directors, including the independent non-executive Directors, consider that the terms of the Distribution Agreement have been entered into on normal commercial terms, in the ordinary course of business of the Company and are fair and reasonable and in the interests of the Shareholders as a whole.

## **INTRODUCTION**

The Board announces that on 28th June, 2013, the Company entered into the Distribution Agreement with LD&D Australia pursuant to which LD&D Australia agreed to supply to the Company the Products for distribution in the Territory, and to grant to the Company an exclusive right to distribute the Products in the Territory.

## **DETAILS OF THE TRANSACTION UNDER THE AGREEMENT**

The details of the Transaction are set out below:

- Date : 28th June, 2013
- Parties : LD&D Australia as the manufacturer and the Company as the distributor
- Services and distribution : LD&D Australia agreed to supply the Products to the Company for distribution in the Territory, and to grant the Company an exclusive right to distribute the Products in the Territory.
- Term : The Agreement will commence on 1st July, 2013 and will continue until 30th June, 2018, unless terminated earlier in accordance with the terms of the Distribution Agreement.
- Price : The estimated Prices to be paid by the Company to LD&D Australia for the five years ending 30th June, 2014, 2015, 2016, 2017 and 2018 are approximately AUD7.2 million (approximately HK\$51.9 million), AUD8.7 million (approximately HK\$62.7 million), AUD10.1 million (approximately HK\$72.8 million), AUD10.9 million (approximately HK\$78.5 million) and AUD11.8 million (approximately HK\$85.0 million) respectively.

The Prices were determined by the Company and LD&D Australia by reference to the distribution prices of the same products sold by LD&D Australia to other distributors. The Prices will be settled within 30 days from the end of month of the date of the commercial invoice or bill of lading. All the terms of the Distribution Agreement are arrived at after arm's length negotiations between the Company and LD&D Australia. The Directors (including the independent non-executive Directors) consider that the Prices are fair and reasonable.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the Transaction. As such, no Director was required to abstain from voting on the Board resolutions for approving the Agreement and the Transaction.

### **BENEFITS OF THE TRANSACTION**

The Transaction is conducted in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors, including the independent non-executive Directors, consider that the terms of the Transaction are fair and reasonable so far as the shareholders of the Company are concerned and that they are in the best interests of the Company and its shareholders as a whole as it will bring the Company higher operating revenues and have a positive impact on the profitability of the Company in longer term; and will complement and strengthen its existing chilled dairy product portfolio in the Territory.

### **RELATIONSHIP BETWEEN THE PARTIES TO THE TRANSACTION**

LD&D Australia is a connected person of the Company under the Listing Rules, as it is an associate of National Foods Holdings Limited which is a substantial shareholder holding 49% of the entire issued share capital of VAP, and VAP is an indirect subsidiary of the Company. Accordingly, the Transaction contemplated under the Distribution Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

### **ANNUAL CAPS AND LISTING RULES IMPLICATIONS**

The Annual Caps are set based on the Prices payable under the Distribution Agreement in each of the five years ending 30th June 2014, 2015, 2016, 2017 and 2018 and are expected not to exceed approximately AUD7.2 million (approximately HK\$51.9 million), AUD8.7 million (approximately HK\$62.7 million), AUD10.1 million (approximately HK\$72.8 million), AUD10.9 million (approximately HK\$78.5 million) and AUD11.8 million (approximately HK\$85.0 million) respectively.

In arriving at the Annual Caps, the Directors have considered: (i) the growth trend of the sales of dairy and juice beverage products in the Territory; (ii) the expansion of the sales, and the growth of popularity, of the products manufactured by LD&D Australia in recent years in the Territory and other nearby regions; (iii) the sales capacity of the sales team and sales network of the Group; and (iv) the estimated movement of exchange rate between HK\$ and AUD.

Based on the Annual Caps, each of the relevant percentage ratios applicable to the aggregate Prices expected to be paid for each of the five years ending 30th June 2014, 2015, 2016, 2017 and 2018 will exceed 1% but will be less than 5%. Accordingly, pursuant to Rules 14A.33(3)(b) and 14A.34 of the Listing Rules, the Transaction will be a continuing connected transaction of the Company, subject to the announcement, reporting and annual review requirements but is exempt from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

## **VIEW OF INDEPENDENT FINANCIAL ADVISER**

Rule 14A.35(1) of the Listing Rules provides that the term of an agreement governing a continuing connected transaction must not exceed three years, except in special circumstances which are limited to cases where the nature of the transaction requires the contract to be of a duration longer than three years. Accordingly, Bridge Partners has been appointed as the independent financial adviser to the Company to explain why a longer period for the Distribution Agreement is required and to confirm that it is normal business practice for agreements of this type to be of such duration.

In arriving at its opinion of why a term longer than three years is required, Bridge Partners has relied on the opinion of the Company as described in this section headed "Benefits of the Transaction". Bridge Partners has discussed with the management of the Company and understands that to enter into the Distribution Agreement, the Company has to commit a significant amount of capital investment in advance and will continue to do so during the course of the Distribution Agreement. Therefore, returns on any capital investment made by the Group may be lower if the duration of the Distribution Agreement is not long enough. On the other hand, Bridge Partners has also reviewed the terms of the Distribution Agreement regarding, among others, the title of the Products, and the rights and obligations of both LD&D Australia and the Company and has not identified any unfavourable terms to the Company resulting from the contract duration being longer than three years. In view of the above factors, Bridge Partners concurs with the Company that it is commercially desirable to secure a term of a longer duration in order to establish a binding contractual relationship and that the contract term of five years balances the business risk of and the reward expected to be generated from the Transaction.

In considering whether it is a normal business practice for agreements of a similar nature to the Distribution Agreement to have a term of such duration, Bridge Partners has identified two distribution agreements entered into between the Company and independent third parties in the past 10 years. The contract term of each of them exceeded three years and whereby the Company acted as the distributor in Hong Kong for products of international well-known brands. Bridge Partners also noted that the two distribution agreements consist of similar clauses to those of the Distribution Agreement. Furthermore, Bridge Partners has reviewed a number of comparable transactions involving the granting of exclusive rights to distribute branded or trademarked products (the "Comparable Transactions"). The Comparable Transactions were selected by Bridge Partners based on the criteria that one of the parties to such transaction is a

beverage company listed on the Stock Exchange and such transactions are publicly announced by way of announcements made pursuant to the Listing Rules. Bridge Partners noted that the durations of the Comparable Transactions range from one year (renewed annually) to 43.5 years. Accordingly, the duration of the Distribution Agreement falls on the lower end of the range of the duration of the Comparable Transactions.

Having considered that (i) a binding contractual relationship would allow the Company to generate higher operating revenues and have a positive impact on the profitability of the Company in the long run; (ii) the Transaction is expected to complement and strengthen the Company's existing chilled dairy product portfolio in the Territory, the benefits of which will extend beyond three years; (iii) any term shorter than that of the Distribution Agreement may lower the returns on any capital investment made by the Group; (iv) the Company previously entered into distribution agreements of similar terms and duration with independent third parties; and (v) the duration of the Comparable Transactions range from one year (renewed annually) to 43.5 years, Bridge Partners is of the view that it is commercially desirable to secure a term of longer than three years for the Distribution Agreement and confirms that it is a normal business practice for contracts similar to this type to be of such duration.

## **PRINCIPAL BUSINESS ACTIVITIES OF THE GROUP AND LD&D AUSTRALIA**

The principal business activities of the Group are the manufacture and distribution of food and beverages.

LD&D Australia is principally engaged in the business of selling fresh milk, dairy products and juice beverages.

## **DEFINITIONS**

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

“Annual Caps”	the maximum amount payable for the Transaction during each of five years ending 30th June, 2014, 2015, 2016, 2017 and 2018;
“associate”	has the meaning ascribed to it under the Listing Rules;
“AUD”	Australian dollars, the lawful currency of Australia;
“Board”	the board of Directors;

“Company”	Vitasoy International Holdings Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange (Stock Code: 345);
“Directors”	the directors (including the independent non-executive directors) of the Company;
“Distribution Agreement”	the distribution agreement dated 28th June, 2013 between the Company and LD&D Australia, where LD&D Australia agreed to supply to the Company the Products for distribution in the Territory, and to grant to the Company an exclusive right to distribute the Products in the Territory;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Financial Adviser” or “Bridge Partners”	Bridge Partners Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Company in respect of the duration of the Distribution Agreement;
“LD&D Australia”	LD&D Australia Pty Limited, a company incorporated in Australia and an associate of National Foods Holdings Limited which is a substantial shareholder holding 49% of the entire issued share capital of VAP;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“percentage ratios”	has the meaning ascribed to it in Chapter 14 of the Listing Rules;
“Prices”	the prices of the Products supplied by LD&D Australia to the Company pursuant to the Distribution Agreement;
“Products”	dairy and juice beverage products manufactured by LD&D Australia and supplied to the Company pursuant to the Distribution Agreement;

“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Territory”	the geographic area within the border of the Special Administrative Regions of Hong Kong and Macau;
“Transaction”	the transaction contemplated under the Distribution Agreement;
“VAP”	Vitasoy Australia Products Pty Limited, a company incorporated in Australia and an indirect 51% owned subsidiary of the Company; and
“%”	per cent.

*Unless stated otherwise, translations of quoted currency values are made on an approximate basis and at the rate of AUD 1 = HK\$7.204. Percentages and figures expressed in millions have been rounded.*

By Order of the Board  
**Vitasoy International Holdings Limited**  
Winston Yau-lai LO  
*Executive Chairman*

Hong Kong, 28th June, 2013

*As at the date of this announcement, Mr. Winston Yau-lai Lo and Mr. Laurence P. Eisentrager are executive Directors. Ms. Myrna Mo-ching Lo and Ms. Yvonne Mo-ling Lo are non-executive Directors. Dr. the Hon. Sir David Kwok-po Li, Mr. Iain F. Bruce, Mr. Jan P. S. Erlund and Mr. Valiant Kin-piu Cheung are independent non-executive Directors.*