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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)

**(1) CLARIFICATION ANNOUNCEMENT
IN RELATION TO THE VSA-1 ACQUISITION**
**(2) FURTHER DEVELOPMENT IN RELATION TO THE VSA-1
ACQUISITION OF UBNZ ASSETS HOLDINGS LIMITED AND
ITS GROUP**

This announcement is made by the Board of Directors of Natural Dairy (NZ) Holdings Limited ("the **Company**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**HKEX**") and the Inside Information Provision under Part XIVA of the SFO.

This announcement is made to clarify and consolidate information in relation to the VSA-1 Acquisition and to provide investors with updates thereon:

CONSIDERATION OF VSA-1 ACQUISITION WAS DETERMINED AT NZ\$500 MILLION

The VSA-1 Acquisition consideration was determined in contrast with the final adjustment to the guaranteed profit of NZ\$35million which generated from the new Dairy Business. If the profit fails to reach NZ\$35million, 14 times of the shortfall amount shall be refunded in cash to the Company by the Vendor/Warrantor, which equates to:

NZ\$35 million * 14 times = NZ\$490 million

In practice, the cash refund nearly equivalent to the full amount of the consideration of the VSA-1 Acquisition, such adjustment calculation put in place is for protecting the interest of the Company and its shareholders as a whole.

Non-cash payment method replace by issuing CNA & CNB:

CN A: NZ\$215 million (approximately HK\$1,031.46 million), which can be converted into 412,585,000 shares at HK\$2.50 per share

CN B: NZ\$285 million (approximately HK\$1,367.29 million) which can be converted into 683,643,750 shares at HK\$2.00 per share

Total: NZ\$500 million, equivalent CNA, CNB which is the full amount of the consideration of the VSA-1 Acquisition

As set out above, the purpose for the VSA-1 Acquisition is to acquire a new and successful Dairy Business. The proposed consideration of NZ\$500 million is not solely for the acquisition of the Target Assets. (Exchange rate shall be the rate as at the 11:00 a.m. on the Completion Date of HSBC Rates HK\$/NZ\$).

The related information is disclosed on page 45 and 18 of the Circular

CLARIFICATION AND UPDATES

- This announcement serves to clarify that the objective of the VSA-1 Acquisition is to acquire a dairy business that exports New Zealand-made UHT aseptic packed and dairy related products to China and establishes a valuable direct-sale network throughout China and other Asian regions.
- To clarify how the VSA-1 Acquisition could be continued and completed without obtaining the “22 farmlands freehold interest” (one of the proposed component of the Target Assets), and how it could through an alternative arrangement for 28,398 cattle and securing the supply of fresh milk to produce UHT milk products. After New Zealand “OIO” declined on 22 December 2010, among others, why and how the Company proceeded with the VSA-1 Acquisition based on the legal advice under the contractual terms of the Agreement, Circular and the resolution of the shareholders on a commercially viable basis
- The final adjustment of the consideration of the VSA-1 Acquisition is among other things, subject to Other Conditions, (a) the Vendor/NZDT gives the Profit Guarantee of NZ\$35 million for the period of 12 months upon completion of the Option Shares
- Due to amendments to the New Zealand Overseas Investment Acts 2005 (“OIA 2005”) on 27 September 2010 for the purpose of protecting national interest, the contemplated acquisition of sensitive freehold farmlands under the VSA-1 Acquisition was no longer feasible since 21 December 2010. Acting on the mandate granted by the shareholders and pursuant to the Agreement, the Company decided to waive the condition precedent 4.2(vii) in part or in whole, and acting on the legal advice to comply with the Remedy Clause 8, to continue the

VSA-1 Acquisition so that the subject Dairy Business could achieve the profit guarantee of NZ\$35 million to ensure sustainable of the Dairy Business. In the case of any failure to fulfill the Profit Guarantee, the Vendor/Warrantor shall make a cash refund to the Company equivalent to 14 times the shortfall, if any.

- The Company has raised funds through the issuance of convertible CN C, CN D and Option Bond to the public for the cash payment of the VSA-1 Acquisition and achieving all of its objective.
- As a transaction instrument, the issuance of convertible CN A and CN B is for the purpose of paying the consideration of VSA-1 Acquisition to the Vendor/NZDT and its nominated parties.
- For the completion of the VSA-1 Acquisition, on 13 November 2009, the Company announced that (1) the conditions precedent was changed to conditions subsequent and (2) there were restrictions on issued convertible notes A and B; and pursuant to the Deed of Undertaking signed on 13 November 2009 by the Company and Vendor/Warrantor, Vendor/Warrantor undertook below:

*“Pursuant to the Deed, the Vendor has undertaken (i) not to exercise the Conversion Rights in respect of the Convertible Notes without prior written consent of the Company; and (ii) not to transfer, assign, mortgage, pledge, create or permit to arise any encumbrances on or in respect of any of its interests or lien thereof in the Convertible Notes **save for the purpose of providing security for its funding to complete the Assets Acquisition provided that funds so raised together with other financial resources possessed by or available to the Vendor shall be sufficient to settle the balance for the Assets Acquisition**”.*

Pursuant to the Deed Of Undertaking (DOU), the “release restrictions” over the issued CN A & CN B on 22 Dec 2009 had been satisfied in accordance with the Condition Subsequent. The Sale Shares/20% acquisition was completed on 10 Feb 2010, upon completion, the four dairy farms were injected into the Target Co and both Vendor and the Company as the shareholders of the Target Co resolved it. On 15 April 2010, the Company issued “Release” to the vendor. Subsequently, the Company released to the vendor the remaining CN A & CN B. Those sold CN A and CN B were released accordingly too. As confirmed by the Company’s NZ lawyers Knight Coldicutt, all funds rose by both Vendor and the Company together with the bank loan was enough to acquire the remaining Farm Assets to inject into the Target Co, and the funds were also escrowed with solicitors of the ultimate Farms’ owners and Knight Coldicutt. Therefore, the Undertaking made by the Vendor under the DOU was delivered. And such purchase of 16 farms was irrevocable and legally binding between vendor and receivers/farms owners. Therefore, vendor had fulfilled all of its undertaking to acquire the Farms assets pursuant to the DOU on 13 Nov 2009 and the circular.

As per Company's announcement on 10 October 2011, prior to 21 May 2010, Vendor has successfully raised the funds through placing of CN-A, CN-B and bank loans arranged in New Zealand, together with the funds raised by the Company (through placing of CN-C), all monies are in place sufficient for the UBFM/Warrantor to acquire the remaining 18 dairy farms to be injected into UBAH/Target Company. Hence, satisfying the Release conditions of CN B as per "Deed of Release" on 15 April 2010.

On 24 May 2010, UBFM had irrevocably signed all legal land transfer document to UBAH for the 18 farm properties. NZ Inland Revenue Department/IRD had deemed such purchase of above properties was at its unconditional completion. Accordingly, the Goods & Service Tax/GST was filed by both UBFM & UBAH, the amount of NZ\$24,529,136 was paid to IRD.

As at that stage, the Vendor/Warrantor have satisfied the fulfillment of condition precedent (g), in particular the (g)(ii) of "the Properties(22 Farm land)".

Pursuant to the Deed of Undertaking, upon fulfillment of the aforesaid undertaking, all obligations of the Vendor relating to DOU were released. The transfer rights of CN A and CN B were granted by the Company on 15 April 2010 and related conversion was effected in September 2010.

- To explain and clarify the announcement of the Company dated 2 February 2011 ("**February Announcement**"), in particular the statements contained in the paragraphs 1, 2 and 3 on page 2 thereof denoting that OIO declination will not affect the continuance of VSA-1 Acquisition. And versus the paragraph 1 on page 11 stating: "*The Company will convene a Shareholders' meeting as soon as practicable to obtain Shareholders' approval for the use of funds derived or raised from the CN-A, the CN-B, the CN-C, Option Bonds and the CN-D, as set out above, as Shareholders' approval is required if any use of the said funds is for a purpose materially different from what the Shareholders have agreed.....*"

"Financial Assistance" to the Vendor

The Company disclosed related information on page 32 of the Circular

"The Company may provide interim financial assistance for the Warrantor and/or its shareholders so as to facilitate the transfer of the business to the Company."

Such "business" refers to the new dairy business to be established by UBAH.

- Also, to disclose the status at the time when the VSA-1 Acquisition is completed to the market.

This announcement shall be read with particular reference to the Circular, the Agreement and its supplemental agreement and announcement dated 24 July 2011 in relation to the Three Conditions for resumption of trading in the shares of the Company. As announced on 8 June 2012, Resumption Condition 2 (in relation to qualification opinion of the auditors in the Annual Report for Year 2010) and Resumption Condition 3 (in relation to the financial reporting procedures and internal control system) have been addressed. Other **references shall be made to:**

- (i) the 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, 9 October 2011, 3 July 2012, 28 December 2012 and 3 January 2013, in relation to further development of the VSA-1 acquisition;
- (ii) the announcements dated 13 November 2009, 1 June 2010, 1 September 2010, 26 October 2010, 31 December 2010 and 9 October 2011 in relation to Sale Shares Completion of VSA-1 acquisition, and status and progress of the OIO approval application;
- (iii) the Circular dated 8 September 2009 in relation to the VSA-1 acquisition, and related announcements dated 5 June 2009, 20 August 2009 and 7 September 2009 prior to the release of the Circular; and
- (iv) The Resumption announcement dated 24 July 2011 in relation to Three Conditions for resumption of trading in the shares of the Company. Further Resumption announcements were made on 08 June 2012, 28 December 2012 and 3 January 2013 which set out the major events of the VSA-1 Acquisition.

(1) TO CLARIFY THE OBJECTIVE OF VSA-1 ACQUISITION AND RELATED ISSUES

Part I THE VSA-1 ACQUISITION OBJECTIVE

The Objective of VSA-1 is to acquire a new dairy business that produces fresh raw milk, and then process the raw milk to Ultra Heated Treated (UHT) milk packed in aseptic packaging, export into China and the region through direct sell network to achieve the profit guarantee of NZ\$35 million.

1. The Company Name Changed to Natural Dairy (NZ) Holdings Limited

This Acquisition Objective was demonstrated by an overwhelming (99%) shareholders endorsement at the extraordinary general meeting on 2 October 2009 to approve the change of Company name from existing “**China Jin Hui Mining Corporation Limited**” to “**Natural Dairy (NZ) Holdings Limited**” to reflect the transformation from its discontinued iron ore mining business in Year 2008, signifying the Company’s diversification and venture into New Zealand-made dairy products and beverage retail business in China as its primary business activities.

2. *Entering into the VSA-1 Acquisition Agreement on 22 May 2009*

On 22 May 2009, the Company, the Vendor and Warrantor entered into the Agreement to acquire the entire 100% issued share capital of the Target Company UBAH and its subsidiaries (defined as “**Target Group**” in the Circular), namely the VSA-1. This acquisition was structured into two phases: (i) 20% the Sale Shares and Sale Debt (if any); and (ii) 80% the remaining Option Shares and Outstanding Debt (if any), for an aggregate consideration of NZ\$500 million (approximate over HK\$3,000 million). Pursuant to the Agreement, Circular, Deed of Undertaking and several supplemental agreements signed by the parties, the consideration is subject to adjustments of the following circumstances:

- (i) In the event that the audited profit of the Business, after tax (and excluding finance costs and the fair value of livestock), for the 12 calendar months period commencing from the Option Shares Completion Date is less than NZ\$35 million, the Vendor/Warrantor shall undertake to pay the Company in cash, of such shortfall multiplied by 14 times. (The equivalent amount of NZ\$500 million was based on the calculation of NZ\$35 million multiplied by 14); and
- (ii) In the event that *the aggregate market valuation of the Target Assets* appraised by a Hong Kong independent valuer as accepted by the Company is less than NZ\$300 million prior to the completion of the VSA-1 acquisition, the consideration shall be adjusted downwards on a dollar to dollar basis. The Company can waive the acquisition of the Properties at its discretion based on the actual circumstances as disclosed as Paragraph 1 on Page 26 of the Circular.

3. *On page 46, the 1st paragraph of the Circular under the headline “Reasons for entering into the Acquisition” stated that this VSA-1 Acquisition Objective is:*

“In view of the fact that the business of production, sale and distribution of livestock, milk solids (fresh milks) and dairy related products in New Zealand are in demand at all times, the Directors have considered.....acquisition of the Target Assets collectively which will bring about growth by way of economies of scale, production synergy, and grouping of the farm facilities and pasture lands, and post-acquisition, the Company can make use of its experience in China and Hong Kong to direct sale of Ultra-Heat Treated (UHT) milk in China and Hong Kong, opening a new outlet of the products into a vast market wherein the products (coming from New Zealand) can command a price premium (in China)”.

As disclosed throughout the Circular, the **reason** for the Company entering into this Acquisition is to transform from the failed iron-ore mining business into a promising dairy business, and to establish a valuable direct-sell network selling New Zealand-made dairy products in China. In 2009, the then Directors believed that New Zealand-made dairy products could command a premium price on the vast China

market. **Hence the VSA-1 Acquisition Objective** is to own a new Dairy Business that produce high quality fresh milk in New Zealand and to establish a direct-sell business in China. The NZ\$35 million profit guarantee to ensure the sustainability of this new Dairy Business.

4. *Target Company/UBAH, a newly incorporated company and its subsidiary (“Target Group”) that owns or to own Proposed Target Assets*

As disclosed on page 43 of the Circular, the Target Company, being UBNZ Assets Holdings Limited (UBAH), was incorporated on 22 May 2009, on the same date of the Agreement was signed by the Company, Vendor and Warrantor. Upon completion of acquisition of the Sale Shares (20%), it will start to conduct a dairy business as defined on page 2 of the Circular as:

“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 on or before Sale Shares Completion including the ownership of the Properties, Fixed Assets”.

The new Dairy Business to be conducted and operated by the Target Group (comprised of these proposed Target Assets) the Warrantor undertook to deliver a NZ\$35 million profit guarantee for the success and sustainability of this business.

Therefore, the VSA-1 Acquisition is not about property purchase of 22 farmlands nor a purchase of the existing Crafarm Group Business.

5. *The incidental facts behind the VSA-1 Acquisition were:*

5.1 Primary business of the Company in 2008/2009. Prior to 5 June 2009, the Company was primarily engaged in dwindling electronic service business and the Chengde iron ore mining business has failed to contribute profit.

During the period from January to early April 2009, without a promising business, the Company did not have cash raising ability. On 16 April 2009, the Company could only place convertible warrants with exercise price at HK\$0.30, which upon conversion into shares will represent approximate 20% of the issued share capital of the Company to meet the need of its working capital. (For details, please refer to the announcement issued by the Company on 16 April 2009.)

5.2 The advantage to deal with UBNZ/Vendor was because the consideration could be made by issuing the convertible CN A & CN B, those CNs are all zero coupon rate, terms are for 7 years or 10 years; the conversion prices are at HK\$2.5 and HK\$2.00 respectively. The vendor also accepted these terms. As

disclosed on pages 38-39 of the Circular, the premiums were as high as 268% and 194%, respectively, compared to the 20-day average closing price at approximately HK\$0.68 for the shares traded in September 2009.

The Company's net asset value per share is approximately HK\$0.29 as at 30 September 2008 stated in audited financial report. The aggregate cost upon issuance of shares converted from CN A&B was HK\$360,000,000 at that time.

Therefore, the offering terms for conversion of these CN A & B were very advantageous to the Company as at time when approval granted by shareholders on 2 October 2009.

5.3 Market timing. Without upfront cash payments, the Company could diversify the core business into the promising dairy business. The market entry time was essential in 2009, as the then Directors believed premium price were to be enjoyed by New Zealand-made dairy products, given the scandal of Sanlu malaise incident in China.

Therefore, the Company has entered into the Sale & Purchase Agreement to acquire UBAH and its Group with Vendor and Warrantor on 22 May 2009.

Pursuant to the above-mentioned consideration adjustment mechanism stated in point 2(i) & (ii) in Part I, the then Directors believed the interests of the Company and its shareholders had already been safeguarded. Please refer to Page 17 to Page 18, and page 46 of the Circular and Page 3 of the Clarification on Announcement released on 18 December 2009 regarding conclusion of the then Directors that:

“...the VSA-1 Consideration is on normal commercial terms, fair and reasonable and in the interest of the Shareholders and the Company as a whole”.

Despite the Acquisition Consideration NZ\$500 million shown an excessive premium of 34% over the valuation benchmark NZ\$300 million, such excess value would be subject to diminution over time or even a higher premium of 268% to 194% on share conversion were to be enjoyed by the Company when considering above incidental facts and the “*deferred payment method*”. Upon completion of the Option Shares sale and acquisition of certain Target Assets, the VSA-1 final completion relies on the delivery of NZ\$35 million profit guarantee to secure interests of the Company and shareholders as a whole, as it signified a successful venture of the Company into promising dairy market in China.

Part II **CONDITION PRECEDENT CHANGES TO CONDITION SUBSEQUENT ON ASSETS FULFILLMENT CLAUSE 4.2(VII) AND THE COMPANY'S DISCRETIONARY RIGHTS TO SELECT TARGET ASSETS**

As the Circular approved by the Shareholders on 2 October 2009, the Board of Directors was authorized:

1. *To waive Clause 4.3 of the Agreement, under the full discretions of the Company, which applies to all Condition Precedent (g)(1) – (5) or Clause 4.2(vii)(a) to (e) in respect of the Target Assets*

As announced in the Resumption announcement dated 28 December 2012, pursuant to Clauses 4.3 & 4.4 of the Agreement dated 22 May 2009 and as stated on the 1st paragraph, page 26 of the Circular dated 8 September 2009, 1st paragraph is summarized as below:

“...shall be entitled at its (refer to the Company) absolute discretion at any time by a written notice to the Vendor to waive any of the above-mentioned conditions precedents (save and except for condition precedents (c),(d),(f),(h) and (i)), For the avoidance of doubts, the above-mentioned condition precedent set out in parts (a), (b),(e) and (g) may be waived by the Company at its absolute discretion at any time by a notice in writing to the Vendor”.

As stated in the Condition Precedent (g)(1) – (5) (as mentioned above) in whole or in part (as the case may be), the Target Assets, including **all the assets, could be waived by the Company to optimize the return**, before the Long Stop Date, which has been extended to 30 September 2013 as agreed by both parties.

VSA-1 is not “an acquisition of 22 specific farmlands”, since at any times, all Condition Precedent (g)(1) to (5) in respect of the Target Assets including the freehold interest of the “22 farmlands”, could be waived by Company at its absolute discretion. As stated in above paragraphs of this Part II. The VSA-1 is designed to acquire a successful dairy business of New Zealand-made dairy products for direct sale in China and its regions. Therefore, the selection of certain Target Assets is for the purpose of optimizing return.

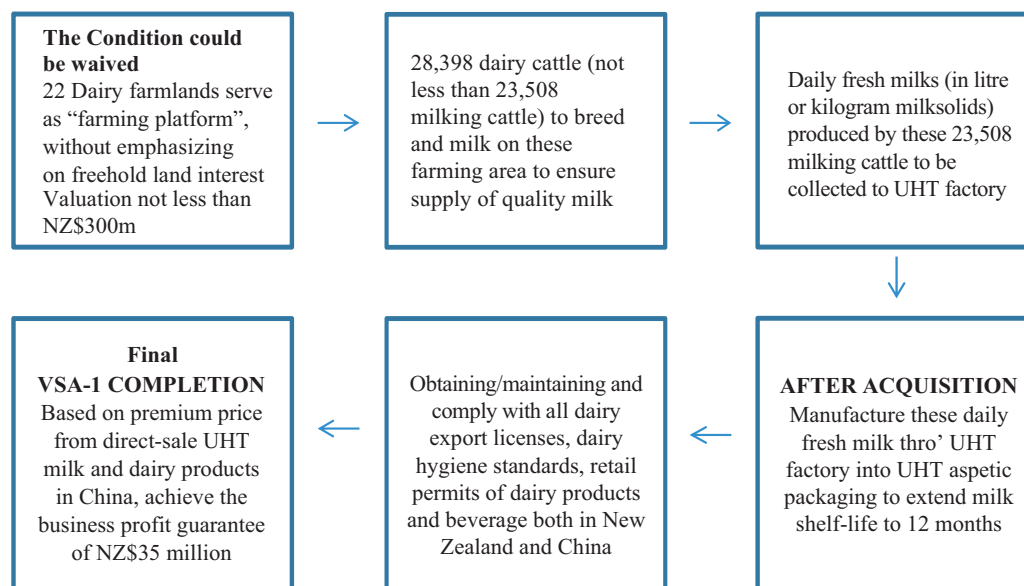
1.1 Application of Waiver Clause 4.3 after OIO Declination

Certain board meetings were held after OIO declined on 21 December 2010, the then board directors agreed and elected to exercise the waiver clause 4.3 of the Agreement to waive condition subsequent (g) (2) - Properties as set out in Appendix IV of the circular. And decided to continue with the VSA-1 acquisition to achieve the objective of the VSA-1, which is transform its core

business into the promise dairy business upon acquire the Target group. In return, the consideration to be made only by issuance of CN A & CN B, therefore no cash payments were required for the entire VSA-1 acquisition.

2. Target Assets to be Transferred into Target Group on or before the Long Stop Date by UBFM, the Warrantor:

VSA-1 Acquisition was approved by the shareholders on 2 October 2009 is illustrated in the following flowchart:



- * This Long Stop date, as defined in Circular is “such other date as may be agreed by the parties in writing”, has been postponed to 30 September 2013.
- * On 13 November 2009, Company waived clause 4.2(vii) from condition precedent to condition subsequent. Therefore, the 20% completion was not subject to the injection of the Target Assets.
- * After OIO declined on 22 December 2010, the company decided to waive the clause 4.2(vii) in part or whole after obtained legal opinion dated 16 August 2011.

After the Warrantor performed its duties and obligation to secure and inject the remaining farm assets on 24 May 2010 into Target UBNZ AHL. And 100% funds in place with escrow arrangements made between the Company, Receivers, Vendor/ Warrantor lawyers on 21 May 2010, subsequently NZ government made changes onto the Overseas Investment Act on 27 September 2010, and declination of OIO consent on 22 December 2010, the Company had considered partially or completely waive the condition precedent (g) (1)-(5) in order to progress with the VSA-1. Such decision was based on the legal advice provided by a HK counsel on 16 August 2011.

At the time, the VSA-1 acquisition was the exclusive transaction on the market place. The direct-selling dairy business model could also deliver the profit guarantee of NZ\$35 million. Once the Company completes the 80% acquisition, the raw milk supply could meet the Company's markets demanding.

On 16 August 2011, the Company directors have sought professional legal opinion after reviewing the Agreement on 22 May 2009, and its supplemental agreement and all relevant documents such as the HKEX's enquiry, that VSA-1 Acquisition (as contemplated under the Agreement) has concluded that VSA-1 does not emphasize on "*what types of farmlands interest to be possessed by the Target Company UBAH*".

3 *The proposed 22 Farm properties were owned in 2009*

The valuation certificate of Appendix IV of the Circular stated that the five proposed dairy properties were owned by independent owners of Crafarm Group entities: *PLATEAU FARMS LTD, HILLSIDE LTD, TAHARUA LTD, FERRY VIEW FARMS LTD, NUGEN LTD, WINDBURN VIEW LTD*

Property 3 (page IV – 17)	–	registered owner Cirncester Development Limited
Property 6 (page IV- 38)	–	registered owner Shetland Farms Limited
Property 18 (page IV- 42)	–	registered owner Lisa Tanya Mary Down, William Harry Francis Downs
Property 19 (page IV – 44)	–	registered owner William Herbert Ballantyne, Jennefer Mary Ballantyne and Roger Herbert Eitken
Property 22 (page IV – 49)	–	registered owner LA Viking Farms Limited

HENCE the VSA-1 Acquisition is definitely not an acquisition of "22 Crafarm farmlands", with the fact that only 17 farmlands were owned by Crafarm Group, as at 19 June 2009.

4 *Other part of Target Assets could be sourced from the Market Place*

An article of New Zealand Herald published on 1 December 2012, revealed that the Crafarm/Receiver recorded only 16,000 cattle are available for sale.

IN CONTRAST, the VSA-1 proposed Fixed Asset to be injected into the Target Company (28,398 cattle to ensure milk supply) was clearly stated on page 27 of the Circular. The Warrantor could buy any part of Target Assets from anyone on the open market instead of Crafarm only.

5. Valuation of the Properties (Appendix IV of the Circular) – Specific Location of Crafarm Cattles

“Appendix IV – Valuation of the Properties” (see page IV-2 of the Circular), is extracted from the valuation opinions on 22 Properties issued by New Zealand Logan Stone Ltd, Hutchins & Dick Limited and Reid & Reynolds Ltd (“**NZ Valuers**”), as at 19 June 2009. The findings from the valuation reports on the 22 Properties issued by such independent New Zealand professional rural valuers suggest that all these reports were prepared based on two determinants:

- (i) the average annual milk production (measured as kilogram milksolid) by dairy cattle of these Properties; and
- (ii) the market conditions (Fonterra collection price) for the sale/production of milk solids at that time.

These NZ Valuers have adopted market comparables approach which involves observing and comparing recent available sales then compiling and recording each observed farm sale under columns of “*Land site area, Effective farming Area, Production Average Efficient*”.

According to summary of the 22 valuation reports in *Appendix IV, the Properties* offers around 8,600 hectare farming areas as “*dairy milking platform*” to breed and milk the 28,398 cattle.

AS SHOWN the “*key determinant*” adopted by the NZ valuers was the farmland milking cattle productivity data for the past three years, which determines the market value of the 22 dairy farmlands, as set out in Appendix IV.

6. THE VSA-1 IS TO ENSURE A SUCCESS DAIRY BUSINESS

The VSA-1 acquisition had incorporated with a “NZ\$35 million audited business profit guarantee” mechanism, and the adjustment for the VSA-1 consideration is to ensure of the dairy business performance and success.

If the Target group’s fail to deliver the business profit for the 12 months period following the Option shares completion, any shortfall amount would multiply by 14 times and to be paid in cash by the vendor/warrantor to the Company. The total amount could be up to NZ\$490 million which almost equates to the total amount of VSA-1 consideration.

CONCLUSION

AS DISCLOSED ABOVE PART II (1)-(6), the objective is to purchase an operation of UBAH which is sourcing the raw milk and processing the UHT milk, exporting and direct-selling into China market instead of acquire the 22 farm land or the Crafram group's business. Such new dairy business will be established and operating by the Target group/UBAH, if the vendor/warrantor fail to deliver the profit guarantee even after the proposed properties/target assets were injected into the Target group, the same adjustment still apply and the Company could still retrieve all the consideration back if vendor fails completely.

PART III ISSUANCE OF DESIGNATED CN A & CN B AS PAYMENTS OF THE VSA-1 CONSIDERATION ARE IN ACCORDANCE WITH THE PRINCIPAL AGREEMENT

Upon the fulfillment of the Undertaking, the "Release condition" of the CN A & CN B could be uplifted. The notes holders could then exercise their rights to convert the CNs into the Company's ordinary shares.

On 13 Nov 2009, the Deed of Undertaking (DOU) described below:

Restrictions on these Convertible Notes

*Pursuant to the Deed, the Vendor undertook that (i) it would not exercise the Conversion Rights in respect of these convertible Notes without the prior written consent of the Company; and (ii) it would not transfer, assign, mortgage or charge any interests in these Convertible Notes or create or permit the creation of lien on any interests in these Convertible Notes, B: **SAVE for the purpose of providing security for funding to complete the acquisition of the assets provided that the funding so raised together with other financial resources possessed by or available to the Vendor shall be sufficient for the settlement of the remaining consideration of the acquisition.***

A. *As described in Listing Approval released by HKEx on 4 December 2009, shareholders of CNA & CNB should exercise the conversion rights in accordance with the Main Agreement on 22 May 2009 the Circular on 2 October, and the Announcement on 13 November 2009.*

If the convertible CN A & B held by Vendor/UTCL fulfills the above condition B: such Convertible Notes would no longer subject to fulfillment of Clause 4.2 (vii) of the Agreement, the Noteholders could exercise the conversion rights as they wish.

1. CN A & B were designated for the purpose of VSA-1 consideration.

The issuance of CN A & B by the Company mainly served as a cash substitute for the purpose of paying Option consideration since the Company (i.e. Natural Dairy) had limited cash to complete the acquisition. The Vendor could dispose CN A & B to raise fund at its own cost. The fund raising exercise was undertaken by vendor without Company's involvement, except the release of such CN A & B from the Company shall be subject to (i) the acquisition of proposed assets of VSA-1; or (ii) above condition B according to DOU.

“Key terms of the CNA and CNB: Zero-coupon rate, unsecured with 7 & 10 year maturity”

Pursuant to the Agreement and the Circular, under the section headed “*deferred payment method*”, if the consideration of NZ\$500 million cannot be financed by way of bank loan and fund raising, it would be satisfied by the issuance of Convertible Notes A & B (“CN A” “CN B”) to the Vendor under the terms of zero-coupon rate at the conversion prices with premium of HK\$2 and HK\$2.50 respectively.

The “*effects of dilutions on Natural Dairy's shareholding structure*” after conversion of all CN A & Note B into ordinary shares were disclosed in page 41-42 of the Circular.

Pursuant to the DOU of 13 Nov 2009, the 20% shares transfer and both parties completed legal registration on 2 February 2010.

HENCE, the trench of CN A in the amount of HK\$276,078,000 (as the deposit for the) and CN B in the amount of HK\$552,155,998 (as the consideration of Sale Share acquisition) issued by the Company on 22 December 2009 was disposed to the Vendor for fund raising. Such escrow was released on 15 April 2010 by the Company according to the Deed of Undertaking. HK\$372 million of CN B was sold to the third parties. Only 92 million shares remained registered under the name of the Vendor out of total HK\$552 million. All of the issued CN A was also subsequently converted into shares. As at the date of this announcement, all shares held by the Vendor have been frozen by the Company since 10 September 2010. None of the Shares were transferred or sold by the Vendor.

2. Fund raising activities were carried out by the Vendor to fulfill Clause 4.2(vii) pursuant to the Deed of Undertaking

- 2.1 Fund raising activities were carried out by the Vendor

Pursuant to the Deed of Undertaking, on 15 April 2010, the Board signed the “**Deed of Release**” and the “**Variation to the Deed of Release**” to give consent to the Vendor for the disposal of CN A & CN B to raise funds in following ways:

- (i) pursuant to the **Deed of Release** and **Variation to the Deed of Release**, release of CN B and CN A by the escrow agent accordingly;
- (ii) the cash raised has been directly transferred by the SHKI the Placing Agent to the trust account of Knight Coldicutt, the legal adviser appointed by the Company, under the beneficiary account of Vendor/Warrantor for the purpose of settling the farmland properties to be injected into UBAH;
- (iii) certain amount of CN A & CN B were respectively sold, released and owned by the third parties on the same terms and conditions of the CN A & CN B, except that the conversion will no longer subject to the fulfillment of the condition precedent clause (g).

Pursuant to “*Clause 8a of terms and conditions of CN A & CN B*”:

“Holders of Convertible note A or B may on any Business Day within the Conversion period, exercise its Conversion Rights by delivering to the issuer 462’s office in Hong Kong with a Conversion Notice stating its intention to convert together with the Convertible Note certificate. Such Conversion Notice may not be withdrawn and Shareholders are bound by the memorandum or articles of association of the issuer 462 on the acceptance of issued shares and such Conversion”.

Hence, as a result of fund raising, the then Board had agreed on selling and releasing CN A & B issued on 22 December 2009. After independent third party noteholders received relevant certificate, the conferred Conversion Rights shall be vested to the noteholders.

3. Fulfillment of the “Release Condition” of CN A & CN B

Vendor has raised sufficient funds to fulfill the Condition Subsequent of clause 4.2(vii)

Pursuant to the “*Deed of Release*” dated 15 April 2010, the then Board considered that the purpose of such release was to conduct funds raising activities to fulfill the Clause 4.2(vii).

Knight Coldicutt had confirmed with the Company on or before 24 May 2010 in writing that, the entire proceeds from the acquisition of the proposed target asset and the injection into UBAH were fully in place. All settlement funds were escrowed with Minter Ellison, the receiver’s solicitor, and Knight Coldicutt. The settlement funds were respectively financed by disposal of CN B by the Vendor, bank loan, the financing by the Vendor and the proportion of funds raised through subscription of CN C by the Company. For details, please refer to the announcement dated 10 October 2011.

If OIO consent was available, transactions under these farm purchase agreements would have been contractually executed, whereby UBAH would have owned additional 18 dairy properties at that time.

On 21 May 2010, Knight Coldicutt confirmed that the following proceeds were in place:

- 1) Natural Dairy has escrow fee of NZ\$65,300,000 and a deposit of NZ\$23,800,000
- 2) UTCL/UBFM has escrow fee of NZ\$29,000,000 and a deposit of NZ\$7,200,000

Escrow fee of NZ\$125,300,000, together with bank financing of NZ\$100,000,000 arranged by the Vendor were sufficient for the Vendor to purchase and settle the Properties. (For details, please refer to the announcement issued by the Company on 10 October 2011.)

HENCE, despite the Condition Precedent (g)(2) of the Properties was subject to the approval of OIO, the Vendor has already performed its obligations to raise the entire funds, signed irrevocable transaction documents in respect of all proposed Properties in New Zealand and paid a GST tax amounting to approximately NZ\$24,529,136 to IRD New Zealand as at 24 May 2010, whereby the acquisition of the target farmland assets would be completed upon obtaining approval from OIO for the 80% option shares acquisition. The approval of OIO was not the obligation or under-takings of the Vendor or the

Warrantor. Pursuant to the Deed of Undertaking and the Agreement, the Vendor shall be released from its Undertaking when their obligation of raising sufficient fund to settle the Properties (being the Condition Precedent (g)(2) or Clause 4.2(vii) under the Agreement) was performed. Noteholders on possession of the certificates were entitled to convert into shares at their wish. Also, the Company could be relieved from the large sum of cash redemption obligations after these CNA & CNB were converted into shares.

4. Repayment of the financial assistance by the Vendor

Disclose in page 32 of the Circular concerning financial assistance states as follows:

“Interim financial assistance may be provided by the Company to the Warrantor and/or its shareholders so as to facilitate the transfer of the Business to the Company after Sale Shares Completion has occurred.”

Such “Business” referred to the new dairy business to be set up by UBNZ.

During February 2010, the Company agreed on the approval in respect of the above financial assistance. Such financial assistance was HK\$314,168,000 in aggregate.

The Schedule of Vendor reimburses financial assistance is as follow:

- (i) During December 2009 to May 2010, funds in an aggregate amount of HK\$372 million which was raised through sale of CN B by the Vendor under the Deed of Undertaking and Deed of Release will be held under the beneficiary account of UBFM escrowed by Knight Coldicutt from 24 May 2010 till 14 Jan 2011;
- (ii) On 23 August 2010, the Vendor/Warrantor has irrevocably undertaken that, if the OIO consent application made by Natural Dairy was failed, the amount of HK\$372 million raised from CN B will be used as full repayment of “financial assistance” amounting to HK\$314 million provided by the Company during 10 to 14 February 2010 to the Vendor.

Such “*Financial Assistance*” amounting to HK\$314 million was the proceeds raised by the Company through CN C, CN D and Option Bond in December 2009 and February 2010.

- (iii) As announced on 3 May 2011, upon the OIO declination, most of the sale proceeds from CN B were used by the Vendor/Warrantor as repayment to the “financial assistance” of HK\$314 million previously received. The financial assistance were then repaid in three tranches respectively on 19 January 2011, 23 March 2011 and 29 March 2011 in the amount of HK\$165 million, HK\$145 million and HK\$9.075 million delay in repayment was due to the delayed refund from New Zealand Tax Department of the pre-paid GST tax.

Listing Approval of CNC (Option Bonds) was released on 21 December 2009, with total amount of CNC HK\$951 million and total amount of Option Bonds HK\$49 million, total of HK\$1 billion.

- 5. Upon maturity on 30 June 2010, the Company must redeem CN D in cash of HK\$64,400,000 or convert them into shares

The CN D was issued by the Company to CCBIM on 4 December 2009.

This issuance of CN D was not part of VSA-1 Acquisition. It was issued under the general mandate of the Company for the usage of its working capital.

Pursuant to page 11 of the placing announcement dated 4 December and Clause of the CN D Terms & Conditions, redemption shall take place on 31 March 2010 (or to be postponed to 30 June 2010 as agreed). The Default Clause 9 also stated that repayment shall be made within 20 business days, otherwise it may end up with redemption in FULL amount.

- 6. 3% interest payment incurred on CN-C due in June 2010

Interest payable semi-annually (from late December 2009 to August 2010 and conversion on late August 2010 conversion into shares no more interest payments in arrears):

- i) For the period from 1 April 2009 to 31 May 2010: HK\$8.9 million
- ii) For the period from 1 June 2010 to 31 May 2010: HK\$15.8 million (accumulated)

HENCE, in August and September 2010, the Company has anticipated insufficient cashflow to pay the above-mentioned interest or full cash redeem upon their maturity, since the principal amount raised by the majority of the CN-C, the CN-D and Option Bonds had already depleted significantly by those placing fees, operating expense of Natural Dairy and professional legal fee.

According to the conversion condition of noteholders, noteholders who own these CN-C, CN-D are entitled unconditionally to convert into ordinary shares. The listing company is obligated to settle all Shares converting documentation without any delay within two days. Noteholders aforementioned have completed the procedures that converted into ordinary Shares from August 2010 to September 2010.

7. Regarding the fulfillment of the Condition Precedent (f) or Clause 4.2(vi) by the Vendor:

7.1 **On 10 February 2010**, the Sales Shares Acquisition was lawfully completed. Upon the completion, the Company becomes 20% shareholder of UBAH, and the Vendor remains as 80% shareholder pending on the Option Share Completion. Shortly after the 20% Completion, on 10-14 February both shareholders of UBAH (Natural Dairy and UBNZ) have consented to the injection of four dairy farms properties into UBAH; thus UBAH has commenced its Dairy Business. Such injection was based on the advice of Knight Coldicutt (legal representative of the Company in New Zealand) that the 4 farm properties acquisition will not violate the OIA. Such advice was also based on the discussion between the OIO officer and Knight Coldicutt, and between the Representative of the Vendor and the OIO senior officer prior to the settlement of the four farms. The OIO officer stated clearly that as long as purchase of Four Farms were the original transactions (the sale and purchase agreement were entered prior to the Principal Agreement signed on 22 May 2009), the OIO approval would not be required for the 20% acquisition and four farms acquisition.

7.2 As advised in Knight Coldicutt letter, the vendors of the farms being a professional receiver, the Mortgagees and the various lawyers involved were comfortable that OIO approval was also not required in these acquisition circumstances as they completed settlement at February 2010. Therefore, sale shares and the four farms transaction were conveyance properly with relevant law of New Zealand, in particular comply with OIA 2005.

From November 2009 to February 2010, as advised by Knight Coldicutt the then Directors were of the view that (i) the acquisition of Sale Shares does not require the approval from the OIO; and (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.

Furthermore, after the EGM on 2 October 2009, the Company has not obtained enough cash to proceed with the VSA-1 expeditiously. After discussing with their lawyers, parties involved decided to establish the Deed of Undertaking to proceed the VSA-1. And the announcement of such change was made clearly to the public and its shareholders through announcements dated 13 November 2009, 3 and 20 December 2009.

FROM 13 NOVEMBER 2009 TO 14 FEBRUARY 2010, the then Directors were of the view that:

- (i) the acquisition of Sale Shares does not require the approval from the OIO; and
- (ii) except for obtaining the listing approval from the Stock Exchange to deal in any Conversion Shares as announced on 13 November 2009;

Pursuant to the Deed of Undertaking, the transaction relating to 20% equity interest completed on 10 February 2010 the Vendor and the Company agreed on, four farms injected into UBAH engaged in dairy business.

Regarding the fulfillment of the Condition Precedent (f) or Clause 4.2(vi) of the Agreement, both purchaser and vendor have complied with when Sale Shares was completed, as at February 2010.

To conclude the statements declared in the announcement that ranges from Page 5 to Page 19:

Pursuant to the Circular dated 8 September 2009, Main Contract dated 22 May, announcement on Deed of Undertaking dated 13 November as well as the listing approval from the Stock Exchange for the legal completion of transaction of sale of 20% Sales Shares on 4 December 2009, NZDT, the Vendor/Warrantor, has completed the Agreement, Circular, Deed of Undertaking on 24 May 2010 according to the conditions of the aforesaid undertaking. Conditions Precedent of which, (g)4.2(vii) all the transactions in relation to the 22 farmlands of the Properties have been completed and has paid business tax of NZ\$24,529,136 for the farmlands in New Zealand to the Inland Revenue of New Zealand, completing the Deed of Undertaking dated 13 November. For the pledge of funding for acquisition of assets that the funding obtained together with other financial resources owned by or available to the Vendor have to be sufficient to settle the balance of the amount paid for the acquisition of assets. Therefore, the Vendor UTCL has fulfilled the remaining CN-A and CN-B on restrictive conversion into Ordinary Shares. Since the company is a corporation with foreign capital, it will become the landlord of the New Zealand farmland upon being the 100% controlling shareholder, therefore

the OIO consent is required. On the contrary, since the Vendor NZDT is a New Zealand local company, it is not necessary for a local company to obtain the OIO consent for any dairy farmlands acquisition. As a result, it is the Vendor who is obligated to assist the company for applying the OIO approval regarding the disposal of 80% equity interest to the Company due to foreigners owning farmlands required OIO consent rather than VSA-1 acquisition require any OIO approval.

Part IV Proceed the VSA-1 after the OIO Declination

1. The Clarification of partial content, which stated in the announcement on 2 February 2011 and the clarification announcement that pursuant to legal advice made to Board of Directors after the announcement was disclosed.

On 31 December 2010, the Company has announced the declination by OIO and it is considering to obtain legal advice and commercial alternatives have been considered before proceeding any alternatives.

As per the announcement on 2 February 2011, it stated on the last paragraph of page 2, and the first paragraph of page 3:

“.....the Company did not have to terminate the Agreement due to the cancellation by UBFM of the Farm Agreements. The Company is still considering its options and is negotiating the revision of the Agreement and therefore has extended the Long Stop Date (as defined in the 8 September Circular) under the Agreement to 30 September, 2011 (now extend to 30 September 2013). The Company will continue to seek and pursue dairy business opportunities in New Zealand either through the Target Company or other means.

Further announcement regarding further development in relation to the Agreement and other dairy business opportunities in New Zealand will be made as and when appropriate. The Company will convene an extraordinary general meeting to obtain the approval of the Shareholders before proceeding with completion of the aforesaid restructured transaction(s) if such restructured transaction(s) result in any material change to the transactions contemplated under the Agreement”.

Part V FURTHER CLARIFICATION AND UPDATE ON THE ANNOUNCEMENT DATED 2 FEBRUARY 2011 CONCERNING:

1. CLARIFICATION ON THE ANNOUNCEMENT DATED 2 February 2011

The company **HEREBY** wished to restate that despite the unexpected changes of OIA 2005 and the political turmoil in New Zealand, the Agreement dated 22 May 2009 (and the subsequent supplemental agreement signed before the EGM) offered the Company and the Vendor a contractual remedy and legal basis to proceed with the Acquisition of a new Dairy Business with a profit guarantee of NZ\$35 million.

As explicitly described in Parts I and II of this announcement, VSA-1 represents an opportunity to acquire the Target Company/Group in order to conduct a new Dairy Business, to access and secure fresh milk supply in New Zealand and setup direct selling outlets for sale of UHT milk and related dairy products in China and relevant regions.

Neither the Agreement nor the Circular has defined the Acquisition as an exclusive acquisition of Crafarm Group Business in 2009 or its 22 farmlands. The Schedule IV – Properties merely states the Crafarm entity the registered owner of 17 of the land, and is subjected to a discretionary Waiver not to purchase by the Company.

Although a substantial part of the properties described in the accompanying Schedule IV – Properties were sold to others, the VSA-1 could still be completed within the Dairy Business framework through the application of Waiver Clauses 4.3 & 4.4 and Remedy Clause 8. The framework comprises the replacement with other Target Assets in a manner that is satisfactory to the Company to achieve and optimise its return under the same Business Model defined in the Circular. The Vendor/Warrantor and the Company could proceed and complete the remaining Option Shares with a new Dairy Business to generate a profit of NZ\$35 million which underpin its success and sustainability.

Since 2 February 2011, the Company has been spending considerable efforts, costs and time to seek for professional legal opinions on such concerns set out in **PART V** before proceeding with the Acquisition. **Such** legal advice was not yet available as at 2 February 2011, i.e. two months after the first declination from OIO. Therefore, the Company issued a statement in relation to the convening of EGM, the possible termination of the VSA-1 and the possible recovery of any outstanding conversion shares and proceeds, if any.

2. **CONVENING A GENERAL MEETING IN RESPECT TO THE USE OF FUNDS RAISED BY CN C**

As per page 39 of the Circular regarding the placing of CN C, it stated:

“For the sole purpose of financing the cash portion of the Acquisition Consideration...The Proposed Fund Raising Exercise will be conditional on the fulfillment of Condition Precedent to the Acquisition.”

As per the Sun Hung Kai Investment (“SHKI”) Placing Announcement dated 4 December 2009, the end of the first paragraph on page 19 stated:

“net proceeds (after expense and fees) from the CN C Placing and the Subscription of Options of approximately HK\$899 million and HK\$46 million respectively are intended to be used to settle the Consideration of the Acquisition.”

As per page 18 of the SHKI Placing Announcement dated 4 December 2009, the Company stated:

“Reasons for the placing and use of proceeds

The Group is principally engaged in the provision of engineering systems contracting and supporting services and sale of related spare parts and consumables and trading of beverage and food related products. It is expected that the Company will invest in the Business of dairy products production through its investment in UBNZ Assets “(Target Company)”.

2.1 Fund Usage of CN C

Clause 2(D) headed “Funds Usage” of the SHKI Placing Agreement in relation to CN C stated:

“the Company undertakes to all placees of the Convertible Bonds that all subscription monies shall be applied solely for the purpose of the Acquisition (including but not limited to the redemption of the Convertible Notes to be issued for the Acquisition) and the general working capital of the Company and its subsidiaries.”

The Convertible Note (being CN C) subscribers **individually acknowledged, consented and agreed that their investments would be used as working capital of Natural Dairy to proceed with the VSA-1 in its entirety as set out in the Agreement**, instead of merely acquiring part of the Target Assets, “the 22 farmlands”, when they signed the SHKI Placing Agreement.

2.2 No Escrow Arrangement On the Proceeds from Placing of CN C

There was no “escrow arrangement” stipulated within the SHKI Placing Agreement for all proceeds to be non-expendable in a trust account, but a payable interest at an annual rate of 3% was incurred and shall be redeemed in 24 months at maturity. However, the placing fees, costs and interest shall immediately be charged from the principal of CN C at the moment of placement, leaving a shortfall during redemption at maturity.

2.3 Fund Usage of the Option Bonds (part of CN C)

The Option Bonds of HK\$49,000,000 in aggregate were designated to the CN D investor, CCBIAM. The Option Agreement was signed at the same time as the investment of CN D. As the Option Bonds were segregated from CN C, the terms of usage of the proceeds were same as those of CN C.

Such Option Bonds issued to CCBIAM were then sold to the Vendor/UTCL in April 2009. An amount of HK\$49 million was received by the Company in full prior to the issuance of the bonds.

2.4 CN C Investors Voluntarily Convert the Notes into Shares in Place of Cash Redemption

During the period from December 2009 to July 2010, the Company issued CN C and Option Bonds to public subscribers for an aggregate placing proceeds of HK\$891,000,000.

From August to early September 2010, the Company announced that most holders of the mentioned CN C and Option Bonds of HK\$891 million unanimously and voluntarily exercised the attached “Bond Conversion rights”. The Condition Precedent (g)(2) of one of the Target Assets – the Properties was not yet fulfilled by UBAH in its entirety.

HENCE, as the above conversion was voluntarily made by these CN C holders, the then Board considered it was not necessary to convene a general meeting to approve the use of proceeds as additional working capital.

2.5 Fund Usage of Convertible Note D (being CN D)

The CN D of HK\$64,400,000 was issued pursuant to the 2008 General Mandate granted by the then shareholders of Natural Dairy. The notes could be converted into 92,000,000 shares at a conversion price of HK\$0.70. According to page 12 of the Placing announcement dated 4 December 2009, it was

unrelated to VSA-1 special mandate in relation to the issuance of CN C and the said fund raising activity and usage of CN C. Under the General Mandate, the fund raised was usually utilized for the operating expenses of the Company.

As per page 11 of the announcement dated 4 December 2009 announcement, it stated if the proposed Target Assets were owned by the Target Group, all CN D must be converted into shares. It had not, however, mentioned the application for Waiver and the condition subsequent arrangement previously announced on 13 November 2009.

“Pursuant to CN C, Option Bonds and CN D in the Placing Agreement on 4 December. The summarization of the use of Proceeds is as follows:”

	Proceeds planned to be raised/used as stated in the Circular issued from the Listing Date to 31 May 2013 <i>HK\$' million</i>	Proceeds actually raised and used from the Listing Date to 31 May 2013 <i>HK\$' million</i>	Unutilised amount of the proceeds planned to be raised/used as stated in the Circular issued from the Listing Date to 31 May 2013 <i>HK\$' million</i>
CN C and Option Bonds	HK\$600 (approximately NZ\$100)	HK\$891	A credit of 109,000,000 shares of the remaining CN C.
	HK\$2400 (approximately NZ\$400)		
CN D Working Capital	HK\$64.4		
CASH consideration paid for:			
i) Sale Shares Acquisition; and		nil	
ii) Option Shares Acquisition		nil	
Audited Accounts in 2010		(a) Total:HK\$131.303	
Selling and distribution expenses		HK\$2.775	
General and administration expense (rents, staff, legal, professional New Zealand, operating costs)		HK\$128.528	
Audited Accounts in 2011		(b) Total:HK\$157.545	
Selling and distribution expenses			
- Advertisement at CCTV for brand building		HK\$85.868	

	Proceeds planned to be raised/used as stated in the Circular issued from the Listing Date to 31 May 2013 <i>HK\$' million</i>	Proceeds actually raised and used from the Listing Date to 31 May 2013 <i>HK\$' million</i>	Unutilised amount of the proceeds planned to be raised/used as stated in the Circular issued from the Listing Date to 31 May 2013 <i>HK\$' million</i>
General and administration expense (rents, staff, legal, professional Hong Kong and New Zealand, operating costs)		HK\$71.677	
- Expansion of specialty shops;		HK\$10.285	
- Establishment of Jiang Xi Guo Yuan factory		HK\$108.145	
Exchange (gain)		(HK\$86.671)	
Audited Accounts in 2012		(c) Total:HK\$311.585	
Selling and distribution expenses			
- Promotion campaign of UHT milk		HK\$95.952	
General and administration expense (rents, staff, legal, professional, operating costs):		HK\$215.633	
- write-off of specialty shop renovation;		HK\$29.710	
- rents from operating lease		HK\$23.126	
Exchange loss		HK\$12.192	
Manufacturing Agreement		HK\$360.595	
Deposit and prepayments of a normal supply contract date 1 April 2011 in relation to 250ml UHT milk			

In view of the aforementioned, such proceeds are employed by the Company on expense related to complete the VSA-1 and to commence production of dairy products in New Zealand and Jiangxi factory, together on specially shops establishment to direct sale dairy products in China.

Conclusion: Hence, as announced on 10 June 2011, in regard to the Announcement on 2 February 2011, the Company was of the view that it is not that necessary to convene a general meeting to modify that the proceeds from “Acquisition Consideration” to implicitly include “the working capital of the Company” so as to accomplish the acquisition of a dairy product business under the VSA-1.

Part VI: SUMMARY ON CN A & B PROCEEDS AND OUTSTANDING SHARES

TYPES	UTCL held CN A & B facial value (non-Cash item)	Existing Converted Shares held by the Vendor UTCL on the issued CN A & B (on 21 Dec 2009) and others, on the Sale Shares	All CN A & B issued to the Vendor that on-sold to Third Party through the 13 Nov 2009 arrangement
CN A	HK\$251,078,000	(a) 100,431,200 shares	(a*) 10,000,000 shares
CN B	HK\$180,155,998	(b) 90,077,999 shares Restraint by authority	186,000,000 shares
CCBIM Option Bonds sold to UTCL		(c) 49,000,000 shares Restraint by authority	
CN D sold to UTCL		(d) 92,000,000 shares Restraint by authority	
	Total	331,509,199 shares	
		(e) 7,552,000 share purchased and owned by UTCL or its associates Superworth (BVI) as noted in with Computershare	
	TOTAL	339,061,199 shares	
		<ul style="list-style-type: none"> • 110,431,200 shares escrowed since 7 September 2010 with Computershare confirmation • 228,629,999 shares available 	

footnotes The on-sold 10,000,000 CN depositary shares mentioned in (a*) was replenished by ordinary shares that was converted and derived from (b) – (e) sources owned by UTCL.

Part VII WHAT SPECIFIC LEGAL ADVICE THE DIRECTORS HAVE SOUGHT BEFORE PROCEEDING ON THE ACQUISITION, AFTER OIO DECLINATION

1. Rescission of the Agreement after OIO declination

After the declination by the OIO on 22 December 2010, the Board had considered various alternative plans including to terminate the 22 May 2009 Agreement on the ground of substantial breach of the Agreement by the Vendor of non-asset fulfillment on the Sale Shares acquisition on clause 4.2(vi) {Condition Precedent (f), the OIO first defeats} and clause 4.2 (vii)(a) to (e) {Condition Precedent (g)(1) to (5)}. The Company engaged a Hong Kong solicitor firm and worked together with an experienced barrister to review the Agreement and all supplemental agreement, other relevant documents such as the HKEX correspondence, the transaction thereunder and the acts have been done by the Company.

On 16 August 2011, these legal counsels have issued a legal advice report, based on incidental backgrounds, on advice sought states as: (stated as Point 2 – 22 in the report, point 23)

“the merit of any potential claim that Natural Diary may have against UTCL and/or UBFM pursuant to the Agreement, pursue on any Rescission of the Agreement for Breach of Clause 4.2(vi) or (vii) of the Agreement”.

Prior to offer their specific advice, the barrister has identified and acknowledged the following concerns:

- being satisfied the first OIO declination is final without any juridical review proceeding on; and
- noted the HKEX faxed enquiry as at 4 March 2011 has view that the Sale Shares acquisition is incomplete, on that, certain sale proceeds of certain conversion shares and the transaction may be liable to be reversed.

As noted in point 26 page 8 of these report, the legal team were inclined to agree with the Company that the Sale Shares was lawfully completed under the Agreement and is incapable to be reversed under Clause 4.2(vi) (“the OIO consent”) thereof, as the title of 20% issued capital of Target Company UBAH has validly vested with the Company.

Among others, the legal counsels have offered their specific advice based on grounds in below, but not limited to: **(point 30(c) of the report)**

- (i) The “Farm Agreement” in the Agreement thereunder only goes so far to say that the Company will own the “assets” purchased by UBFM under the “Farm Agreement” but does not define what sort of interests to those assets the Company will acquire. The Agreement has not specified what type of farmlands interest that the Company is to acquire from the Vendor (leasehold, freehold or any alternative arrangement to use).

The reference the definition of “*Properties*” in Schedule 2A of the Agreement also does not represent what sort of interests to those “Properties” the Company will acquire. The attached *Schedule 2A merely stated title identifiers, legal description, area, usage, mortgagee*; and

- (ii) The exercise of the right under Clause 4.2(vi) may also be subject to Clause 8 of the Agreement. Also noted, there is nowhere under the Agreement that any OIO application must succeed *at the first attempt*.

(point 31, 30(a) of the report)

- (iii) 20% equity transfer of Target Company was lawfully completed under the Agreement and is incapable to be reversed, (the transfer of 2,000 shares from UTCL to Natural Dairy per se was fully completed). There is no merit for Natural Dairy to claim rescission of Agreement for breach of Clause 4.2(vi) or (vii); and **(point 34 of the report)**

- (iv) According to the opinion dated 13 April 2011 from New Zealand Company lawyer Knight Coldicutt that they 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.

- (v) In any event, the legal counsels were of the view that there is a meritorious argument that a defeat of the OIO process does not render that transaction (Sale Shares) thereunder void or illegal. Since the Sale Shares was completed under the Condition Subsequent arrangement of purchaser.

(point 49e of the report)

- (vi) Clause 4.6 (Option Shares) of the Agreement only permits Natural Dairy with the right to terminate and rescind the Agreement.

(vii) However, the barrister noticed *Clause 8 of the Agreement* states:

“FULL FORCE AND EFFECT

Any aspect in this Agreement that has the effect of defeating the OIO process as contemplated herein shall be renegotiated in good faith to ensure compliance”.

(viii) In their view, 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.

Its specialty requires Clause 4.6 to be read and subject to it. Thus where a Transaction under the Agreement is in violation to the OIO’s process and result in a failure to fulfill a condition precedent, it is the duty of Natural Dairy to first engage in a good faith renegotiation with the Vendor to ensure compliance OIO process. **(point 40 of the report)**

(ix) The legal counsels has research on numerous equity cases to determine an agreement to negotiate is unenforceable by reason of uncertainty. In conclusion, there is meritorious argument that Clause 8 of Agreement is enforceable, as the Clause 8 subject matter is “*compliance*”. Next, the obligation to negotiate only arises in defeat of the OIO process. **(point 49 of the report)**

(x) Breach of Warranties by UTCL and UBFM have also been reviewed by these legal counsels and they have reservation on these claims, as the Transaction still subject to legitimate negotiation and the Vendor could satisfy before the Long Stop date. Most important breach of Warranties does not entitle Natural Dairy to rescind the Agreement as the cause of action only provides the claimant with damages as remedy. **(point 52 – 59, point 58 of the report)**

HENCE as shown on 16 August 2011, aforementioned point (i) – (x) were specifically extracted from partial significant legal regulation, perspective, substance of Legal Opinion, the barrister has concluded his finding based on investigation and has advised the Company that “pursuant to the 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.*” **(Point 41, 45 of the report)**

2. *Directors' Consideration to Convene an EGM*

On 2 February 2010 as announced at that moment, the Company was revising its options and was negotiating the revision of Agreement, as said in 1st paragraph on page 11 of this announcement that:

“The Company will convene a Shareholders’ meeting as soon as practicable to obtain Shareholders’ approval for the use of funds derived or raised from the CN-A, the CN-B, the CN-C, the CN-D and the Optional Bond, as set out above, as Shareholders’ approval is required

- (i) if any use of the said funds is for a purpose materially different from what the Shareholders have agreed to at the extraordinary general meeting held on 2 October, 2009 or*
- (ii) if the terms and conditions of the Agreement becomes materially different from what the Shareholders have approved at the extraordinary general meeting held on 2 October, 2009.*

It should be noted that if the Shareholders approval is not obtained in respect of such change in use of the said funds or the terms and conditions of the Agreement, then

- (a) the funds that have so far been used for purposes materially different from what the Shareholders have agreed to at the extraordinary general meeting held on 2 October, 2009 will need to be recouped, and there exists the risk that the Company may not be able to recoup or recover such funds in full or at all; and*
- (b) the Shares converted from the CN-A and the CN-B will need to be returned, redeemed and/or cancelled and the proceeds from sale of convertible notes or Shares derived from the CN-A and the CN-B will need to be refunded or returned to or adjusted with the Company, and there exists the risk that the Company may not be able to recoup or recover such funds in full or at all”.*

As disclosed in the recent announcements of the Company dated 8 June 2012, 28 December 2012, 3 January 2013, the status of the VSA 1 Acquisition is still within the Shareholders Mandate authorised in 2 October 2009 EGM, the Agreement, the Deed of Undertaking, Supplemental Agreements and announcements. As per 8 December 2011 legal advice, there is no need for the Company to convene an extraordinary general meeting to re-approve the VSA-1 Acquisition on the revised business model.

The Board considers that it is necessary to clarify the statement contained in the first paragraph on the page 11 of the announcement of the Company dated 2 February 2011 given that there is no need to convene an extraordinary general meeting, **which**

is consistent with the statement set out in the last paragraph on the page 2 and the first paragraph on the page 3 of same announcement dated 2 February 2011. As per legal advice on 8 December 2011. The Company is of the opinion that proceeding with the revised VSA 1 Acquisition is within the mandate authorised by the Shareholders on 2 October 2009 EGM, acting in the best interest of the Company and the Shareholders. As the Shareholders approved VSA 1 Acquisition objective is to Direct-Sale UHT milk and related dairy products to China. The concern of the Company is focusing on the Vendor/Warrantor could inject target assets (subject to aforesaid waivers or any other alternative arrangement) to the Target Company/Group for conducting dairy business to secure fresh milk supply in New Zealand for UHT milk processing so to setup selling points and direct sale in China. If the Vendor fails to achieve the profit guarantee of NZ\$35,000,000 within the twelve months upon completion of the option shares sale the consideration will downward adjust on 14 times of any shortfall amount. Any failure or incurred costs will not liable by the Company on this new dairy business establishment, a benefits to shareholders interest.

To conclude the contents on page 20 to page 32 of this announcement, the Board of Directors believe that there is no need to convene General Meeting of Shareholders to regrant fund usage purpose, which based upon that the company has specifically clarified the fund usage of CN-C and CN-D as well as Share Option and how to convert them into Ordinary Shares in the announcement on 2 February 2011.

Pursuant to the Agreement ,Circular and Legal Advise, CN-A and CN-B that has been issued shall be paid as transaction consideration, there is no any possibilities that proceeding with VSA-1 transaction could withdraw the shares of issued CN-A and CN-B before the transaction between two parties finished. Until now, the stock that has been issued were entrusted by the company solicitor for supervision. The Board of Director has accomplished the VSA-1 transaction Agreement that was authorized by General Meeting of Shareholders on 2 October, which was in accordance with company's interest.

(2) PROGRESS OF VSA-1 ACQUISITION PROCEEDING WITH 80% OPTION SHARES ACQUISITION AND THE SITUATION AFTER VSA-1 TRANSACTION HAS BEEN ACCOMPLISHED

Part VIII ACTING ON 2 OCTOBER 2009 EGM SHAREHOLDERS MANDATE AUTHORISES THE DIRECTORS TO PURSUE COMPLETION OF THE VSA-1 ACQUISITION (OPTION SHARES)

1. The Directors Authority Granted By the Shareholder to Complete the VSA-1

1.1 The authorities were granted by the shareholders

From Extraordinary General Meeting Held on 2 October 2009 and Notice of Extraordinary General Meeting (“EGM”) dated 8 September 2009 (page N-1 of the Circular), the proposed ordinary resolution (2) was disclosed below:

“That conditional upon passing of the ordinary resolution 1 set out above, the conditional agreement dated 22 May 2009.....in relation, among others, the acquisition (“Acquisition”) of 20% the entire issued capital in UBNZ Assets Holdings Limited (“Target Company”), the option to purchase 80% of the entire issued capital of the Target Company and the loan outstanding made by the Vendor to the Target Company, subject to the terms and conditions of the Agreement as set out in the Circular of the Company dated 08 September 2009 and all transaction contemplated thereby:

(including without limitation the issue of the Convertible Notes (as defined in the circular), the allotment and issue of the Conversion shares (as defined in the Circular) upon exercise of the conversion rights attaching to the Convertible notes;

and the allotment and issue of up to an aggregate of 1,000,000,000 shares in the Company pursuant to the Proposed Fund Raising Exercise) be and they are hereby approved;

And that the directors of the Company (“Directors”) are hereby authorized to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Agreement or the transactions contemplated thereunder and the amendments thereto (to the extent such amendments are not material in the context of the entire transaction as a whole)”.

1.2 Directors Acted on Authority Granted By the EGM Resolution

The above resolution was approved by (99.4%) Shareholders of the Company at the extraordinary general meeting (“EGM”) held on 2 October 2009, furthermore, shareholders have voted to change the Company name to “**Natural Dairy (NZ) holdings Limited**”, signifying the Company’s intention to diversify its business into dairy industry through VSA-1 acquisition on the Target Company UBAH and its subsidiaries. The Directors were authorized to act or make necessary decisions to complete the VSA-1 Acquisition.

Since VSA-1 debut in October 2009 has a political turmoil and uproar in New Zealand on foregoing during the Year 2009 to 2012. Under this authority and mandate, the Directors have acted out of expediency under the OIA 2005 changes on 27 September 2010, but not limited to other major circumstance and consideration shown below:

AS SHOWN in Part VII of the legal opinion dated 16 August 2011, before any other commercial alternatives were considered, the Company has sought specific legal advice consider to rescind the Agreement and the Sale shares acquisition.

1.3 Overwhelming Supports from Independent Shareholders to Diversify Into Dairy Business

Demonstrated by overwhelming (99.4%) approval passed by the EGM held on 2 October 2009, the Company’s shares trading price has moved promising from around:

HK\$0.30 (prior to VSA-1 Acquisition announced January to April 2009) to

HK\$0.80 (during VSA-1 announced June to September 2009) and later

CN C being subscribed at historical HK\$1.00 (December 2009 to January 2010).

The recognition of market trading share prices clearly underpinned the market investors and independent shareholders, supporting business shift from non-produce iron-ore mining (Year 2008) to beverage manufacturing and trading of dairy products in China, a well-known promising industry.

2. *Acting on the OIA 2005 Changes to restraint foreign buying on sensitive dairy farmlands*

The Directors have drawn on the EGM resolution 2 authorities to renegotiate with NZDT on how to proceed with the VSA-1 under the Target Assets framework of the Agreement achieving the China Dairy Business objective sought after by the investors.

On Company's absolute discretion applying the above-mentioned Waiver Clause 4.3 on condition precedent (g)(2) – "*Properties*" with NO cash payments including redemption, solely relied on Conversion rights of CN A & B, to achieve NZ\$35 million profit to exchange for the Target Company/Group shareholding and its dairy business in China and profit guarantee.

3. *No Cash Payments, Conversion Rights, OIA 2005 Compliance*

The Company share trading is long suspended. As there was no cash payment to complete VSA-1, all directors have unanimously consent to utilize the "*deferred payment method*" of CN A & B but restricted to attached shares conversion rights only. The reason being that the Company have no confidence to raise or amass or undertake such significant cash redemption of approximately HK\$2,000 million or more due in 7 and 10 years later. Hence issuing CN A & B may breach the Company Ordinance or foreseeable debts repayment (redemption) ability. Therefore, the then board was acting on the special mandate granted by the Shareholders on 2 October 2009, the directors consented to convert these remaining CN A & B into ordinary shares and waived these debts repayments liability, and have the shares in escrow prior to final completion of VSA-1 safeguarding the Company and shareholders interest as a whole.

On 11 November 2011, the Company lodged a plan to continues with VSA-1 acquisition (applying the waiver clause 4.3) to HKEX complying with OIA 2005 change criteria there will be no Farm Land Assets in New Zealand less than NZ\$100 million threshold, and have the rest of the Acquisition executed outside New Zealand since the market emphasis is in China. The NZ\$300 million valuation benchmark shall encompass other propose Target Assets, outside New Zealand. **Pursuant to the Agreement and the Circular, the aforementioned assets can be waived implied they are not critical substance of the Agreement.**

Most importantly, the Company emphasis on Target Group shall establish a direct-sale networking on dairy products business in China with a proven profit guarantee of NZ\$35 million to ensure its success and sustainability. Also all CN A, B converted shares must be held at "*escrow arrangement*" by the Company solicitor; until the acquisition and the profit guarantee NZ\$35 million was materialized.

Without any written response, the HKEX has advised the Company to seek professional legal advice or financial advisor to determine whether such revised “no farmlands ownership” VSA-1 acquisition falls within the 2 October 2010 EGM approved mandate, prior to proceeding on this revised proposal into contract signing stage. No lawyers or financial advisors were appointed to provide such suggestions to both parties.

4. ***Compliance with OIA 2005 in relation to revised VSA-1 acquisition conducted outside New Zealand***

The said “no farmlands ownership” VSA-1 Acquisition mentioned in this announcement complies with sections 12 and 13 of OIA 2005. As shown above, they were held by Target Company, UBAH invested in assets and consideration in New Zealand with amount less than NZ\$100,000,000 and the rest of VSA-1 transaction conducted by Target Group shall be executed outside New Zealand jurisdictions.

5. ***Hong Kong Second Legal Opinion on to Proceed on the VSA-1 Acquisition is within the Shareholders Mandate.***

During September 2011 to early December 2011, several Board meetings attended by all directors including INED, considering commercial constraint, on 23 and 28 November 2011 board meetings, the then directors have discussed about Company difficulties and how to proceed on the VSA-1 with “no farmlands ownership” includes the followings:

- considering the **Suspension Status** of the Company;
- **significant expenses incurred by the Company during financial Year 2009, 2010, 2011 related to the OIO applications and associated charged by these legal, financial advisor and all related professional services in both Hong Kong and New Zealand, which recorded as “General and administrative expense” in the Company audited annual reports amounted in aggregate to HK\$600.433 million (refer to page 25 of this announcement);**
- And CCTV advertisement on Year 2011 has cost the Company under “*Selling Distribution expense*” totalling HK\$85.868 million in financial Year 2011;
- Later on, there were written-off “*leasehold improvement*” of HK\$29.710 million recorded in Company audited annual report for Year 2012, under accounting note 16. Similarly the “*General and administrative expense*” incurred substantial expenses of HK\$215.633 million.

Before conclusion to above, the directors have further considered the relevant documents including the Agreement and Circular, and noted the importance of the following items:

- 20% of Option Shares transaction has been completed, no rescission on the Sale Shares acquisition as per advice;
- The Vendor has fulfilled all the major conditions (which do not subject to waive) and the conditions set out in the announcement relating to the Deed of Undertaking dated 13 November 2011 and pursuant to the Principal Agreement. The Vendor and company signed the related Agreement on 21 May 2010 and fulfilled it's obligation pursuant to the condition subsequent (g) on a contractual basis which was in compliance with the transaction conditions set out in the Circular. On 24 May 2010, the then chairman and vice chairman of the Company Yip Kean Mun, the legal adviser on New Zealand laws, Knight Coldicutt and UBFM, the Vendor, signed an irrevocable legal document in relation to Sale & Purchase of the farmland with the escrow arrangements for 100% Funds put in place and a GST tax amounting to approximately NZ\$24,529,136 paid to IRD New Zealand. The sole condition is that such farmland would be transferred to the Target Group unconditionally upon obtaining approval from OIO under the 80% option shares acquisition. Therefore, all of the items g(1) to (5) set out in the Circular to the Shareholders dated 2 October were completed. The remaining properties were acquired based on contractual terms to fulfill the Clause 4.2(vii). In July 2010, the Company's application was submitted to and accepted by OIO (with the assistance of the Vendor);
- Pursuant to the terms of transaction in the agreement, Vendor was entitled to convert the remaining CN-A & CN-B into ordinary Shares at that time, and Subsequently guarantee NZ\$35 million Profit.
- Obtaining an OIO consent is not an undertakings to be made by the purchaser or the Vendor pursuant to the Agreement but a conveyance procedure for transaction falls within **NEW ZEALAND** jurisdiction.
- **Waiver of Target Assets (g)(1) – (5)** being the five asset components fulfillment including (g)(2) the Properties, if necessary, could be waived by the Company on or before the Long Stop date (dates agreed by mutual parties).
- Considering, above-mentioned, *PART VII Hong Kong barrister specific legal advice* that “*the Agreement has not specified what type of properties interest that the Target Company is to acquire*”.

In view of the aforesaid and related legal opinions, the Company exercise the power granted to directors at the general meeting held on 2 October 2009 EGM to proceed with the VSA-1 Acquisition with its profit of NZ\$35,000,000.

6. ***The Management Agreement between Vendor and Flying Max Limited was one of the condition of the Agreement and circular. The new dairy business could be commenced to achieve the HK\$35 million profit upon completion of 20% acquisition.***

The Agreement of 22 May 2009. And it's Content approved by General Meeting of Shareholders on 2 October:

According to the Circular page 25 the Condition precedent (h) states “the Vendor and the Company having entered into the Shareholders Agreement of the Target Company, UBAH”, whereby further stipulated in the Agreement schedule 4A, such Shareholders Agreement includes a signing of a “management contract” by the UBAH/Vendor/Warrantor with any third party (such as Flying Max Limited) for to complete and conduct of the new dairy business.

Therefore, during the renegotiation with the Vendor acting on legal advice, the Vendor has informed the Company, Natural Dairy, the inclusion and signing of such “management Agreement” by the Vendor, new trustee NZDT with the Third Party, Flying Max Limited, to accomplish the Dairy Business retailing network building of dairy products in China.

In the meanwhile, pursuant to the approval of principle contract and Circular, the Vendor is incapable of relying on Clause 9 of the Agreement “SUCCESSORS AND ASSIGNS” *granted the Vendor rights to assign the benefits of any provision in the Agreement to any assigned party or its successors in title, without prior written consent of the Company*”.

The Company's directors consider factors as above-mentioned has consent to such assignment of benefits by the Vendor to the assignee Flying Max Limited, on the CN A & B issuance with debt repayment waived on immediate conversion, for the purpose to complete VSA-1 acquisition, since all the converted 776,219,029 shares were in escrow with the Company solicitor pending to VSA-1 final completion.

Conditions to use CNA & CNB as a consideration payment have no material difference with the Main Contract prescribed manner.

6.1 Board Meeting to Finalize the 2011 Supplemental Agreement

On the 1 December 2011 the Board has quorum, to execute and complete all the relevant 2011 Supplemental Agreement, which shall be the contract form of the proposed “no farmlands” VSA-1 Acquisition proposition submitted to HKEX on 11 November 2011 and revised in subsequent Board meetings.

All directors have resolved that **2011 Supplemental Agreement could be signed and executed after obtaining a written legal opinion from a Hong Kong competent law firm seeking specific advice as follows:**

“this 2011 Supplemental Agreement execution by directors is within the 2 October 2009 EGM mandate and would achieve the VSA-1 intention, or whether a new EGM have to be held to grant such authority”.

The Company shall engage a professional Hong Kong law firm to seek above specific advice, reviewing the Circular, all supplemental and the 22 May 2009, the OIO events and all incidental events.

6.2. Signing of the 2011 Supplemental Agreement

The mentioned 2011 Supplemental Agreement was then signed between the Company, Natural Dairy with the Vendor UTCL (ex-trustee), the Vendor, NZDT (new trustee) and the Warrantor UBFM and FML; as noted there was no annexed Management Agreement.

6.3. Company has consented to issue the remaining CN A & B

In page 35 & 37 of the circular stipulate the CN A & B terms and conditions:

The Vendor is entitled and permitted to nominate CN A & B to any person. But if such person is a connected person, the Company will notify the Stock Exchange.

On 14 December 2011, pursuant to this 2011 Supplemental Agreement, the Vendor, NZDT has requested the Company to issue the remaining CN-A & B which will remain in Hong Kong Company’s solicitor escrow, till Option Completion condition and materialize of the profit guarantee.

The Company has consented to the Vendor, NZDT request after considered:

- (i) the HKEX Listing conditional approval dated 4 December 2009, for permission to deal in 412,585,000 CN A conversion shares and 683,643,750 CN B conversion shares, which may be issued on exercise

of the conversion rights attached to the Convertible Notes in the manner described in the Circular and the Agreement the Company application (being the term and condition of the Convertible notes) and the announcement (13 November 2009 condition subsequent arrangement); and

- (ii) these remaining CN A & B issuance and its conversion are pursuant to the Agreement Remedy Clause 8 to salvage the OIO defeated situation, the renegotiation. Also, the VSA-1 Option share completion under 2011 Supplemental Agreement is in accordance to the mentioned valuation and profit benchmarks, with Waiver 4.3 applied on assets injection into the Target Company/Group; and
- (iii) the Company obtained specific legal advice on 8 December 2011, that 2011 Supplemental Agreement should have achieved the VSA-1 acquisition Objective, considering no cash considerations paid, is within the 2 October 2009 shareholders mandate;
- (iv) the Company shares has suspended from trading for long time, limited normal banking financing is available and the capital raising has been halted. The remaining CN A & B attached conversion rights are the ONLY alternative consideration available to complete Option shares. Further such conversion premium is advantageous to the shareholders and Company interest as a whole, as described in details in earlier page 38-39 of the Circular.

6.4 *Conversion to Shares & Escrow Arrangement*

On 16 December, 2011 and 31 December, 2011 the Board has resolved to consent the noteholders, FML to convert into ordinary shares of the Company. Also a further Board meeting on 16 December 2011 has resolved that to all issued remaining CN A & B converted shares to be escrow at the Company nominated Hong Kong solicitor firm, with release subject to the Company satisfaction and the solicitor consent to conveyance, on Option Shares completion with NZ\$300 million *valuation benchmark* adjustment, and NZ\$35 million *profit guarantee* verified, therefore safeguard the interests of the Company and shareholders as a whole.

As at the date of this announcement, certain proportion of CN-A and CN-B had been converted, details of which are set out below:

Date of exercise	Securities converted	Principal Amount Converted HK\$	Conversion Price HK\$	Number of Management Conversion Shares issued	Holder
16 Dec 2011	CN-A	872,454,545.00	2.50	348,981,818	FML
2 Jan 2012	CN-A	93,093,027.50	2.50	37,237,211	FML
2 Jan 2012	CN-B	300,000,000.00	2.00	<u>150,000,000</u>	FML
Sub-total				536,219,029	FML
2 Jan 2012	CN-B	480,000,000.00	2.00	<u>240,000,000</u>	Earn Cheer Limited
Total				<u><u>776,219,029</u></u>	

After such conversions, parts of the CN A amounted to HK\$112,874,430 and the CN-B amounted to HK\$463,344,000, both in the name of the Manager, FML remains outstanding.

CN-A & CN-B remain processed under the Agreement and the Circular, in exchange rate of HSBC Hong Kong on the closing day of transaction and respectively converted into shares in price of HK\$2.5 and HK\$2.0 per share.

As at the date of this announcement, the (i) the photocopy of outstanding CN A & B, and (ii) CN A & B Conversion Shares original certificates are held in escrow by the Company nominated Hong Kong solicitor. Most importantly, the Company considered such arrangement was made between NZDT and the Company, and NZDT with FML separately.

6.5 *Legal Opinion Whether 2011 Supplemental Agreement is Within the Shareholders Mandate*

Between 2 to 8 December 2011, as disclosed in legal opinion has identified and acknowledged:

- the Warrantor cancelled the 16 Crafarm farmlands Agreements on with the Receiver (“farm Agreement”) on 30 December 2010, so Natural Dairy cannot own those 16 farmlands.

Key terms of the 2011 Supplemental Agreement were shown as:

- *Noteholders shall consent to waive on all the CN A & B repayment liability (hence in effect leaving the attached conversion rights);*
- *Without “Properties interest”, the Fonterra shares were not included. Through the “partnering arrangement” to supply high quality fresh milk daily;*
- *The value of the Target asset’s located in New Zealand would be NZ\$99,000,000 in accordance to comply with OIA 2005 part II Section 13;*
- *Profits guarantee of NZ\$35 million was extended with a further 12 months grace period (if apply).*

This specific legal opinion from *Hong Kong law firm* in respect to the 2011 Supplemental Agreement was within the shareholders mandate granted on 2 October 2009 EGM. As per the issued legal opinion page 4 “分析” analysis states:

“the Circular has provided sufficient information to the shareholders, to assist them to comprehend the VSA-1 acquisition on making their decisive votes. The Circular has clearly emphasized the VSA-1 acquisition is on New Zealand dairy business as disclosed in page 45 and 46 of the Circular under “Reasons for entering into the Acquisition”. Under VSA-1 acquisition, the Target Assets includes: cattle, properties (farmlands), fixed assets. After OIO declination, the 2011 Supplemental has removed the “Properties interest”, however through “Partnering arrangement” of which providing the farming platform, the original VSA-1 business model has not undergone major changes.

Furthermore, the aggregate consideration of VSA-1 Acquisition has not increase. The Company CN A & B repayment liability were waived by the Vendor notes-holders, that would reduce the Company debts liability and improved the financial status of the Company”.

“Shareholder Resolution and Mandate

As clearly illustrated and presented as Resolution (2) on the VSA-1 Acquisition matters, and thereby authorized the directors to act on necessary, out of expediency to take effect of the acquisition to completion, there shall have no material changes. As per the 2 October 2009 EGM, the passed resolution authority shall remain in effective until the VSA-1 Completion, therefore the Company directors have fiduciary duties for best interests of the Company &

shareholders, to perform and execute to complete this Acquisition. The said 2011 Supplemental Agreement proposition (OIA 2005 Changes, OIO declination), still achieves the Acquisition Objective without any increase on the Acquisition cost.

The law firm views this 2011 Supplement Agreement executed by the directors was within the shareholder mandate authority, thus the directors consider no need to hold another EGM to rectify this Agreement and other actions.”

CONCLUSION a crucial condition of VSA-1 in Circular and the Agreement is NZ\$35 million profit guarantee and the Company is a dairy product manufacturer that mainly produces UHT milk, the Company Directors then proceeded with the Vendor, NZDT in respect of the VSA-1 based on above viewpoints and said Agreement acquisition Objective, which effectively waived the (g)(2) the Properties “*freehold property interest*”, and substituted by “*partnering contract*” with local New Zealand farmers, offering a milking platform for the cattle to supply fresh milk. There is no material change.

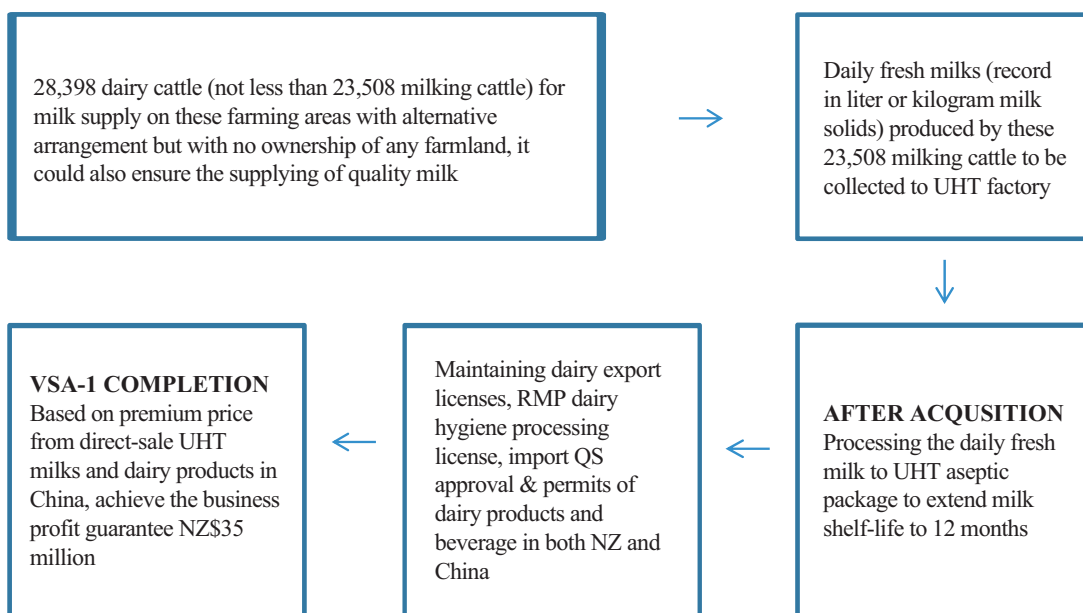
7. Option Shares Acquisition Proceeding Forward

According to both the Company and the Vendor NZDT, their underlying contractual intentions when signing this executed 2011 Supplemental Agreement, on or before 08 December 2011 was described below:

- (i) The disposal of the Four Farms of the Target Company as required by the OIO subsequent retrospective declination, refer to the mentioned OIO announced declination in Company recent resumption announcement made on 28 December 2012; and
- (ii) The 110,431,200 CN A depository shares registered under the Vendor ex-trustee UTCL name through a Transfer Stop notice arrangement with Computershare registry, that, on the commencement of the Option shares these depository shares will irrevocably undertake to transfer to FML or its nominated successor.
- (iii) The Target Company/Group will own a dairy business of dairy cattle breed and milk in New Zealand, without any sensitive farmlands ownership (excluding the Properties and Fonterra Shares), still access to ownership of the dairy cattle, plant, machinery, tools, equipment, vehicles and other chattels, but will own Goodwills, Stocks, Contracts. Upon completion of Option, the Target Company/Group shall offer a valuation report of NZ\$300 million subject to the consideration adjustment as disclosed, and shall deliver a 12 months profit guarantee of NZ\$35 million.

8. *The final overlook of the Completion of VSA-1 Acquisition*

As at the completion of the option shares acquisition of VSA-1(80% issued capital of UBAH), the Target group owns:



* “Long Stop date”, as defined on Page 5 in Circular, is “such other date as may be agreed by the parties in writing”, has been postponed to 30 September 2013.

9. After VSA-1 Acquisition completion Status

After the completion of the option shares of VSA-1(80% issued capital of UBAH) and its subsidiaries overseas, the Target group shall own:

The Target group companies outside New Zealand	The Target Company in New Zealand, UBAH
<p>Within China / Hong Kong / BVI incorporated companies forming the Target Group.</p> <p>100% ownership to transfer to Natural Dairy</p> <p>To own intangible assets as:</p> <ul style="list-style-type: none"> • License to use of Trademark New Cow “紐牛”, the dairy brand in China, Hong Kong and New Zealand and License to use of “e-sweet食惠” brand for 10 Years in New Zealand, Hong Kong and China. • To own over 5,000 direct selling outlets network to be established or already built or cultivation. 	<p>20% + 80% ownership to be transferred to Natural Dairy</p> <p>All tangible Assets < NZ\$100 million</p> <ul style="list-style-type: none"> • Milk supply contract from 28,398 cattle for two years till year 2016. • Three years UHT factory process rights to manufacture UHT milks and infant formula (under construction) • Over 20 dairy products formula plus dairy export license • The UHT milk must meet standard of protein content for both NZ and China.
<p>Final Completion</p> <p>1) At completion of Option shares, vendor shall deliver Target Group valuation of not less than NZ\$300 million based on the Direct-sale network, including the assets in New Zealand and China.</p> <p>2) The Vendor/NZDT and Warrantor shall deliver profit guarantee of NZ\$35 million within 12 months period after the Option share completion.</p>	

Existing assets of the Target Group (including Target Company UBAH and its subsidiaries in China/BVI):

- (i) Professional direct-sale, marketing and training team familiar with China market
- (ii) Direct-sale network over 5,000 direct selling points being established or on process of cultivation

- (iii) Over 20 dairy products formula with dairy license for food sales within PRC and their patented design of packaging. Possession of 3 sets of 9 types of Infant Milk Powder formula in total.
- (iv) Trademark registration of New Cow “紐牛”, the dairy brand in China, Hong Kong and New Zealand and past “e 食惠” brand and their “right of use” for 10 years in New Zealand, Hong Kong and China, as stipulated in agreement with Target Group subsidiaries in China/BVI.
- (v) A milk supply contract between UBAH and LCC (LCC Consultancy & Investment Limited) in relation to the milk supply of 28,398 cattle for 2 years and professional dairy farm managing team.
- (vi) Two Independent Contractor Agreements in relation to 3 years “right of use” of the New Zealand milk powder (to be entered into) and UHT Factory, from New Zealand Dairy Processing Limited which owned the Factory with a professional team of personnel to manufacture and process dairy products and UHT milks.
- (vii) The UHT farm milk shall meet standard of protein content of 3.2 units per 100ml.

A valuation report prepared by Grant Sherman Appraisal Ltd. (中證評估有限公司) dated 28 August 2013 that as at 31 May 2013, the recoverable amount of 20% of the business enterprises of UBAH is reasonably stated by the amount of HK\$395,961,000.

Existing techniques and formulas owned by the Target Group

- The ingredients of UHT Pure milk are ultra-heat treated farm milk with protein content of 3.2 units per 100ml.
- The ingredients of Chocolate flavored UHT milk are farm milk, sugar, flavor (chocolate), cocoa powder, malt extract, stabilizer and vitamins (A, D). The protein content of which is 3.1 units per 100ml.
- The ingredients of Blueberry flavored UHT milk are farm milk, sugar, flavor (blueberry), grape concentrate, stabilizer and vitamins (A, D). The protein content of which is 2.9 units per 100ml.
- The ingredients of Strawberry flavored UHT milk are farm milk, sugar, flavor (strawberry), color, stabilizer and vitamins (A, D). The protein content of which is 2.9 units per 100ml.

- The ingredients of Premium Infant Milk Powder are milk solids, protein concentrate, vegetable oil, minerals (calcium, zinc, sodium and magnesium), vitamins and taurine.
- Ownership of 3 sets Infant Milk Powder formula in total.

10. Business Model Showing Business Value's Component Retained Earnings After Tax

Retained Earnings after Tax stated in Business model "First Year Business Model" is summarized as:

The Target Group obtained the License to use, through an agreement with Flying Max Limited, on trademarks "New Cow" and "紐牛" in New Zealand and Hong Kong; and on trademarks "New Cow" and "紐牛" in China.

The Target Group obtains the rights of use of UHT milk and milk powder production and formulation from New Zealand Dairy Processing Limited.

Business network has been established and business contracts become effective between the Target Group and wholesale agents and direct sales outlets in territories of China. The quantity sold & produced are within production capacity of 50,000 liters daily and all days in production monthly. UHT sales will be spread into 50% pure milk, 30% chocolate flavored and 10% in strawberry flavored and 10% in blueberry flavored based on business model.

Business sales & marketing system and team are ready & to be grown in training and strategic stewardship in responds to customers' behavior and change and competitors' movement. Sales team of various executives involving a well performed leader will be directed to designated territories of China to spread business network and promote sales volume.

Consolidating the Current Dairy Business Structure and Business Goals

Now in considering the Company's shares trading halt and the China retail shops initial capital expenditures constraints, the Company directors have observed Companies (listed on HKSE) performance with two distinctive retailing models, being the stand-alone specialty shops model versus the selling points (or shop-in-shop) model, within China current competitive landscape. In review of the above description being disclosed in this announcement page 32 points (1) to (9) and page 36 point 10. The Board of Directors will proceed VSA-1 Option Shares completion without any farmlands ownership to be possess by Target Group and UBAH. As per

legal advice, such “without farmlands” completion is within the mandate of EGM by shareholder, in the best interest of the company and shareholders. The prescript Dairy business model in the Circular and the Agreement shall remain the same.

Below is a comparison table on the 2009 Circular versus the VSA-1 Completion Status (after OIA 2005 Changes) on:

08 SEPTEMBER 2009 Circular	VSA-1 Completed Status (after OIA 2005 Changes)
<p>VSA-1 Acquisition</p> <p>The Company is to acquire a New Dairy Business (owned by the Target Company and its subsidiaries) comprises of certain Target Assets {condition precedent g(1) to g(5)}, all so to conduct a dairy business that emphasis on securing a New Zealand fresh milk supply, process into UHT milk and dairy related products, then setup selling points and direct-sale of these dairy products in China, as the then directors believed could command premium margins.</p> <p>The Company has the right to choose which proposed Target assets <i>{condition precedent g(1) to g(5)}</i>, to be acquired or waived to optimize return and ring-fence risk.</p> <p><i>Disclose in page 46, 26 of the Circular</i></p>	<p>VSA-1 Acquisition</p> <p>The Company is to acquire a New Dairy Business (owned by the Target Company and its subsidiaries) comprises of certain Target Assets {condition precedent g(1) to g(5)}, all so to conduct a dairy business that emphasis on securing a New Zealand fresh milk supply, process into UHT milk and dairy related products, then setup selling points and direct-sale of these dairy products in China, as the then directors believed that it could command premium margins.</p>

Pricing of VSA-1 Consideration NZ\$500 million

On 4 December 2009 HKEX conditional granted listing approval for permission to deal in:
412,585,000 CN A conversion shares
683,643,750 CN B conversion shares

subjects to the Agreement, the circular and the announcement (13 November 2009).

On the VSA-1 final completion, *after the Option shares has completed and the proposed assets acquired*, the Consideration final adjustment is for the new Dairy Business to deliver a NZ\$35 million profit guarantee. The profit NZ\$35m shortfall will incur a 14 times cash refund, to be paid by the Warrantor to the Company, which equates to:

NZ\$35 million * 14 times = NZ\$490 million

In practise, a cash refund of nearly the whole VSA-1 consideration NZ\$500m will be refund to the Company to ring-fence the Company and shareholders interest as a whole.

For a non-cash payment method which comprise of:

CN A: NZ\$215 million (appro. HK\$1,031.46 million) convert at HK\$2.50 per shares into 412,585,000 shares

CN B: NZ\$285 million (appro. HK\$1,367.29 million) convert HK\$2.00 per shares into 683,643,750 shares

Total: NZ\$500 million which is the whole VSA-1 consideration

Pricing of VSA-1 Consideration NZ\$500 million

On 4 December 2009 HKEX conditional granted listing approval for permission to deal in:
412,585,000 CN A conversion shares
683,643,750 CN B conversion shares

subjects to the Agreement, the circular and the announcement (13 November 2009).

On the VSA-1 final completion, *after the Option shares has completed and the proposed assets acquired*, the Consideration final adjustment is for the new Dairy Business to deliver a NZ\$35 million profit guarantee. The profit NZ\$35m shortfall will incur a 14 times cash refund, to be paid by the Warrantor to the Company, which equates to:

NZ\$35 million * 14 times = NZ\$490 million

In practise, a cash refund of nearly the whole VSA-1 consideration NZ\$500m will be refund to the Company to ring-fence the Company and shareholders interest as a whole.

For a non-cash payment method which comprise of:

CN A: NZ\$215 million (appro. HK\$1,031.46 million) convert at HK\$2.50 per shares into 412,585,000 shares

CN B: NZ\$285 million (appro. HK\$1,367.29 million) convert HK\$2.00 per shares into 683,643,750 shares

Total: NZ\$500 million which is the whole VSA-1 consideration

<p>As shown, the VSA-1 Acquisition emphasis is on a new and successful Dairy Business. The proposed Consideration NZ\$500 million is not solely for 22 crafarm farmlands acquisition.</p> <p><i>Disclose in page 45, 18 of the Circular</i></p>	<p>As shown, the VSA-1 Acquisition emphasis is on a new and successful Dairy Business. The proposed Consideration NZ\$500 million is not solely for the 22 crafarm farmlands acquisition.</p> <p><i>Disclose in page 45, 18 of the Circular</i></p> <p>On 4 December 2009 HKEX conditional granted listing approval for permission to deal in: 412,585,000 CN A conversion shares 683,643,750 CN B conversion shares</p> <p>subjects to the Agreement, the circular and the announcement (13 November 2009).</p>
<p>On Option Shares Completion Date</p> <p>Consideration Adjustment Condition:</p> <p>Market Valuation of Target Assets (property & cattle) such as 22 Freehold farmlands and Cattles and chattels, not less than NZ\$300 million</p> <p>The proposed Properties is to serve as a “<i>dairy milking platform</i>” to milk these 28,398 cattle for the Target Group and to secure high quality milks supply in New Zealand.</p>	<p>On Option Shares Completion Date</p> <p>Consideration Adjustment Condition:</p> <p>Market Valuation of Target Group Business valuation includes such as 28,398 Cattles milk supply and chattels, not less than NZ\$300 million</p> <p>Due to OIA 2005 changes to upheld New Zealand national interest, the Target Group shall own “no farmlands interest”, utilize an alternative arrangements to secure quality fresh milk supply from 28,398 cattle.</p>
<p>VSA-1 Final Adjustment Condition</p> <p>The new Dairy Business success shall deliver a Profit Guarantee of NZ\$ 35 million for 12 months period from Option shares completion.</p> <p>Any Shortfall in dollar shall incur a 14 times of cash refund to Natural Dairy from the Warrantor.</p>	<p>VSA-1 Final Adjustment Condition</p> <p>The new Dairy Business success shall deliver a Profit Guarantee of NZ\$ 35 million for 12 months periods from Option shares completion.</p> <p>Any Shortfall \$ shall incur a 14 times incurred cash refund to Natural Dairy from the Warrantor.</p>

<p>VSA-1 Acquisition Premium is disclosed</p> <p>An excess premium of 33% over valuation NZ\$500 million – NZ\$300 million = NZ\$200 million</p> <p><i>“...the VSA-1 Consideration is on normal commercial terms, fair and reasonable and in the interest of the Shareholders and the Company as a whole”,</i> the then Directors have concluded that. The confidence relies on the non-cash payment method of the highly adventurous CN A & B conversion shares.</p> <p><i>(disclosed on page 22, 23 and 46 of the Circular)</i></p>	<p>VSA-1 Acquisition Premium is disclosed</p> <p>An excess premium of 33% over valuation NZ\$500 million – NZ\$300 million = NZ\$200 million</p>
<p>Cash Payment Method:</p> <p>If the Company possess cash shall made CASH payment, and shall on reasonable endeavors to raise banking facility to raise cash.</p> <p>Any residual Consideration could be substitute by CN A & B issuance.</p>	<p>Actual Cash Transaction</p> <p><i>Disclose in page 32 of the circular</i></p> <p><i>“Interim financial assistance”</i> that may be provided by the Company to the Warrantor and/or its shareholders so as to facilitate the transfer of the Business to the Company, after Sale Shares completion. Such “business” referred to the new dairy business to be setup by Vendor.</p> <p>No cash paid.</p> <p>Repayment of HK\$314.168 million financial assistance by the Vendor was noted in accounting note 24 page 98 of the Company audited report Year 2011, respective announcement made on 3 May 2011.</p>

CN A & B as Cash substitute consideration	Actual CN A & B Consideration in Execution
<p>Subjects to Vendor acceptance, the cash substitute of Convertible Notes A amounted to NZ\$215 million and CN B amounted to NZ\$285 million, as face value since</p> <ul style="list-style-type: none"> - Cash redemption due in 7 & 10 years later - No interest, unsecured <p>Conversion into Shares</p> <p>CN A carry a high premium of 268% on conversion price HK\$2.50 versus average 20 days shares trading price of around HK\$0.68 as at September 2009, the time when the Circular was published.</p> <p>CN B carry a high premium of 194% on conversion price HK\$2.00 versus average 20 days shares trading price of around HK\$0.68 as at September 2009, the time when the Circular was published.</p>	<p>Total 1,162,728,228 CN A & B conversion shares comprise of:</p> <p>Before OIO Declination <i>20% Sale Shares Consideration</i> On 22 December 2009, the Company issued CN-B 276,077,999 conversion shares to the Vendor.</p> <p>After OIO Declination <i>80% Option Sale Shares (on escrow)</i> On 22 December 2009, the Company issued CN-A 110,431,200 Conversion shares to the Vendor as deposit for the Option Shares sale. An escrowed deed was signed with Vendor to freeze the paid shares and informed computershare for non-transfer.</p>
<p>As stated in the latest audited financial report, the Company's net asset value per share ("NTA") was approximately HK\$0.29.</p> <p>As at May 2009, the propose VSA-1 Acquisition, if without cash Consideration, payment shall reply solely on conversion of CN A & B shares, which exhibits an extraordinary excess premium of 268% and 194% respectively, being highly advantageous to the Company and existing shareholders (year 2009) as a whole.</p> <p>The "<i>effects of dilutions on Natural dairy shareholding structure</i>" together with all terms and conditions of CN A & B were <i>disclosed on page 41- 42 of the Circular</i>, and approved by independent shareholders in the EGM 02 Oct 2009.</p>	<p>On 16 December 2011 and 03 January 2012, pursuant to clause 9 and clause 4.2(viii) of the Agreement, under the request of NZDT, CN A & B totalling 776,219,029 were issued, converted and registered under Flying Max (BVI) Ltd/EarnCheers (BVI) Ltd:</p> <ul style="list-style-type: none"> • 386,219,029 CN A conversion shares; • 390,000,000 CN B conversion shares <p>All these CN A facial debts of HK\$965 million and CN B facial debts of HK\$780 million were waived by Vendor and note-holders converted these CN A & B into ordinary shares.</p> <p>All these 776,219,029 shares certificates were held in escrow with the Company Hong Kong solicitor. The release is pending the VSA-1 final completion and the dairy business profit guarantee NZ\$35m.</p>

Conversion Shares value Assessment

On September 2009, CN A amounted to NZ\$215m was equivalent to HK\$1,031.46 million, at HK\$2.50 conversion price and converted into 412,585,000 CN A conversion shares. CN B amounted to NZ\$285m was equivalent to HK\$1,367.29 million, at HK\$2.00 conversion price, and converted into 683,643,750 CN B conversion shares.

The aggregate Consideration of CN A & B conversion was 1,096,228,750 conversion shares.

As at 30 September 2008, the net asset value per share (“NTA”) is approximately HK\$0.29.

In Year 2009, considering the only successful placement by the Company was a conversion warrants placement of HK\$0.30 per shares on 16 April 2009.

This VSA-1 Acquisition proposal, if without any raised cash and relies solely on CN conversion shares, the inherited cost could deem as 1,096,228,750 multiplied by HK\$0.30 which equal to **HK\$328,868,625** as at May 2009 period.

Circular

On 2 October 2009 EGM, Shareholders approved for increased share capital by creation of 3,000,000,000 new shares for:

- 1) Funds Raising – issuance of CN C (and option Bonds) with shareholders approved for allotments of 1,000,000,000 new shares; and
- 2) 2,000,000,000 new shares is reserved for shares dealt with CN A amounted to NZ\$215 million and CN B amounted to NZ\$285 million.

Shareholders approved resolution(2)

*“.....And that the directors of the Company (“**Directors**”) be and they are hereby authorized to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Agreement or the transactions contemplated thereunder and the amendments thereto (to the extent such amendments are not material in the context of the entire transaction as a whole)”.*

Practical Execution October – November 2009

- After 2 October 2009 EGM the Company has raised no funds from the CN C placement at HK\$1 per share and has no access to any significant banking credit line.

The last successful placement was on 16 April 2009 shares warrants issued at HK\$0.30 per share, as per announced.
- On early November 2009, both purchaser and Vendor and their legal representatives have visited and consulted with HKEX.
- On 13 November 2009, both parties signed and announced a Deed of Undertakings “Condition Subsequent” arrangements, so to enable CN A & B selling program undertook by the Vendor to raise funds at Vendor own costs to inject proposed assets.
- “Release Condition” of these CN A & B to noteholders: when all the raised monies are in place and to settle the proposed assets injection into Target UBAH on/before Long Stop date.
- On possession of the CN A & B certificates, investors were entitled to convert into shares since these notes enjoy no interest (the assets condition precedent has announced by the Company to become subsequent).

<ul style="list-style-type: none"> • On 10 February 2010, 20% transaction was complete • In the meanwhile, the Four Farms mentioned in the Circular were injected into the Target Group and started to conduct dairy business • On 15 April 2010, the Board of Director raised fund by releasing CN A and CN B to purchase the remaining farm assets 	<p>Practical Execution. Before OIO Declination</p> <ul style="list-style-type: none"> • On 7 June 2010, the VSA-1 Acquisition with OIO progress on dragging, as announced the Company has entered into an MU Agreement with the Warrantor for 150 million units of UHT milk order and infant formula later. • On 21 May 2010, the then chairman has signed an Deed of escrow on the net proceed raised from CNC, CND and option bonds. Vendor has secured irrevocable arrangement with the Crafarm/ receivers and others for the Target Assets- Properties and cattle to be inject into UBAH, pending for OIO approval. • On 24 May 2010, all the monies were in place confirmed by the Company solicitor, thus, “Release condition” CN A & B issued on 22 December 2009 were satisfied. • The announcement on 1 June 2010, 20% transaction was complete and the financing is available • The Purchaser made OIO application in respect of the remaining Assets of the Circular (Remaining Farm) in early July 2010
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<p>On/Before Long Stop Date</p> <ul style="list-style-type: none"> • Some condition precedents were subjects to waiver clause 4.3 Application on discretion of the Company to optimize return • waived on (g)(1), g(4) (g)(5) of the Circular so to discontinue with any past business of prior proprietors, to ring-fence risk. • Identified Target Assets as condition precedent g(2) – the Properties and g(3) – the cattle 28,398 cattle and chattels, to ring-fence risk and optimize return <p><i>Disclose in page 26 of the Circular</i></p>	<p>Practical Execution. After OIO Declination</p> <p>On/Before Long Stop Date</p> <ul style="list-style-type: none"> • Applied waiver Clause 4.3 to exempt the (g)(2) “22 freehold dairy farmlands”, after the OIA 2005 changes “sensitive farmlands” to be owned by foreigners forming vertical dairy Company, to upheld and protect national interest. • As advised by counsel, there is no breach on clause 4.2(vi) & 4.2(vii) therefore the Sale Share acquisition cannot be rescind. To apply Remedy Clause 8 and to continue the VSA-1 Acquisition with some revision to comply with OIA 2005 change.
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Proposed Target Assets in the Circular:	Proposed Target Assets To be in execution:
<p>Upon Sale Shares completion, the following will occur:</p>	<p>* Supplement by 7 September 2009 supplemental agreement and 13 November 2009 “condition subsequent” arrangement.</p>
<p>Condition Precedent (g):</p>	<p>Upon Option Completion, the following will occur:</p>
<p>(1) Goodwill (nil);</p>	<p>Condition Precedent (g):</p>
<p>(2) Properties -proposed 22 freehold farmlands interest listed on Appendix-IV;</p>	<p>(1) Goodwill – the use rights of Trademark “New Cow” and “紐牛” in China, Hong Kong and New Zealand;</p>
<p>(3) Fixed Assets – 28,398 dairy cattle and list of production chattels values more or less NZ\$4.54 million to produce fresh milk;</p>	<p>(2) Properties (nil);</p>
<p>(4) Stock (nil) ;</p>	<p>(3) Fixed Assets – 28,398 dairy cattle milk supply contract and list of production chattels to supply fresh milk;</p>
<p>(5) Contracts (nil)</p>	<p>(4) Stock (nil) ;</p>
<p>* supplement by 07 September 2009 supplemental agreement.</p>	<p>(5) Contracts –</p>
	<p>TWO factory contractor Agreements with license to use and to produce daily fresh milks into UHT milk units package and the production of infant formula.</p>
	<p>12 months after Option Shares Completion, which has established a new Dairy Business, the Vendor shall deliver:</p>
	<ul style="list-style-type: none"> • Dairy products order contracts
	<ul style="list-style-type: none"> • Not less than 5,000 dairy direct selling points in China
	<ul style="list-style-type: none"> • Professional retail and distribution trainer team to train and develop the Company marketing staffs
	<ul style="list-style-type: none"> • Qualified UHT factory operation team

Part X THREE CONDITIONS ON SHARES TRADING RESUMPTION

On 24 July 2011, the Company has announced the Three Resumption Conditions issued by HKEX on 8 July 2011. In this announcement, both Condition (2) and (3) and relevant works were completed such as Internal Control report completed by Zenith and audit disclaimer opinion were removed.

The Board of the Company have seriously pursue on Condition (1) – VSA-1 acquisition, in particular on matters mentioned in page 4 (last paragraph) starting from “*Our (HKEX) Concern*” on post OIO declination how the VSA-1 will be revised, recovery of considerations paid, and whether Sale Shares completion requires OIO consent.

Conclusion:

In conclusion of all above, complying with the 22 July 2011 announced three resumption conditions, announcements made on 28 December 2012, 3 January 2013 and this clarification announcement, the Company and the financial advisor were in the process to apply with HKEX for imminent resumption of its shares trading so as to restore the Company for normal operation and business reputation.

FINANCIAL ADVISOR

Similarly, later on 5 September 2011, the financial advisor of the Company has completed the *First Resumption Report* of the Group, confirmed the satisfaction on the nine condition precedents of the Sale Shares acquisition, put into consideration of the condition precedent arrangement.

On 28 March 2013, a second Resumption Report was completed by the financial advisor. *Second Resumption Report* of the Company, illustrated how to proceed on and complete of this VSA-1 Acquisition after the mentioned OIO defeat.

DEFINITIONS

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

“CN-A issued in 2009” means the Convertible Note A in an aggregate principal amount of HK\$276,078,000 issued by the Company to the Vendor, UTCL on 21 December 2009 as the Deposit, which maturity date is 20 December 2016 and conversion price is HK\$2.50 per Share;

“CN-B issued in 2009” means the Convertible Note B in an aggregate principal amount of HK\$552,155,999 issued by the Company to the Vendor, UTCL on 21 December 2009 as the Sale Shares Consideration, which maturity date is 20 December 2019 and conversion price is HK\$2.00 per Share;

“2011 Supplemental Agreement”	means the supplemental agreement dated 8 December 2011 entered into by the Parties;
“CN-A issued in 2011”	means the Convertible Note A in an aggregate principal amount of HK\$1,078,422,003 issued by the Company on 14 December 2011 as part of the Reward which maturity date is 13 December 2018 and conversion price is HK\$2.50 per Share. Other than the maturity date, the terms and conditions of the 2011 CN-A are the same as those of the 2009 CN-A;
“CN-B issued in 2011”	means the Convertible Note B in an aggregate principal amount of HK\$1,243,344,000 issued by the Company on 14 December 2011 as part of the Reward which maturity date is 13 December 2021 and conversion price is HK\$2.00 per Share. Other than the maturity date, the terms and conditions of the 2011 CN-B are the same as those of the 2009 CN-B;
“Acquisition”	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;
“Agreement”	means the sale and purchase agreement dated 22 May 2009 entered into among the Company, the Vendor, NZDT and the Warrantor in respect of the Acquisition (as amended by the supplemental agreements thereto);
“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 Acquisition;
“Company”	means Natural Dairy (NZ) Holdings Limited, a company incorporated in Cayman Islands with limited liability, which Shares are listed on the Stock Exchange;
“Computershare”	means Computershare Hong Kong Investor Services Limited, the Company’s branch share registrar in Hong Kong;

- “Convertible Note A” means the zero coupon convertible notes in the aggregate amount of not more than the HK\$ equivalent of NZ\$215 million (equivalent to approximate HK\$1330 million) that may be issued by the Company in favor of the Vendor, NZDT 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 the HK\$ equivalent of NZ\$285 million (equivalent to approximate HK\$1767 million) that may be issued by the Company in favor of the Vendor, NZDT 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;
- “Condition Precedent (g)” stated in page 25 of the Circular and means the clause 4.2(vii) of the Agreement, said that, Sale Shares Completion is condition upon all the property, assets and right (*being Goodwill, Properties, Fixed Assets, stocks and contracts*), so called the “**components**”, which for use in the conduct of the business, including but without limitation to, the Properties and Fixed Assets shall be owned by the Target Group on or before the Sale Shares Completion date (“**Asset Acquisition**”) or the Long Stop Date; which is subject to waiver clause 4.3 on the Company absolute discretion.
- And the Company use this waiver in time to time, as stated in the Company announcement 07 September 2009 page 7, and said in page 26 & 27 the Circular, three Components of Condition precedent (g) is waived, leaving the properties and Fixed assets remains represented by condition precedent (g) in the Circular;
- “Condition Precedent (f)” stated in page 24 of the Circular and means clause 4.2(vi) of the Agreement said that, Sale Shares Completion is condition upon, all necessary consents, approvals and authorizations having been obtained from any other third parties and all relevant authorities in New Zealand, Hong Kong and in any other applicable jurisdictions in connections with the transfer of the Sale Shares and other transactions contemplated thereunder and the implementation of the transactions contemplated thereunder; as noted this clause in non-waived by the Company pursuant to the waiver clause 4.3 of the Agreement;
- “Director(s)” mean directors of the Company;

“EGM”	means the Shareholders’ meeting held on 2 October 2009 convened to consider, among other things, the Agreement, the Acquisition and all other transactions contemplated thereunder;
“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 (the “Fixed Assets”);and as set out in the Circular page 20 to 27, represents a Livestock of cattle size <u>28,398</u> includes milking cows of 23,508. And the production machinery list of equivalent value to NZ\$4.64 million.
“Four Farms”	means the four dairy properties interest as set out in the Circular Appendix IV-“Property interests to be acquired by the Company”, page IV-6 to IV-10, being identified as itemized as farm(7), farm(17), farm(20) & farm(21);
“Group”	means the Company, Natural Dairy (NZ) Holdings Limited and its subsidiaries, from time to time;
“HK Legal Opinion”	means the legal opinion dated 8 December 2011 obtained by the Company from a Hong Kong legal advisor, prior to the entering into of the 2011 Supplemental Agreement (the “executed 2011 Supplemental Agreement”) by the Company;
“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;
“Long Stop Date, LSD”	means a specified dated stipulated within the Agreement, or such other date may be agreed by the parties in writing;
“Aggregate market value of the properties”	means the aggregate on valuation reports made by Logan Stone Ltd, Hutchins & Dick Limited, Reid & Reynolds Ltd, regarding to the dairy properties in New Zealand as set out in the <i>Circular Appendix IV</i> , with latest valuation value as at 19 June 2009 is NZ\$206 million;
“NZDT”	means NZ Dairy Trustee Limited, a company incorporated in New Zealand with Limited liability and the trustee of the UBNZ Trust, replacing the UTCL trustee appointment as announced by the Company;

“OIO”	means the Overseas Investment Office of New Zealand;
“Option”	means the option to acquire the Option Shares, granted by the Vendor, NZDT to the Company under the Agreement and subsequent supplemental agreements (prior to the 2011 supplemental agreements);
“Option Shares”	means the 8,000 shares of the Target Company, representing 80% of the entire issued share capital of the Target Company (including the Target Group);
“Option Shares Completion”	means completion of the sale and purchase of the Option Share pursuant to the original terms of the Agreement and subsequent supplemental agreements (prior to amendment by the 2011 Supplemental Agreement);
“Option Shares Consideration”	means the transfer of the consideration for the Option Shares, being HK\$ equivalent of NZ\$400 million (subject to adjustments) under the Agreement (prior to amendment by the 2011 Supplemental Agreement);
“Parties”	means the Company, the Vendor, NZDT, the Warrantor, the Manager, Flying Max Limited (“FML”) and the Target Company (including the Target Group);
“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”	as set out in page 25 Circular, means the landed properties for the production of dairy products, the operation of dairy heifers and bull razing 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 (the “ Properties ”);

“Remedy Clause 8”	means clause 8 of the Agreement that all provision of the Agreement shall, so far as they are capable of being performed or observed and all warranties and indemnities and other undertakings contained in or entered into pursuant to this Agreement shall remain in full force and effect notwithstanding Sale Shares Completion or Option Shares Completion. Anything in this Agreement that has the effect of defeating the Overseas Investment Office process as contemplated herein shall be renegotiated in good faith to ensure compliance;
“Resumption Condition(s)”	means the condition(s) imposed by the Stock Exchange 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;
“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 notes 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 Company;
“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;
“Sale Shares”	means the 2,000 shares of the Target Company, representing 20% of the entire issued share capital of the Target Company (including Target Group);
“Sale Shares Completion”	means the completion of the sale and purchase of the Sale Shares pursuant to the Agreement;

“Sale Shares Consideration”	means the consideration for the sale and purchase of the Sale Shares and the Sale Debt, being HK\$ 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 (“HKEX”);
“Stop Transfer Notice”	means the notice given by the Company to Computershare, from time to time, requesting Computershare to stop any transfer of certain Shares;
“Target Company/UBAH”	means UBNZ Assets Holdings Limited (“UBAH”), 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 as at 23 December 2010;
“UHT Milk”	means ultra-heat treated dairy fresh raw milk;
“Vendor, UTCL”	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”	means very substantial acquisition;
“VSA-1”	means “very substantial acquisition” – 1, 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 (“UBFM”), a company incorporated in New Zealand with limited liability and legally and beneficially owned by NZDT in its capacity as trustee of UBNZ Trust;

“Waiver Clause”	means clause 4.3 of the Agreement that the Company at its absolute discretion by in writing to the Vendor, NZDT to <u>waive any of the condition precedent set out in clause 4.2 (except clause 4.2(iii), (iv), (vi), (viii) and (ix) which cannot be waived, either in whole or in part)</u> of the Agreement dated 22 May 2009;
“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, 9 September 2013

As at the date of this announcement, the Board comprises four executive Directors, being Mr. Wu Nengkun (Chairman), Mr. Yao Haisheng, Mr. Zhang Hanwen and Ms. Houwen TAN and three independent non-executive Directors, being Ms. Chan Man Kuen Laura, Mr. Zhang Jianhong and Mr. Wong Wang Tai.