



“Leopards do not change their spots”

–African Proverb

THIS RESEARCH REPORT EXPRESSES SOLELY OUR OPINIONS. We are short sellers. We are biased. So are long investors. So is Ausnutria. So are the banks that raised money for the Company. If you are invested (either long or short) in Ausnutria, so are you. Just because we are biased does not mean that we are wrong. Use BOC Texas, LLC’s research opinions at your own risk. This report and its contents are not intended to be and do not constitute or contain any financial product advice. Because this document has been prepared without consideration of any specific clients’ investment objectives, financial situation or needs, and no information in this report should be construed as recommending or suggesting an investment strategy. Investors should seek their own financial, legal and tax advice in respect of any decision regarding any securities discussed herein. You should do your own research and due diligence before making any investment decisions, including with respect to the securities discussed herein. We have a short interest in Ausnutria’s stock and therefore stand to realize significant gains in the event that the price of such instrument declines. Please refer to our full disclaimer located on the last page of this report.

COMPANY: Ausnutria Dairy Corp Ltd | HK: 1717
INDUSTRY: Infant Milk Formula

PRICE (AS OF CLOSE
8/14/19)
HKD 12.18

MARKET CAP
HKD 20 BILLION

30 DAY AVG
VOLUME
4 MM SHARES

BLUE ORCA
VALUATION
HKD 5.78

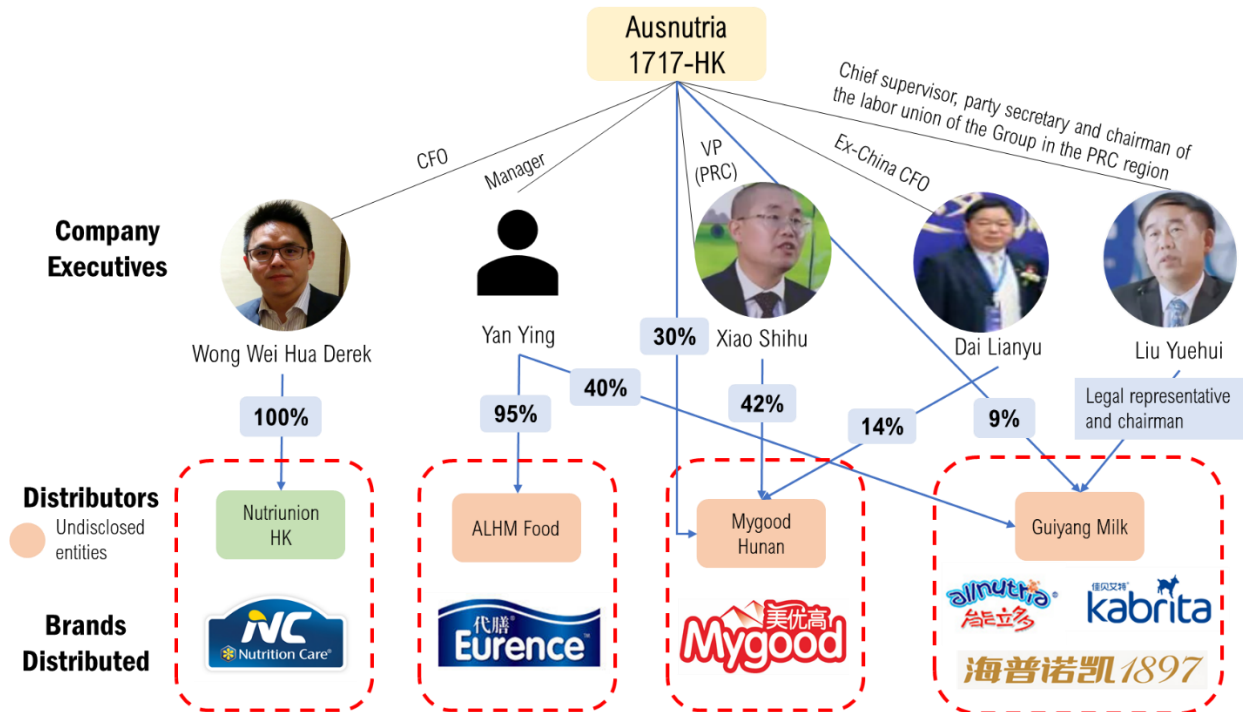
Ausnutria Dairy Corp Ltd (HK: 1717) (“Ausnutria” or the “Company”) claims to be a fast-growing, vertically integrated infant milk formula producer. Ausnutria’s core business is importing infant milk formula from Company-owned production facilities or third-party suppliers in Europe, Australia and New Zealand for sale in China.

Ausnutria’s history is plagued by scandal. Until August 2014, trading of Ausnutria’s shares were suspended for **2 years and 4 months (858 days)** after whistleblower allegations by its auditor (E&Y). A subsequent investigation revealed that Ausnutria was fabricating sales and that certain officers tried to cover it up by doctoring the Company’s books and records. Although the CEO resigned and took the fall, many of the executives at or near the epicenter of the fraud remain in key positions at the Company.

Today, we think the Company is at it again. Our extensive investigation indicates, in our opinion, that the Company inflates revenues, hides costs, misleads Chinese consumers and secretly enriches executives through undisclosed related party transactions. Accordingly, we apply a 25% governance discount to its P/E multiple, which we think is conservative considering that, in our opinion, Ausnutria is a governance nightmare whose financials should not be relied upon. After adjusting its revenue to reflect the independent evidence, we value Ausnutria at HKD 5.78 per share, a 53% downside from its last traded price. Ultimately, we view Ausnutria as simply uninvestable.

- 1. Customs Data Indicates Infant Milk Formula Sales in the PRC Overstated by 52%.** All of the infant milk products sold by the Company in China are imported from Company-owned factories or third-party suppliers in Europe, New Zealand and Australia. However, publicly available customs records indicate that Ausnutria is importing far less infant milk formula than the Company claims, indicating in our opinion, that Ausnutria is overstating both its revenues and profits. For the two-year period from 2016-2017, we calculate that based on the value of imports reported by the Company’s import agents, **Ausnutria overstated its sales of infant milk formula in the PRC by 52%.**
- 2. Understating Labor Costs.** Ausnutria reported RMB 484 million in wages, salaries, pensions and labor related costs in 2017. Most of the Company’s infant milk formula is produced in the Netherlands, by Company-owned factories organized under its Dutch subsidiary Ausnutria B.V. In its Dutch regulatory filings, Ausnutria B.V. reported 1,225 full time employees in 2017, 40% of the total full time employees (3,092) reported by the Company that year. However, Ausnutria B.V. also reported in its Dutch regulatory filings that it incurred salary expenses, pension costs and labor related costs of RMB 454 million (€59.5 million) in 2017. This means that even though Ausnutria B.V. (and its Dutch subsidiaries) accounted for only 40% of the Company’s total employees, they accounted for 94-96% of the total consolidated wages, salaries and pension costs reported by the Company that year. It is implausible that the remaining 60% of the Company’s employees are working for free. Rather, Dutch regulatory filings suggest that the Company is likely understating its labor and staffing costs and that Ausnutria is substantially less profitable than it claims.

- a. **2018 Court Cases Indicate Labor Costs Hidden Off the Books.** In two court cases adjudicated in November 2018, plaintiffs sued an Ausnutria distributor for unpaid wages. The distributor argued that even though the sales representatives were technically on its payroll, it didn't owe back wages because they were effectively employees of Ausnutria. Initially, the court agreed, finding that the sales representatives should be considered Ausnutria employees because they were recruited, hired, paid and managed by Ausnutria. Although isolated instances, the cases suggest that Ausnutria could be hiding employees (and related costs) off balance sheet by paying employees through distributors. Taken together with evidence from Dutch regulatory filings, such revelations support our opinion that Ausnutria's costs are far higher and its business is far less profitable than it reports to investors.
3. **Misleading Chinese Consumers.** Kabrita infant goat milk formula is one of Ausnutria's flagship brands, accounting for 38% of the Company's revenues in 2018. Although Kabrita is careful with its disclosures and advertising to customers in Europe and America, we believe there is ample evidence to question whether it is misleading Chinese consumers. Articles posted on Kabrita's Chinese website advertise its goat milk formula as an alternative for babies who are lactose intolerant or who are allergic to cow milk protein. By contrast, on Kabrita's American and European websites, the Company clearly warns parents that **lactose intolerant babies or babies allergic to cow milk should NOT be given Kabrita goat milk formula.** Moreover, Kabrita falsely claims in its leading Chinese e-commerce stores that the lactose in its goat milk infant formula comes from goats, when the Company admits in European and American markets that **the lactose in its goat milk infant formula comes from cows.** We believe that the Company's misleading disclosures risk consumer backlash in China.
4. **Nutriunion: Sham Transactions and Siphoned Subsidiaries.** Ausnutria's Nutrition Care branded products are marketed and distributed in the PRC primarily by Nutriunion (Hong Kong) Company Limited ("**Nutriunion HK**"). The Company claimed that it owned 60% of Nutriunion HK and has been consolidating the results of this purported subsidiary since 2016. In July 2019, the Company claimed to acquire the remaining 40% of Nutriunion HK from Company executives for RMB 236 million (satisfied mostly through shares). However, Hong Kong corporate registry filings clearly state that as of both May 23, 2018, and May 23, 2019, **Nutriunion HK was owned not by the Company but 100% by Wong Wei Hua Derek, the Company's CFO.** Not only do such records suggest that the Company lied about its ownership rights to this entity but also indicates that the buyout of minority interest holders in July 2019 was illegitimate because such executives did not actually own any shares of Nutriunion HK. In our view, this suggests that the buyout was merely a sham transaction to unjustly enrich insiders, and that management has kept the entity for its own benefit.
5. **Corporate Scandal and a Pattern of Undisclosed Related Party Distributors.** Ausnutria has a rich history of corporate scandal. Until August 2014, trading of Ausnutria's shares were **suspended** for **2 years and 4 months (858 days)** after whistleblower allegations by its auditor (E&Y). The subsequent investigation revealed that Ausnutria was fabricating sales and that certain officers tried to cover it up by doctoring the Company's books and records. Although the CEO took the fall, many of the executives at or near the epicenter of the fraud remain in key positions at the Company. Incredibly, we have found evidence that despite the scandal, Ausnutria continues to engage in undisclosed related party transactions with distributors secretly controlled by Company executives, including at least one former executive who was previously caught defrauding shareholders.



- a. **Mygood: Disgraced Former CFO Secretly Connected to Undisclosed Related Party Distributor.** In its limited investigation, PwC found that the ex-CFO of key subsidiary Ausuntria Dairy China Co., Ltd (“Ausuntria China”) fabricated or directed subordinates to fabricate records in order to mislead the auditor and investors. In the Company’s last annual report before the suspension, filed in April 2011, Ausuntria identified Mr. Dai Lianyu as the CFO of Ausuntria China. His conduct should have disqualified him from ever dealing with the public Company again. Yet Chinese corporate records indicate that Dai Lianyu, together with a current Ausuntria executive, own a controlling equity stake in an undisclosed entity, Mygood Dairy (Hunan) Co. (美优高乳业(湖南)有限公司) (“Mygood Hunan”), which claims to be the primary marketing and distributing entity for Ausuntria’s Mygood brand. In our view, this is compelling evidence that the Company is engaging in inappropriate transactions with undisclosed related party distributors. The involvement of the disgraced ex-CFO of Ausuntria China, allegedly integral to its previous fraud and tied directly to the scandal, only makes such transactions more egregious.
- b. **ALHM Foods: Another Undisclosed Related Party Distributor.** In a recent announcement, the Company referred to Hunan Aolian Hemei Foods Co. Ltd (湖南澳联和美食品有限公司) (“ALHM Foods”), one of the primary distributors for the Company’s Eurence branded products, as an independent third party. Yet evidence suggests it is another undisclosed related party distributor. ALHM Foods is 95% owned by a Company executive, its registered email address uses an @ausnutria.com handle, and it claims to be a Company subsidiary on multiple websites. Such transactions create the material risk that the Company is using captured distributors to fake sales (again) or that executives are secretly enriching themselves at the expense of shareholders (again).
- c. **Another Undisclosed Related Party Distributor: Guiyang Milk.** Ausuntria never discloses its 9% equity interest in, or transactions with Guiyang Milk Supply Co. (贵阳市奶品供应有限公司) (“Guiyang Milk”), a distributor of Ausuntria-branded milk powder products including Kabrita, Hyproca and Allnutria. Corporate records indicate that Guiyang Milk is majority owned by ALHM Foods, the undisclosed related party owned by an Ausuntria executive. Corporate records also show that Company executive Liu Yuehui is the current legal representative and chairman of Guiyang Milk. This is yet another example of transactions with an undisclosed distributor owned by (and apparently managed by) Company executives. Such transactions create the material risk that the Company is using captured distributors to fake sales (again) or that executives are secretly enriching themselves at the expense of shareholders (again).

VALUATION

We believe, based on the evidence presented in this report, that Ausnutria is overstating its revenues and understating its costs. Chinese customs data indicates that the Company is not importing nearly enough milk formula (by volume or value) for its sales to be true. For the two-year period from 2016-2017, we estimate that based on the value of imports reported by the Company's import agents, Ausnutria overstated its sales of infant milk formula by 52%. Based on such independent evidence, we think it is reasonable to value the Company by downwardly adjusting its reported and forecast revenue from infant milk formula in the PRC by this percentage.

Ausnutria is currently trading at 30x 1H19 LTM earnings, a high growth multiple befitting only companies with the highest governance standards. However, our extensive investigation suggests, in our opinion, that the Company inflates revenues, hides costs, misleads Chinese consumers and unjustly enriches executives with secret interests in its distributors. Accordingly, we apply a 25% governance discount on its P/E multiple, which we think is conservative considering that, in our opinion, the Company is a governance nightmare and its financials should not be relied upon.

HKD	LTM 1H 19	2019E	2020E
Net profit (RMB M)	563	707	1,203
EX Rate	1.1492	1.1100	1.1100
Net profit (HKD M)	646	785	1,335
# of shares outstanding (million)	1,608	1,608	1,608
EPS (HKD)	0.40	0.49	0.83
Last traded price (HKD)	12.18	12.18	12.18
P/E multiple	30.3 x	25.0 x	14.7 x
Corporate Governance Discount	25%	25%	25%
Adjusted P/E Multiple	22.7 x	18.7 x	11.0 x

Source: CCB International Estimates, Blue Orca Calculation

We then apply consensus profit before tax margin forecasts to our adjusted revenue forecast and adjusted P/E multiple to reach our valuation.

RMB M	LTM 1H 19	2019E	2020E
Infant formula revenue in the PRC	4,784	5,466	7,004
Custom data suggested revenue overstatement	-52%	-52%	-52%
Adjusted infant formula revenue in the PRC	2,319	2,649	3,395
Other segment revenues	1,171	1,342	1,567
Adjusted total revenue	3,489	3,991	4,962
Profit before tax margin	12.7%	13%	17%
Adjusted profit before tax	445	538	839
Effective tax rate	20%	20%	20%
Adjusted net profit	356	430	671
# of shares outstanding (million)	1,608	1,608	1,608
Adjusted EPS (RMB)	0.22	0.27	0.42
EX Rate	1.1492	1.1100	1.1100
Adjusted EPS (HKD)	0.25	0.30	0.46
Adjusted P/E multiple	22.7 x	18.7 x	11.0 x
Blue Orca valuation	5.78	5.56	5.10
Last traded price (HKD)	12.18	12.18	12.18
Downside %	-53%	-54%	-58%

Source: CCB International Estimates, FactSet, Blue Orca Calculation

After adjusting its revenue to reflect the independent data discussed in our report, we value Ausnutria at HKD 5.78 per share, a 53% downside from its last traded price. We consider this valuation to be very conservative, as it still gives a 23x P/E multiple to a Company whose history is tarnished by fraud and scandal, whose executives engage in brazen undisclosed related party transactions, and whose financials, in our opinion, cannot be relied upon. Ultimately, we think Ausnutria is simply uninvestable.

CUSTOMS DATA INDICATES PRC INFANT MILK FORMULA SALES OVERSTATED BY 52%

All of the infant formula products sold by the Company in China are imported from Company-owned factories or third-party suppliers in the Netherlands, France, New Zealand and Australia. However, government research papers and other publicly available customs records indicate that Ausuntria is importing far less infant milk formula than the Company claims, indicating in our opinion, that Ausuntria is overstating both its revenues and profits.

Kabrita-brand infant **goat milk** formula is one of Ausuntria's flagship brands, accounting for 38% of the Company's revenues in 2018. All Kabrita goat milk formula is produced, packaged and labelled by Company-owned factories in the Netherlands and then imported to China.

In its 2016 interim investor presentation, Ausuntria claimed that it imported 2,177 tons of Kabrita branded infant goat milk formula to China in the first half of 2016, representing 55% of the volume of total goat milk formula imported to China in that period.



Source: Ausuntria 2016 1H Investor Relations Presentation

However, a research report¹ on the goat milk formula industry in China, published by the government-affiliated Chinese Academy of Social Sciences ("CASS"), contradicts the Company's reported import figures. The credibility of the CASS report is beyond doubt. Not only was the research cited by the [People's Daily](#), the official newspaper of the Chinese Communist Party, but Kabrita cited the CASS report in its own [press release](#).

The CASS study states that in the first half of 2017, Ausuntria imported **only 954 tons of Kabrita branded infant goat milk formula**.

Chinese Academy of Social Sciences publishes Developmental Research on Chinese Goat Milk Powder Industry

社科院发布《中国羊奶粉产业发展研究》 佳贝艾特继续领跑第一阵营

Author: Administrator

发布时间: 2018-09-20 来源: 互联网 作者: 管理员 浏览次数: 719

加, 2017年上半年佳贝艾特牌羊奶粉进口量 954.43 吨, 价值 1060.39 万美元, 占婴幼儿配方羊奶粉进口量的40.92%, 2018年进口量迅猛上升, 1—6月的进口量占

In the first half of 2017, the import volume of Kabrita goat milk powder was 954.43 tons, worth USD10.6 million, accounting for 40.92% of the total import volume of goat milk infant formula powder.

Source: <http://www.kabrita.com.cn/news-hangye/32929.html>

¹ The full report is available at <https://wenku.baidu.com/view/a9a1a43e777f5acfa1c7aa00b52acfc788eb9f79>

The CASS report states that Kabrita imported 56% less goat milk infant formula (by volume) in 1H 2017 than the Company claimed to be importing in 1H 2016. It is implausible that such a discrepancy between reported and actual imports can be reconciled with Ausnutria's reported growth of Kabrita sales in China. Rather, in our view, the CASS data unambiguously indicates that the Company vastly overstated its imports (and thus sales) of its flagship infant goat milk product.

Tonnes	
Company Reported 2016 1H Kabrita Import Volume	2,177
CASS Reported 2017 1H Kabrita Import Volume	954
Difference	(1,223)
Difference %	-56%

Source: CASS report, Company public filings

The discrepancy persists when we compare the CASS data to the Company's 2017 disclosures. In its annual report, Ausnutria reported that it imported 5,717 tons of Kabrita branded infant goat milk formula to China in the calendar year 2017.

The Group's goat milk formula products are marketed under the brand name of *Kabrita*. During the Year 2018, sales of *Kabrita* continued to be promising. In particular, it continues to be ranked as the number one imported goat milk infant formula in the PRC, accounting for 62.5% (Year 2017: 50.1%) of total imported volume of approximately 14,844 tons (Year 2017: 11,412 tons).

Source: 2018 Annual Report

If we annualize the CASS import number, we calculate that the Company imported only 2,289 tons of goat milk formula in 2017, which is **60% less than the Company claimed for that year**. And this calculation assumes 40% growth in 2H 2017, a generous assumption in favor of Ausnutria.

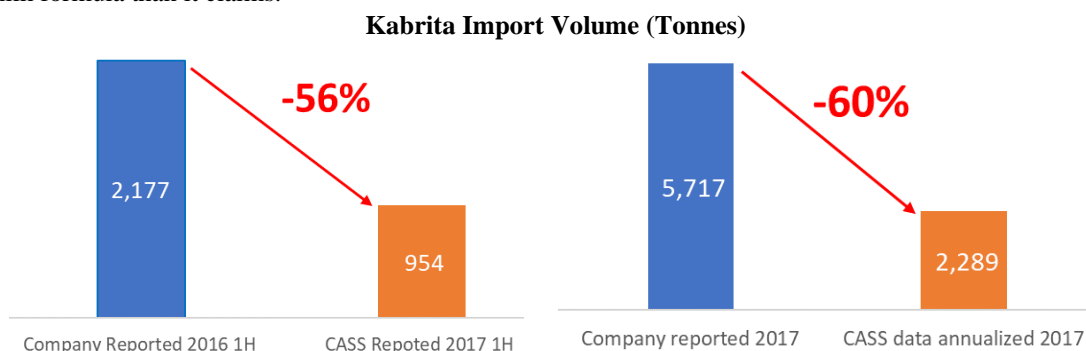
Tonnes	
CASS Reported 2017 1H Kabrita Import Volume	954
Annualized CASS 2017 Kabrita Import Volume	2,289
Company Reported 2017 Kabrita Import Volume	5,717
Difference	(3,428)
Difference %	-60%

Note: Ausnutria reported that Kabrita sales in PRC grew 40% in 2H 2017 compared to 1H 2017.

We assumed the same growth rate for 2017 2H import volume.

Source: CASS report, Company public filings, Blue Orca Calculation

We believe that the CASS report is highly credible, as the study is produced by a government affiliated research team and is widely reported by major Chinese publications. Even Ausnutria [cites](#) the CASS research report on its official Kabrita Chinese website. In our opinion, this government data indicates that the Company imports substantially less goat milk formula than it claims.



Because the government-sponsored research only contains data for goat milk imports in the first half of 2017, we decided to compare the Company's reported imports of infant milk formula across all its cow and goat milk brands with customs data available from a third-party vendor for the full years 2016 and 2017. The results were the same.

Customs Data (2016-2017) Indicates Ausnutria Imports Far Less Infant Milk Formula than Reported

Ausnutria claims that all of its infant milk formula products sold in the PRC are imported from abroad, either from Company-owned factories or third-party suppliers in the Netherlands, France, New Zealand and Australia. Indeed, one of the Company's key marketing claims is that most of its products are produced, packaged and labelled outside of China.²

Since all of the Company's infant formula products sold in China are imported from abroad, the total value of the Company's imports should match its disclosed COGS (plus the Company's reported increase in inventory) for any given year.

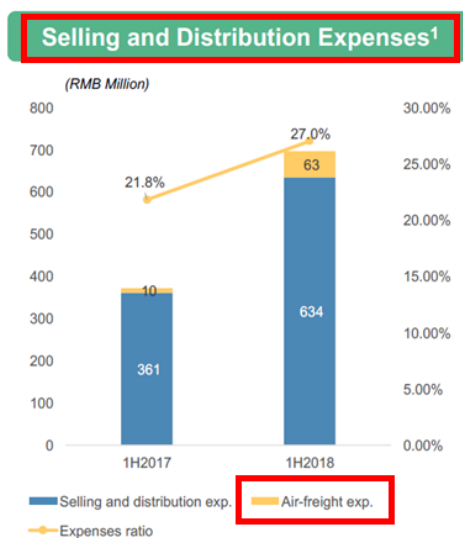
diversified its formula milk powder supply to a number of countries in recent years. For the Year 2017, the formula milk powder products sold by the Group in the PRC are imported from the Netherlands, New Zealand, Australia, and France. The Board believes that the above strategies will facilitate the steady, long-term growth of the Group.

Source: 2017 Annual Report

Group diversified its infant formula supply to a number of countries in recent years. For the Year 2016, the infant formula sold by the Group in the PRC are supplied by different manufacturers which are located in New Zealand, Australia, France as well as the Group's own factories in the Netherlands. The board (the "Board") of directors (the "Directors") of the Company believes that the above strategies will facilitate the long-term continuous growth of the Group.

Source: 2016 Annual Report

Ausnutria's management presentations indicate that costs of transporting milk formula products from the Company's overseas factories to China are included in its selling and distribution expenses, **not** in COGS.



Source: Ausnutria 2018 1H Interim Investor Presentation

² According to the State Administration for Market Regulation of the PRC (the "SAMR"), which includes the former China Food and Drug Administration, as of August 1, 2019, Ausnutria has received approval for fifteen infant formula brands. Twelve brands are produced, packaged and labelled outside of China. Three brands (Puredo, Mygood and Aoyou Aiyou) use imported milk powder but are packaged in China.

Given that Ausnutria includes transportation costs in selling and distribution expenses, the value of the Company's imports should match Ausnutria's reported COGS (plus inventory changes) for any given year.

The regulatory filings of Dutch subsidiary Ausnutria B.V., which oversees the Company's factories in Europe, state that **all sales** transactions between the Company subsidiaries in Europe and Ausnutria Dairy (China) Co., Ltd ("Ausnutria China"), were conducted **exclusively** through import agent Hunan Hua Yi Trading Co. Ltd ("Hunan Huayi") in 2016 and 2017.

All sales transactions with Ausnutria Dairy (China) Co. Ltd. are handled by **Hunan Hua Yi Trading Co. Ltd.** For that reason we present this company as a related party.

Source: Ausnutria Hyproca B.V.³ – 2015 Annual Report in Netherlands Regulatory Filings

All sales transactions with Ausnutria Dairy (China) Co. Ltd. are handled by our import agent. For that reason we present this company as a separate related party.

Source: Ausnutria B.V. – 2017 Annual Report in Netherlands Regulatory Filings

Chinese regulatory records confirm that almost all of Ausnutria's imports were conducted through import agent Hunan Huayi.

The China Chamber of Commerce of Import and Export of Foodstuffs, Native Produce and Animal By-products ("CFNA"), is the government affiliated regulatory body overseeing the import of infant milk formula and other dairy products. Importers of infant milk formula and other dairy products are required to register with the CFNA in order to obtain and maintain their import license.

Application Procedure for Agricultural Commodities Import Reporting System (Dairy Products)

大宗农产品进口报告系统申请流程（乳制品）

来源：食土商会 | 时间：2015-04-24 09:35:51 | 浏览：66184

一、进口报告管理范围

凡进口鲜奶（HSCODE：04011000、04012000、04014000、04015000）和奶粉（HSCODE：04021000、04022100、04022900、19011010）的企业，需按规定备案，并按照报告流程申报相关进口信息。

Enterprises that import fresh milk (HS CODE: 04011000, 04012000, 04014000, 04015000) and milk powder (HS CODE: 04021000, 04022100, 04022900, 19011010) shall register and file relevant import information (with CFNA) in accordance with the reporting process.

Source: <http://www.cccfna.org.cn/article/%E5%A4%87%E6%A1%88%E6%8C%87%E5%8D%97/15739.html>

According to the records published on the CFNA's [website](#), Ausnutria only had three material import agents⁴ in 2016 and 2017: Hunan Huayi, Changsha Bangrong Food Trading Co. Ltd ("Changsha Bangrong") and Hebei Aohua Trading Co. Ltd ("Hebei Aohua").

³ Ausnutria Hyproca B.V., now known as Ausnutria Operations B.V., is a direct wholly owned subsidiary of Ausnutria B.V.

⁴ There are approximately 465 import entries for Ausnutria brand products between 2016 and the first week of 2018. Among them, 398 shipments (86%) were imported by Hunan Huayi, 31 (7%) were imported by Changsha Bangrong, 29 shipments (6%) were imported by Hebei Aohua, 3 were imported by Changsha Wentong Trading Co, 2 were imported by Sichuan XLX Trading Co. and 2 were imported by C&D Logistics Group Co., Ltd.

Both the CFNA website (with the license database) and Ausnutria B.V.'s Netherlands regulatory filings state that Hunan Huayi was the primary import agent for Ausnutria's infant milk formula products into China in 2016 and 2017.

So we would expect the value of Ausnutria branded products imported by this import agent to match the Company's COGS (plus inventory increases) for such years, but such figures do not match, suggesting (like the CASS data) that the Company is inflating the amount of formula it imports into China, and by extension also its reported sales.

Import and export records are closely kept by the Chinese government and made available through various third-party customs data providers. Panjiva, acquired last year by S&P Global Market Intelligence, makes Chinese customs data available for purchase or subscription to the global trade community and investors. Panjiva states that its customs data is sourced directly from the Chinese customs authorities.

Where does Panjiva get China Trade Data from?

China Trade Data is provided by Chinese Customs.

Source: <https://support.panjiva.com/customer/en/portal/articles/1896541-china-trade-data>

We confirmed that the Panjiva data is comprehensive. Chinese custom authorities reported that China imported USD 3.98 billion worth of infant milk formula (HS code 19011010) in 2017.

据统计，2017年我国共进口婴幼儿配方奶粉295932吨（税号19011010），同比增长33.7%，价值39.8亿美元，同比增长32.3%。主要来自荷兰87555吨，占29.6%，同

According to statistics, in 2017, China imported 295,932 tons of infant formula milk powder (HS Code 19011010), an increase of 33.7% year-on-year, worth 3.98 billion US dollars, an increase of 32.3% year-on-year.

Source: <http://www.chyxx.com/industry/201807/656248.html>

Filtered by HS Code 190110,⁷ Panjiva's Chinese import records show a similar amount.⁸

The screenshot displays the Panjiva interface for a shipment report. At the top, there are tabs for Suppliers, Buyers, Trends, and Shipments. Below these is a search bar with 'China' selected in the location dropdown and 'Import records' in the report type dropdown. The main report area shows 'Shipments 7.2k', 'Consignee 427', and 'Shipment Origin 38'. The 'Shipments Report' section highlights 'RECORDS 7.2k' and 'VALUE (USD) \$4.1B'. On the left, the search filters are visible: 'HS Code 190110' and 'Date Range Jan 1, 2017 - Dec 31, 2017' are both highlighted with red boxes. A 'reset filters' button is also present.

Source: [Panjiva](#)

⁷ HS Code 190110 is the import code for preparations suitable for infants or young children, put up for retail sale. Chinese custom authorities further divide this category into HS Code 19011010 for formula milk powder prepared for infant use, put up for retail sale and 19011090 for other food prepared for infant use, put up for retail sale.

<https://gain.fas.usda.gov/Recent%20GAIN%20Publications/China%20Temporarily%20Eliminates%20Import%20Tariffs%20for%20Oil%20Meals%20Beijing%20-%20Peoples%20Republic%20of%203-11-2019.pdf>

⁸ Panjiva data shows a slightly higher import value because HS 190110 includes import value of HS 19011090 (infant food other than infant formula).

According to import records summarized and made available by Panjiva, the Company's near-exclusive import agent Hunan Huayi **only imported** USD 91 million and USD 162 million of infant milk formula products in 2016 and 2017, respectively.

The image displays two side-by-side screenshots of the Panjiva Shipment Report for Hunan Huayi Trading Co., Ltd. Both reports are filtered for 'ALL LOCATIONS - CHINA'. The left report is for the period 'Jan 1, 2016 - Dec 31, 2016' and shows 55 shipments with a total value of \$91M. The right report is for the period 'Jan 1, 2017 - Dec 31, 2017' and shows 68 shipments with a total value of \$162M. Red boxes highlight the company name at the top, the date range filters, and the 'VALUE (USD)' field in both reports.

Source: Panjiva

The reliability of the Panjiva import/export data is corroborated by Hunan Huayi's own website, in which the import agent claimed that it imported only USD 83 million worth of infant milk formula in 2016 and was expected to import more than USD 100 million infant milk formula in 2017.

Hunan Huayi Trading Co. Ltd

湖南华一经贸有限公司始建于2003年，注册资金1000万人民币，是一家专业从事进出口代理以及清关配送的综合性贸易公司。目前公司主营业务为代理婴幼儿配方奶粉、红酒及橄榄油及各类新旧设备的进口清关等服务项目。公司秉承“高效、诚信”的经营理念，致力于成为集进出口代理、报关以及配送为一体的进出口贸易公司，竭尽所能的为广大客户提供快捷、安全、省心的优质服务。

目前公司在进口食品类具备成熟的操作流程、获得相应的认证资质并拥有专业报关员、报检员以及专门的食物进口仓库，为有需求的进出口企业提供：进出口清关、进口货物HS编码申报、报备及各口岸的报关报检服务。近年来，因国内的食物行业特别是婴幼儿奶粉频爆质量问题，人们对食物安全问题的高度重视的同时，进口奶粉的市场份额出现大幅度的攀升。2012年以来，公司致力于预包装食品、婴幼儿配方食物和乳制品的进口代理业务，其中我们在婴幼儿配方奶粉近三年的年度平均进口额均保持在7000万美元左右，2016年进口额已达到8300万美元。预计2017年进口额将突破1亿美元左右。公司目前代理进口多种品牌的婴幼儿配方奶粉，市场销售覆盖华南及华中地区大部分婴童店、药店以及进口食物门店。

We imported on average USD 70 million worth of infant milk formula in the past three years. The import volume reached USD 83 million in 2016 and is expected to exceed USD 100 million in 2017.

Source: <http://www.olyone.com/nav/2.html>

Panjiva's customs data is sourced directly from the Chinese government and corroborated by Chinese customs reports and statements on the import agent's website. Using this data, we can reliably estimate how much infant milk formula Ausnutria imported in 2016 and 2017, which is far lower than the amount of imports implied by the Company's disclosures in those years.

According to the data published by the government affiliated CFNA, Hunan Huayi imported a total of 585 shipments between 2016 and the first week of 2018 (CFNA allows companies 5 days to report their shipments). Among those shipments, 154 (26%) were for non-Ausnutria brands, 33 (6%) were for milk powder raw material and 398 (68%) were for Ausnutria brands.

Import Agents	Non Ausnutria Brands		Raw Materials		Ausnutria Brands		Shipment Attributable to Ausnutria
	# of Shipment	%	# of Shipment	%	# of Shipment	%	
Hunan Huayi	154	26%	33	6%	398	68%	74%
Long Chaban	39	56%	0	0%	31	44%	44%
Hebei Aohua	24	44%	1	2%	29	54%	56%

Source: CFNA, Blue Orca Calculation

To be conservative, we assume that such raw materials went to Ausnutria. As a result, **we estimate that 74% of Hunan Huayi imports were of Ausnutria infant formula products.**

If we include small amounts of Ausnutria infant formula products imported by other CFNA-authorized import agents, we estimate that **at most, the Company imported RMB 496 and 955 million of infant milk formula products from Europe and other countries into China in 2016 and 2017.**⁹

Estimated Import Value of Ausnutria Infant Milk Products

USD M	2016	2017	Cumulative
Hunan Huayi	67	119	186
Changsha Bangrong	8	17	25
Hebei Aohua	0	5	5
Total Import Value	75	141	216
Total Import Value (RMB M)	496	955	1,451

Source: Panjiva

The total value of imported infant milk formula from the independent customs records is far below the amounts of imports required for the Company's reported sales to be true.

The Company claims that all of Ausnutria's products sold in China are imported from France, Netherlands, Australia and New Zealand. If imports records show that the Company is importing far less formula than it claims, the only logical conclusion (in our opinion) is that the Company is selling far less product than it claims.

Based on such independent customs data, we estimate (using the Company's reported inventory changes and gross margins) that Ausnutria overstated its infant formula product sales in the PRC by 64% and 44% in the years 2016 and 2017, respectively.

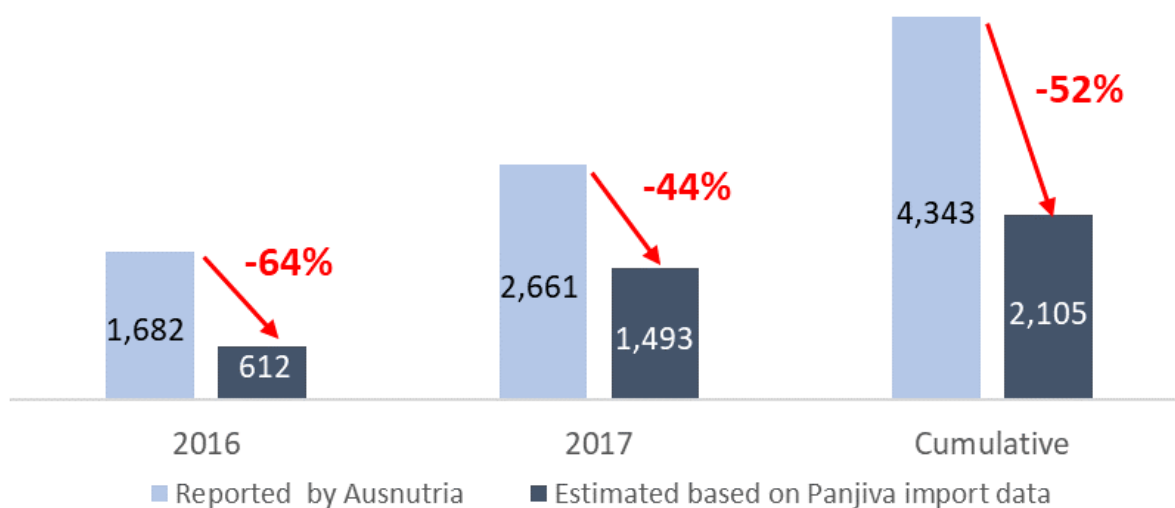
⁹ To be conservative, we have included in our calculation all imports reported by the import agents, including infant milk formula products, other milk powder products and a small percentage of imports that are not related to milk powder products.

Estimated Ausnutria's Overstatement of Milk Powder Product Revenue in PRC

RMB M	2016	2017	Cumulative
Customs Data: Ausnutria total import value	496	955	1,451
Minus Reported Increase in inventory	220	283	504
Estimated Ausnutria Cost of Inventories Sold in PRC	275	672	947
Ausnutria Brand Infant formula Gross Margin	55%	55%	55%
Estimated Ausnutria Infant formula revenue in PRC	612	1,493	2,105
Reported Ausnutria Infant formula revenue in PRC	1,682	2,661	4,343
Overstatement	1,071	1,167	2,238
Overstatement %	64%	44%	52%

Source: Blue Orca Calculation, Company Public Filings

We believe that such import records are a smoking gun showing that the Company imports far less infant milk formula into China than its disclosures suggest. For the two-year period from 2016-2017, we calculate that based on the volume of imports reported primarily by the Company's import agents, Ausnutria overstated its sales of infant milk formula in the PRC by 52%.

Ausnutria Infant Milk Formula Revenue in PRC (RMB M)

UNDERSTATING LABOR COSTS

Dutch regulatory filings indicate that Ausnutria significantly understates its labor costs, meaning the Company is substantially less profitable than it claims.

Ausnutria reported that it had a total of 2,631 and 3,092 full time employees in 2016 and 2017, respectively.

Human Resources

As of 31 December 2017, the Group's total number of full-time employees is 3,092 (2016: 2,631), of which 2,373 (2016: 1,993), 495 (2016: 452), 98 (2016: 60) and 23 (2016: 2) are located in the PRC, Netherlands, Australia and New Zealand, respectively. The total staff costs incurred for the year amounted to RMB484.4 million (2016: RMB364.5 million).

Source: Ausnutria 2017 Annual Report

In its annual reports, Ausnutria reported RMB 365 million and RMB 484 million in total wages, salaries, pensions and staff related costs in 2016 and 2017, respectively.

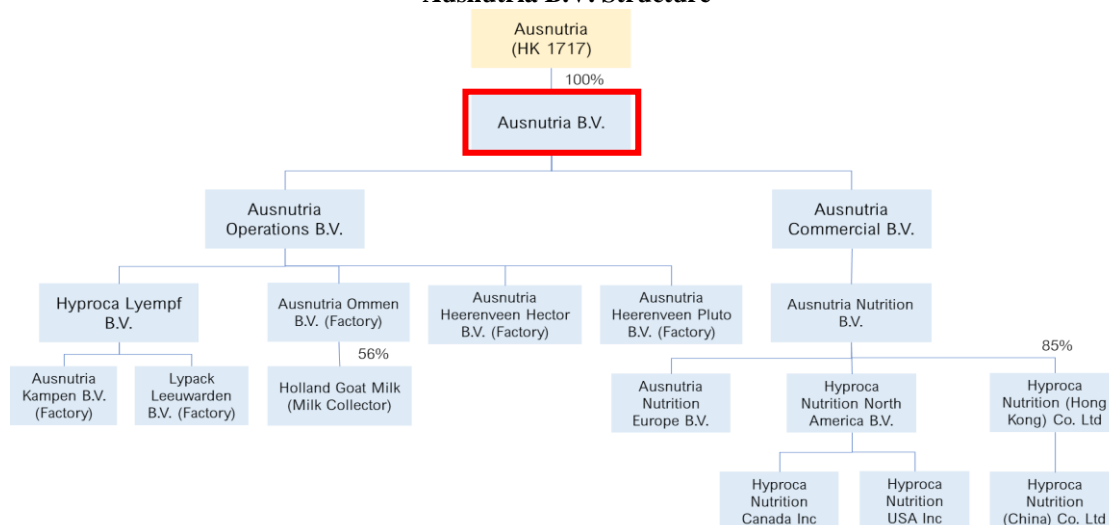
	2017 RMB'000	2016 RMB'000
Employee benefit expenses (including directors' remuneration) (note 8):		
Wages, salaries and staff welfare	445,092	331,916
Equity share option expense	7,585	11,793
Pension scheme contributions*	31,707	20,828
	484,384	364,537

Source: Ausnutria 2017 Annual Report

Most of the Company's infant milk formula is produced in the Netherlands, by factories operated by a group of subsidiaries organized under its wholly owned subsidiary, Ausnutria B.V.

As part of its obligations as a Netherlands incorporated entity, Ausnutria B.V. files an annual report which includes the financials and results of the European entities which are primarily responsible for producing the Company's infant milk formula; as well as overseas entities responsible for marketing and distributing Kabrita branded products. Ausnutria B.V.'s Netherlands regulatory filings consolidate the following entities.

Ausnutria B.V. Structure



Source: Ausnutria B.V. – 2017 Annual Report in Netherlands Regulatory Filings

Note: Not all consolidated subsidiaries are shown. Unless otherwise indicated, subsidiaries are wholly owned.

In its Netherlands regulatory filings, Ausnutria B.V. reported that it (and its consolidated subsidiaries) had 1,068 and 1,225 full time employees in 2016 and 2017.¹⁰ This means that Ausnutria B.V. and its consolidated subsidiaries accounted for only 40% of the **total** number of employees at the Company.

	2017	2016
Average number of employees (average number of full time equivalents)		
Ausnutria Ommen B.V.	38,2	39,4
Lypack Leeuwarden B.V.	192,0	175,4
Ausnutria Kampen B.V.	135,6	135,3
Other Dutch companies	125,7	101,9
Foreign companies	733,8	616,3
	1.225,3	1068,3

Source: Ausnutria B.V. – 2017 Annual Report in Netherlands Regulatory Filings

Ausnutria B.V. also reported in its Dutch regulatory filings that it incurred salary, pension and related expenses of roughly RMB 350 million (€ 47.6 million) and RMB 454 million (€ 59.5 million) in 2016 and 2017, respectively.

	2017	2016
	€	€
Wages, salaries and social security charges (23)		
Wages and salaries	31.313.483	26.989.977
Management fees	63.167	226.031
Pension costs	2.086.582	1.371.562
Social security charges	4.204.845	4.039.037
Temporary personnel	10.540.967	6.898.866
Other expenses (travel costs, education, canteen, etc.)	11.277.089	8.105.252
	59.486.134	47.630.725

Source: Ausnutria B.V. – 2017 Annual Report in Netherlands Regulatory Filings

Ausnutria B.V.'s regulatory filings indicate that even though it accounted for only 40% of the Company's total employees, Ausnutria B.V. and its subsidiaries accounted for 94-96% of the Company's total consolidated salaries, pension, and related labor costs.

	2016	2017
Ausnutria B.V. Staff Costs (Euro M)	48	59
Euro/RMB Exchange Rate	7.3502	7.6328
Ausnutria B.V. Staff Costs(RMB M)	350	454
Company's Total Consolidated Staff Costs (RMB M)	365	484
Ausnutria B.V. Staff Costs %	96%	94%
Ausnutria B.V. Full-time Employees	1,068	1,225
Company's Total Consolidated Full-time Employee	2,631	3,092
Ausnutria B.V. Full-time Employee %	41%	40%

Source: Ausnutria B.V. Dutch Filings; Ausnutria 2017 Annual Report

This leaves two options. Either the remaining 60% of Ausnutria's employees are working for free, or the Company is understating its labor and staffing costs in its Hong Kong filings. We think it is obviously the latter.

Additional evidence supports the thesis that the Company is underreporting its labor costs to investors.

¹⁰ The number of full-time employees in the Netherlands reported by Ausnutria B.V. (492 in 2017 and 452 in 2016) matches the number of employees in the Netherlands reported by the Company in its Hong Kong public filings (495 in 2017 and 452 in 2016). This confirms that our comparison of wages and salaries for Ausnutria B.V. and the consolidated results of the Company is an apples-to-apples comparison.

In November 2018, Chinese courts handed down decisions on two employment lawsuits involving Globlait Nutrition (Changsha) Co. Ltd, a subsidiary of Ausnutria.

In the court case of *Guan Liang vs. QKM Trading Co.*,¹¹ and a concurrent case of *Chen Youling vs. QKM Trading Co.*,¹² two individuals sued an Ausnutria distributor, Chongqing Qikemi Trading Co. (重庆七可米贸易有限公司) (“QKM”), for unpaid wages. The distributor argued that it was not responsible for such wages, because the individuals were effectively employees of Ausnutria. The lower court in both cases agreed with the distributor, finding that although the individuals were technically on QKM’s payroll, they should be considered Ausnutria employees because they were recruited, hired, paid, and managed by Ausnutria’s managers. The decisions were overturned on appeal, but the facts revealed by the cases raise a number of suspicions as to whether Ausnutria is understating employment expenses by paying employees through its distributors.

The relevant facts are as follows. Ausnutria’s district manager Zou recruited two individuals, Guan and Chen, to work as sales representatives (“促销员”) for the Company. Zou and another Ausnutria manager even interviewed Chen prior to hiring him.

But instead of hiring them directly, Ausnutria’s manager directed the distributor (QKM) to hire the individuals. Although both individuals were technically on QKM’s payroll, a presiding arbitration panel and lower court found a number of facts supporting the inference that in effect, both were Ausnutria employees.

Most notably, QKM paid wages of Guan and Chen based on a salary table provided by Ausnutria and signed by an Ausnutria manager. Ausnutria then reimbursed QKM for the salary expenses by reducing the amount owed to the Company by the distributor (i.e. deduction in accounts receivables). Ausnutria deducted the salaries of Guan and Chen from the account balance with its distributor at the end of each month. Ausnutria’s district manager even admitted in both cases that Guan and Chen’s wages were paid by QKM on behalf of Ausnutria.

Statement of QKM Trading Co.

职情况，其工作中由七可米公司法定代表人之女戚琪管理。七可米公司陈述，其是根据澳优公司提供的工资表代为发放工资，通过系统每月月底核算，进行相关费用的抵扣。因七可米公司与各门店是合同相对方，所以平时

Translation: QKM Trading Co. stated that it paid wages on behalf of Ausnutria based on a salary table provided by Ausnutria and related expenses will be deducted (from QKM’s balance with Ausnutria) through the system at the end of each month.

Source: <http://wenshu.court.gov.cn>

Furthermore, the lower court found that Ausnutria’s manager Zou recruited both individuals, supervised their performance and effectively managed them on a day to day basis.

¹¹ 官亮与重庆七可米贸易有限公司劳动争议

¹² 陈友铃与重庆七可米贸易有限公司劳动争议

Testimony of Ausnutria's District Manager Zou

官亮会通过微信群汇报销售数据及告知需要七可米公司支持的部分。邹某作为证人在仲裁庭审中出庭陈述，澳优公司不招经理、主管以下的职务，澳优公司和七可米公司签合同时说要自己建团队帮七可米公司负责销售事务才招了官亮；澳优公司是以促销员名义招聘了官亮，由七可米公司代发工资，澳优公司以产品的形式补贴给七可米公司；平时官亮工作由邹某提前策划，由罗正伟监督执行；2017年12月开始澳优公司与七可米公司停止合作，邹某在2月13日通过微信向官亮支付了3000元。

Translation: Zou (Ausnutria's District Manager) appeared in the arbitration panel as a witness and stated that ... Ausnutria recruited Guan Liang as a sales representative and Guan's wages were paid by QKM Trading Co. on behalf of Ausnutria. **Ausnutria compensated QKM in the form of products.** Guan's work was planned by Zou and supervised by Luo Zhengwei (Ausnutria's marketing manager); in December 2017, Ausnutria stopped partnering with QKM. Zou paid Guan RMB 3000 through WeChat on February 13, 2018.

Source: <http://wenshu.court.gov.cn>

In one instance, after QKM severed its relationship with the Company, Ausnutria manager Zou even paid one of the employees RMB 3,000 directly over WeChat. This bolsters the notion that the sales representatives were effectively employees of Ausnutria and not its distributor. Initially, the court agreed.

Both the PRC Labor and Personnel Dispute Arbitration Commission and the lower court ruled that even though QKM had been paying Mr. Guan and Mr. Chen's salary, Guan and Chen were under the management of Ausnutria and Ausnutria compensated QKM by adjusting an amount equivalent to their salaries from QKM's account balance with Ausnutria. Thus, the court found, the plaintiffs were effectively employees of Ausnutria.

Lower Court Opinion

本院认为：官亮主张经济补偿金及未签订书面劳动合同的双倍工资的前提在于，官亮与七可米公司具有劳动关系。依照原劳动和社会保障部《关于确立劳动关系有关事项的通知》[劳社部发（2005）12号]第一条的规定，劳动关系的成立必须符合劳动者接受用人单位的管理以及从事由用人单位安排的有报酬的劳动这一基本事实。一方面，官亮工资虽然由七可米公司转账发放，但根据澳优公司渠道自助服务平台中往来账明细查询内容可知，七可米公司为陈友铃、官亮发放工资的金额相应增加了该公司在澳优公司的账户余额，而账户余额可以用于后续进货和返现金，即澳优公司已将官亮、陈友铃的8、9、10月的工资补贴给了七可米公司，结合七可米公司的记账凭证和邹某签字的工资表，可见七可米公司是代澳优公司垫付的官亮工资。另一方面，根据微信聊天记录，官亮是向邹某汇报工作安排，由邹某通知开会、指导工作，澳优公司的洪晓林还在微信群单独@陈友铃、官亮，结合邹某在仲裁庭审中的证言以及邹某发送给洪晓林的邮件，申请将官亮转为3级阿米巴正式员工，并由澳优公司发放其工资，可知官亮接受了邹某、洪晓林的管理。官

Translation: ... the establishment of labor relations must conform to the basic facts that the worker accepts the management of the employer and engages in paid work arranged by the employer. On the

one hand, although Guan Liang's salary was paid by QKM... the salary QKM paid Chen Youling and Guan Liang correspondingly increased the account balance of QKM with Ausnutria and the account balance can be used for subsequent purchases and cash return. That is, Ausnutria has compensated QKM for Guan Liang and Chen Youling's salaries... Based on the salary form signed by Zou (Ausnutria's district manager), it can be seen that **QKM was paying Guan Liang's salary on behalf of Ausnutria**. On the other hand, according to WeChat chat record, Guan Liang **reported** to Zou (Ausnutria's district manager) and was under the instruction of Zou... Guan Liang accepted the management of Zou (Ausnutria's district manager) and Hong Xiaoling (Ausnutria's regional manager).

Source: <http://wenshu.court.gov.cn>

Both the initial arbitration panel and the lower court dismissed the plaintiffs' claims against QKM for unpaid wages and related costs, finding that Guan and Chen were effectively employees of Ausnutria, not the distributor.

Both decisions, however, were overturned on appeal. The appellate court found that both individuals were on QKM's payroll and thus could be considered employees of the distributor. As investors, the intricacies of Chinese labor law, including who eventually prevailed and why, are less relevant than the facts revealed by the cases.

Although they are isolated examples, we think that in conjunction with the Dutch regulatory filings, the cases support several suspicions. The cases revealed that Ausnutria recruited and managed sales representatives and directed its distributors to put them on its distributor's payroll. Ausnutria then deducted such expenses from amounts owed by its distributor. Both lower court filings even characterized the arrangement as Ausnutria subsidizing wages in the form of products.

We think it is reasonable to assume that Ausnutria arranged for employees to be kept off its books so that the Company would not have to recognize related expenses. By deducting employee costs from amounts owed by distributors (or by reimbursing distributors for such expenses with product), we posit that Ausnutria could keep such costs off its books, making the Company appear far more profitable than it is.

Dutch regulatory filings show unambiguously that Ausnutria is understating labor and related expenses in its Hong Kong filings. The PRC court cases provide a blueprint of how Ausnutria may be doing so in practice, even though they are isolated incidents. Taken together, we conclude that the Company is far less profitable than it claims.

MISLEADING CHINESE CONSUMERS?

The Company's marketing to Chinese consumers is, in our opinion, both misleading and inconsistent with the warnings and disclosures given to European and American consumers. This creates the material risk of backlash from Chinese consumers, which we think could materially affect future sales.

Kabrita-brand infant **goat milk** formula is one of Ausnutria's flagship brands, accounting for 38% of the Company's revenues in 2018. The Company's marketing campaign emphasizes the perceived health benefits of goat milk formula as compared to traditional cow milk formulas. For example, Kabrita's marketing campaigns targeted at Chinese consumers have highlighted how its goat milk formula should cause fewer allergic reactions among infants.



Source: <http://www.kabrita.com.cn/index.html>

Yet in China, Kabrita's marketing goes beyond emphasizing the health benefits of its products. First, Kabrita posted several articles on its official Chinese website which suggested that its goat milk infant formula helps babies with lactose intolerance.

Kabrita helps your baby to overcome lactose intolerance

佳贝艾特帮你宝宝打败乳糖不耐“兽”

Published Date: Jan 8, 2016

Author: Administrator

发布时间: 2016-01-08 来源: 互联网 作者: 管理员 浏览次数: 93

Source: <http://www.kabrita.com.cn/yuer-zhishi-2/25195.html>¹³

We chose Kabrita goat milk powder because of lactose intolerance

因为乳糖不耐受选择了佳贝艾特羊奶粉

来源: M端试用报告2714 发布时间: 2018-12-05 Published Date: Dec 5, 2018

Source: <http://www.kabrita.com.cn/yuer-mmsay/33511.html>

¹³ The web page is currently inaccessible but was active as of July 24, 2019.

<http://webcache.googleusercontent.com/search?q=cache:nAqpX6RbCtEJ:www.kabrita.com.cn/yuer-zhishi-2/25195.html+&cd=2&hl=en&ct=clnk&gl=jp>

My baby has lactose intolerance. We tried Kabrita goat milk powder and overallly it is not bad!

宝宝乳糖不耐受，试用了佳贝艾特羊奶粉，总体感觉很不错！

来源：用户会员发布 发布时间：2018-04-24 Published Date: April 24, 2018

Source: <http://www.kabrita.com.cn/yuer-mmsay/32421.html>

By contrast, both Kabrita's American and European websites clearly warn parents that if their babies are diagnosed with lactose intolerance, they should **NOT** consume Kabrita's goat milk formula.¹⁴

Are Kabrita products suitable for children with lactose intolerance?

Kabrita products are not suitable for children with a diagnosed lactose intolerance. Kabrita goat milk products may be suitable for children with cow milk sensitivity*. For more information, please visit our Lactose Intolerance and cow milk sensitivity pages.

*not suitable for children with cow milk protein allergy.

Source: <https://kabritausa.com/pages/frequently-asked-questions>

My baby is lactose intolerant. Does Kabrita goat milk formula contain lactose?

In case of complaints always consult your doctor first - or the health professional at the child health clinic- to rule out a lactose intolerance, before switching to Kabrita goat milk formula.

Source: <https://www.kabrita.com/en/service/faq/ailments/does-kabrita-goat-milk-formula-contain-lactose>

Kabrita's Chinese marketing campaign also exaggerates the benefit of goat milk as an alternative in the case of cow milk allergies.

¹⁴ Currently only Kabrita Goat Milk Toddler Formula (12-24 month) is available in the United States.

Is goat milk formula better than cow milk formula?

羊奶粉好还是牛奶粉好? 该如何对比区分?

Author: Administrator

发布时间: 2018-10-29 来源: 互联网 作者: 管理员 浏览次数:1669

羊奶粉可以防止牛奶蛋白过敏

Goat milk powder can prevent cow milk protein allergies

羊奶粉比牛奶粉好,也表现在它可以防止牛奶粉中牛奶蛋白对宝宝产生的过敏现象。在牛奶中含有的 α -S1酪蛋白和 β -乳球蛋白等是导致一些婴儿过敏的物质。这两种蛋白质对于健康的宝宝是没有什么影响的,但是对于消化能力不足的宝宝们来说,就容易引起他们的过敏反应。特别是对于0-6个月的婴儿,这种情况就更多一些。而羊奶中这两种蛋白质的含量要比牛奶中低很多。

Source: <http://www.kabrita.com.cn/yuer-zhishi-2/33224.html>¹⁵

So many benefits with goat milk

喝羊奶的好处原来有这么多

Author: Administrator

发布时间: 2016-12-19 来源: 互联网 作者: 管理员 浏览次数:139

Benefit 2: Goat milk can alleviate most cow milk protein allergies

优点二: 羊奶可解除大部分牛奶蛋白引起的过敏症

牛奶中的某些蛋白质 α -S1酪蛋白和 β -乳球蛋白是目前公认的过敏源。在正常情况下,这两种蛋白质能被人体消化吸收,但如果人体的消化能力不足,这两种蛋白质以未被消化的形式进入人体,就会引起过敏反应。一般而言,婴儿0—6个月是最敏感的时期,两岁以后,随着消化能力的提高和免疫功能的增强,大部分的小朋友不再对牛奶过敏。牛奶过敏的常见症状是皮疹、湿疹以及腹痛、腹泻等胃肠道反应。经过科学家多年研究,人发现牛奶中 α -S1酪蛋白含量占总蛋白的43%,而山羊奶只占1-3%;其次,山羊奶中 β -乳球蛋白的含量比牛奶低,且其氨基酸的排列顺序与牛奶不一样,较牛奶更容易被消化吸收。因此羊奶可以解除大部分牛奶过敏症。

Goat milk can alleviate most cow milk allergies

Source: <http://www.kabrita.com.cn/yuer-zhishi/31107.html>

However, Kabrita's American and European websites both clearly warn that a baby who is allergic to cow milk is likely to be allergic to goat milk as well, and thus goat milk is not a good alternative for such children.

Can goat milk be an alternative in case of cow's milk allergy?

No, if someone is allergic to cow's milk it is very likely that there will also be an allergic reaction to goat milk. A cow's milk allergy is mediated by the protein from cow's milk. Although the protein from goat milk are different and contain less allergens, it is still very likely that a cross reaction will occur. Therefore we strongly advise against using goat milk as an alternative in case of a cow's milk allergy.

Source: <https://www.kabrita.com/en/service/faq/ailments/an-alternative-in-case-of-cows-milk-allergy>

¹⁵ The web page is currently inaccessible but was active as of June 12, 2019.

<http://webcache.googleusercontent.com/search?q=cache:FAQhI2hSgoJ:www.kabrita.com.cn/yuer-zhishi-2/33224.html+&cd=6&hl=en&ct=clnk&gl=us>

Can I use Kabrita Toddler Formula if my child has a cow milk protein allergy?

Kabrita goat milk formula is not suitable for children with a confirmed cow milk protein allergy as goat milk protein may also provoke an allergic reaction. Kabrita goat milk formula may be a solution for children with cow milk sensitivity. For more information on cow milk protein allergy & sensitivity, please visit us here.

Source: <https://kabritausa.com/pages/frequently-asked-questions>

We believe there could be a significant backlash among Chinese consumers. Clearly, the Company is careful to make appropriate disclosures to European and American customers, warning that its goat milk products are not a viable alternative for lactose intolerant babies or children allergic to cow milk.

Yet the Company makes much different representations to Chinese consumers, promoting misleading representations on its website that its goat milk products may be a viable alternative for infants with lactose intolerance or cow milk allergies. Chinese parents deserve the same level of honest marketing as American and European parents.

We think the Company is even deceiving Chinese consumers about the source of lactose in its goat milk formula, which is actually from cows. Kabrita currently markets six goat-milk infant formula products in China. According to the published ingredient tables, lactose ranks as the first ingredients in five out of six Kabrita products sold in China. Based on the [patent](#) filed by Ausuntria with Chinese patent office, lactose makes up between 20% to 40% of its goat infant formula products.

On its European and American websites, the Company admits that the **lactose in Kabrita goat milk formula is actually derived from cow milk**. The Company explains that this is because there is a “great shortage of lactose from goat milk available over the world.”

legislation on infant formula. This minimum amount of lactose is higher than the standard amount of lactose in (goat) milk and therefore has to be supplemented. As there is a great shortage of lactose from goat milk available over the world, goat milk formula is supplemented with lactose from cow milk. Because the structure of lactose is the same in all milk types, there is no influence on the product. It therefore does not make any difference whether lactose from goat milk, cow milk or, for example, breast milk is used.

Source: <https://www.kabrita.com/en/service/faq/ailments/does-kabrita-goat-milk-formula-contain-lactose>

Because the lactose in Kabrita goat milk is actually derived from cow milk (not goats), Kabrita products sold in the U.S. and Europe warn customers of potential allergies.

What does the statement 'Allergen Information: Milk' mean on the formula label?

The FDA's Food Allergen Labeling and Consumer Protection Act (FALCPA) requires that a food that contains an ingredient or protein from a "major food allergen" be declared on the label.

We add the statement "Allergen information: Milk" on KABRITA goat milk formula for a few reasons:

First, the lactose in KABRITA Goat Milk Formula comes from cow milk (molecularly identical to other lactose sources) and may contain trace amounts of cow milk protein.

Second, we produce our products in a facility that also produces cow milk formula.

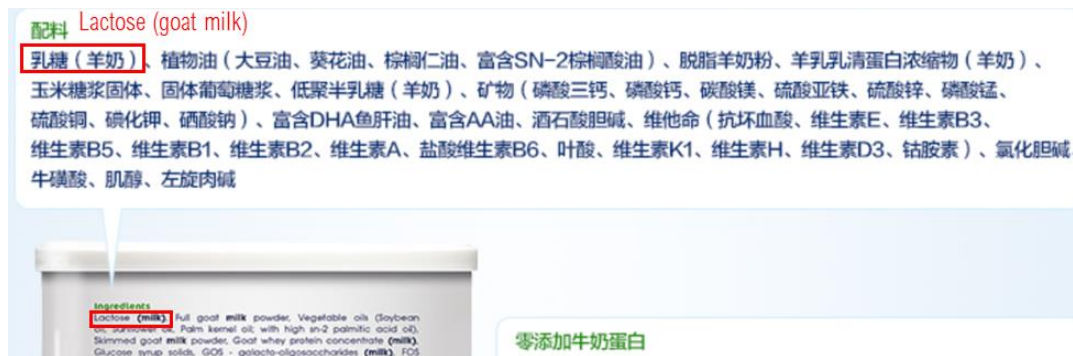
And third, KABRITA products are not suitable for children with cow milk protein allergy.

Source: <https://www.kabritausa.com/faq/>

However, we found that Kabrita's marketing in China is materially different. To Chinese customers, translations of the product labels and disclosures from Kabrita representatives misleadingly suggest that the lactose in its goat milk infant formula comes from goats.

For example, the Kabrita Global Flagship store on tmall.hk is operated by Hyproca Nutrition (Hong Kong), a wholly owned subsidiary of the Company. This online store sells Kabrita goat milk infant formula products to the Chinese market with labels in Dutch and English.

While we know from Kabrita's European official website that the lactose in its goat milk infant formula is actually from cows, the Chinese translation provided by the Company subsidiary on its Tmall store says that the lactose is from goat milk. This is false.



Source: [Product Page on Kabrita Tmall Global Store](#)

This is not an isolated mistake. We checked [all the major ecommerce stores](#) operated by Kabrita in China and such misrepresentation appears to be widespread.

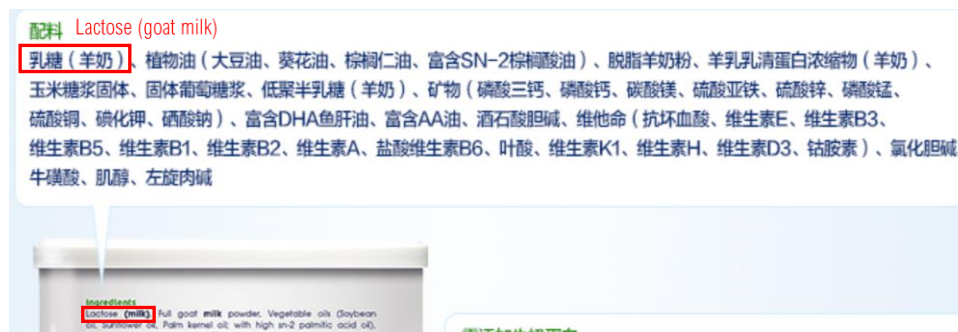
Translations of the ingredients of the goat milk formula sold on Kabrita-operated stores on Taobao and suning.com all state falsely that the source of lactose is goat milk.

Ingredient translation provided on Taobao and Suning.com

Lactose (goat milk)

配料: 乳糖 (羊奶)、植物油 (大豆油、葵花油、棕榈仁油、富含SN-2棕榈酸油)、脱脂羊奶粉、羊乳乳清蛋白浓缩物 (羊奶)、玉米糖浆固体、固体葡萄糖浆低聚半乳糖 (羊奶)、矿物 (磷酸三钙、磷酸钙、碳酸镁、硫酸亚铁、硫酸锌、磷酸锰、硫酸铜、碘化钾、硒酸钠)、富含DHA鱼

Source: [Product Page on Kabrita Suning Store](#)



Source: [Product Page on Kabrita Taobao Store](#)

Not only do the label translations on prominent e-commerce stores operated by the Company propagate the myth that lactose in Kabrita goat milk formula is from goats, we found that customer service representatives make similarly misleading claims.

On [Kabrita China's official website](#), it lists all the e-commerce platforms **directly managed** by Company subsidiaries. We reached out to the customer representatives of those online stores managed by Company subsidiaries (not third-party vendors) to ask about the source of lactose. Customer representatives from Company operated stores on Tmall and JD.com falsely claimed that the lactose in Kabrita branded goat milk formula is from goat, not cow.










Customer Reps from Kabrita Stores on Tmall and JD.com both indicated the lactose comes from goat milk



Source: Tmall and JD.com Customer Service Representatives

Of the nine e-commerce stores operated by Company subsidiaries, four (Taobao, Tmall, Sunning, Kaola) state misleadingly that the source of lactose in Kabrita products is goat milk. Of the remaining five e-commerce stores, the labels were ambiguous. But when we contacted the stores, customer representatives from four (Tmall, JD, Suning and Kaola) of those remaining five e-commerce stores, stated misleadingly that the source of the lactose was goat milk.

Ausnutria-operated Online Stores Mislead Chinese Consumers

E-commerce Platform	Disclosure of Lactose	Customer Representative's Response	Store Owner	Relationship to ListCo
 JD.COM: Kabrita Official Flagship Store	Lactose (unspecified)	Lactose comes from goat milk	Hyproca Nutrition Company Limited	Wholly owned subsidiary
 Taobao Kabrita Enterprise Store	Lactose (goat milk) (Chinese translation)	Lactose comes from goat milk	Hyproca Nutrition Company Limited	Wholly owned subsidiary
 Tmall: Kabrita Official Global Flagship Store	Lactose (goat milk) (Chinese translation)	Lactose comes from goat milk	Hyproca Nutrition (Hongkong) Company Limited	Wholly owned subsidiary
 Tmall: Kabrita Official Flagship Store	Lactose (unspecified)	Lactose comes from goat milk	Hyproca Nutrition Company Limited	Wholly owned subsidiary
 Suning.com: Kabrita Official Global Flagship Store	Lactose (goat milk) (Chinese translation)	Lactose comes from both goat milk and cow milk	Hyproca Nutrition (Hongkong) Company Limited	Wholly owned subsidiary
 Suning.com: Kabrita Official Flagship Store	Lactose (unspecified)	Lactose comes from goat milk	Hyproca Nutrition Company Limited	Wholly owned subsidiary
 Kaola.com: Kabrita Official Global Flagship Store	Lactose (goat milk) (Chinese translation)	Lactose comes from goat milk	Hyproca Nutrition (Hongkong) Company Limited	Wholly owned subsidiary
 Kaola.com: Kabrita Official Flagship Store	Lactose (unspecified)	Lactose comes from goat milk	Hyproca Nutrition Company Limited	Wholly owned subsidiary
 WeChat Mall	Lactose (unspecified)	Lactose comes from both goat milk and cow milk	Hyproca Nutrition Company Limited	Wholly owned subsidiary

Based on the translations of the labels on the Company's e-commerce stores and the claims of customer service representatives, we believe that Ausnutria's disclosures to Chinese consumers regarding the source of lactose in its Kabrita-branded goat milk infant formula are highly misleading.

This is consistent with other misrepresentations to Chinese consumers about the health benefits of Kabrita goat milk, such as its suitability for children with lactose intolerance or cow milk allergies.

Whether Chinese authorities will punish Ausnutria we do not know, but we would expect Chinese consumers to be far less forgiving.

NUTRIUNION: SHAM TRANSACTIONS AND SIPHONED SUBSIDIARIES

Although only a small contributor to overall revenues, Ausnutria's nutrition segment is a key driver of growth. The Company claimed that its nutrition business generated RMB 136 million in revenues in 2018 (Year 2017: RMB 75 million), an 81% year-over-year growth. Sales of two SKUs – Gut Relief and Soforla – launched in the PRC under the Nutrition Care brand, nearly tripled from RMB 31 million in 2017 to RMB 101 million in 2018 and accounted for all of the reported growth in the nutrition segment.

The Company markets and sells Nutrition Care products in the PRC primarily through Nutriunion (Hong Kong) Company Limited (“Nutriunion HK”).¹⁶ The Company claims that it owned 60% of Nutriunion HK and has been consolidating the results of this supposed subsidiary since 2016.

In July 2019, Ausnutria [announced](#) the acquisition the remaining 40% equity interest in Nutriunion HK from Company executives for a total consideration of RMB 236 million. This implied a valuation of RMB 591 million, or **65x the target group's reported 2018 earnings**. To satisfy the consideration, Ausnutria agreed to issue 17 million shares.

The problem is that Hong Kong corporate records indicate that the sellers did not own the shares they sold to Ausnutria, meaning this transaction, in our opinion, appears to be a naked transfer of wealth to insiders.

According to Ausnutria's 2018 annual report, the Company owned 60% of Nutriunion HK.

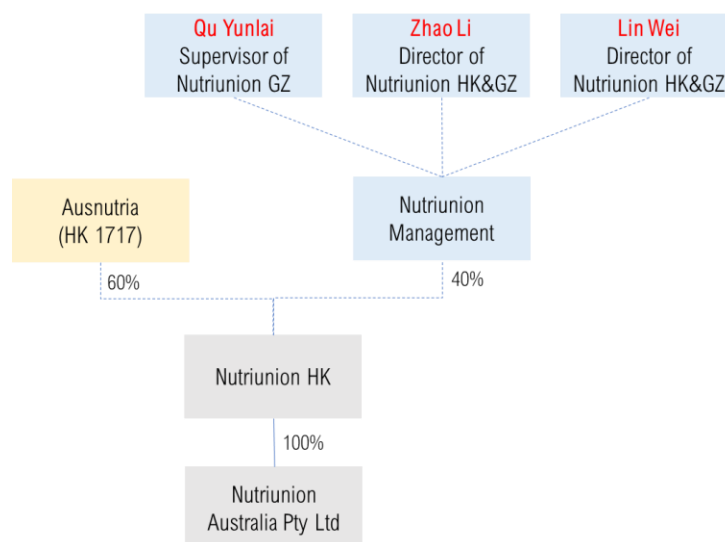
Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Nutriunion (Hong Kong) Company Limited	Hong Kong/ Mainland China	HK\$100	–	60	Marketing and distribution of nutrition products in Mainland China

Source: 2018 Annual Report

In the July 2019 acquisition announcement, the Company claimed that the remaining 40% of Nutriunion HK was owned by BVI entities ultimately controlled by three Company executives: Mr. Qu Yunlai, a supervisor of Nutriunion GZ, Mr. Lin Wei and Mr. Zhao Li, directors of Nutriunion HK and Nutriunion GZ.

¹⁶ Nutrition Care products are also distributed through Nutriunion (Guangzhou) Interconnection Technology Co. Ltd (“Nutriunion GZ”), [but the equity of this distributor](#) was valued by the Company in July 2019 at only RMB 17.05 million total, making it much less valuable and important compared to Nutriunion HK; whose equity the Company valued in July 2019 at RMB 591 million.

Shareholding Structure of Nutriunion HK Per Ausuntria Announcement



Source: <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0708/ltm20190708973.pdf>

However, Hong Kong corporate registry filings clearly state that as of both May 23, 2018, and May 23, 2019, Nutriunion HK was owned 100% by Wong Wei Hua Derek, the Company's CFO.

公司編號 Company Number		2380659
1 公司名稱 Company Name		
Nutriunion (Hong Kong) Company Limited		
本申報表的結算日期 Date to which this Return is Made Up		公司編號 Company Number
23	05	2018
日 DD	月 MM	年 YYYY
		2380659

10 股本 Share Capital

(無股本的公司無需填報此項 Company not having a share capital need not complete this section)

截至本申報表的結算日期 As at the Date to which this Return is Made Up					
股份的類別 (如普通股/ 優先股等) Class of Shares (e.g. Ordinary/ Preference etc.)	貨幣單位 Currency	已發行股份 Issued Shares			
		總數 Total Number	總款額 Total Amount	已繳或視作 已繳的總款額 Total Amount Paid up or Regarded as Paid up	
普通股	港元	- 100 -	100.00	100.00	
姓名/名稱 Name	地址 Address	現時持有量 Current Holding	股份 Shares		備註 Remarks
			轉讓* Transferred *		
			數目 Number	日期 Date	
Wong Wei Hua Derek	Flat A, 20/F., Block 5, One Silversea, 18 Hoi Fai Street, Tai Kok Tsui, Kowloon.	100	N/A	N/A	

Source: Hong Kong 2017 Annual Report for Nutriunion HK, May 23, 2018

公司編號 Company Number

2380659

1 公司名稱 Company Name

Nutriunion (Hong Kong) Company Limited

本申報表的結算日期

Date to which this Return is Made Up

23 05 2019

日 DD 月 MM 年 YYYY

公司編號 Company Number

2380659

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股份的類別 (如普通股/ 優先股等) Class of Shares (e.g. Ordinary/ Preference etc.)	貨幣單位 Currency	已發行股份 Issued Shares		
		總數 Total Number	總款額 Total Amount	已繳或視作 已繳的總款額 Total Amount Paid up or Regarded as Paid up
Ordinary	HKD	- 100 -	100.00	100.00

姓名/名稱 Name	地址 Address	股份 Shares			備註 Remarks
		現時持有量 Current Holding	轉讓* Transferred *		
			數目 Number	日期 Date	
Wong Wei Hua Derek	Flat A, 20/F., Block 5, One Silversea, 18 Hoi Fai Street, Tai Kok Tsui, Kowloon.	100	N/A	N/A	

Source: Hong Kong 2018 Annual Report for Nutriunion HK, May 23, 2019

First, such records indicate, in our opinion, that Ausnutria lied in its annual reports when it claimed to own 60% of Nutriunion HK. Hong Kong corporate records indicate that the shares of Nutriunion HK were 100% owned by the Ausnutria CFO. We cannot see how accounting rules would permit the consolidation of an entity in which the Company did not own any interest, and which was held by its CFO as an individual.

Second, such records raise questions about the July 2019 acquisition of 40% of the outstanding shares from Company executives. Hong Kong records show that as of May 2019, the sellers did not own the shares they purportedly sold to the Company. If Nutriunion HK was already 100% owned by the Company CFO, why did the Company agree to pay RMB 236 million in shares and cash to three executives who, according to the Hong Kong share registry, did not previously own equity in the target? To us, it looks like a sham transaction designed to steal money from the public Company.

CORPORATE SCANDAL AND A PATTERN OF UNDISCLOSED RELATED PARTY DISTRIBUTORS

Ausnutria has a rich history of corporate scandal, poor corporate governance, fabricating sales and questionable related party transactions through which senior employees conspired to defraud shareholders.

Until August 2014, trading of Ausnutria's shares were [suspended](#) for **2 years and 4 months (858 days)** when its auditor, Ernst & Young ("E&Y"), sent a [whistleblower letter](#) alerting the board to evidence that Ausnutria was inflating sales. E&Y also warned that certain officers tried to cover up such revenue fabrication by doctoring the Company's books and records.

The Company initially [appointed](#) BDO to conduct a forensic investigation of E&Y's allegation, but BDO resigned abruptly.

Eventually, the board engaged PwC to review the allegations. PwC's findings, only a summary of which was disclosed to investors, revealed serious corporate misconduct: including revenue fabrication, an attempted cover-up, and questionable transactions with related party distributors partially owned by the management.

It is important to briefly revisit the details of the scandal because we believe not only that most of the perpetrators are still involved with the Company, but that Ausnutria is engaging in similar if not more brazen conduct today.

Specifically, PwC [found evidence](#) of:

- **Revenue Fabrication.** Ausnutria recognized sales for goods that had not been delivered to its distributors. Although PwC's review focused on one month for which it found definitive evidence of revenue fabrication, PwC's findings highlighted records from 2009-2011, suggesting discrepancies between reported sales and inventory sent to distributors.
- **Doctoring Records and Cover-up.** PwC reported that the "data in relating to the Questionable December Transactions... **had been manually altered**" and the integrity of its records was questionable because of evidence that the CFO of its key PRC subsidiary (Ausnutria China) "instructed the developer of the warehouse barcode system to **alter the data**..." to match the data previously provided to E&Y. In other words, an Ausnutria executive instructed an employee to doctor records to cover up misrepresentations to the Company's auditor.
- **Tax Invoice Discrepancies.** PwC identified major discrepancies between reported sales and issued VAT invoices, noting that VAT invoices issued amounted to **50% of reported sales**. The Company argued that the absence of VAT invoices was not indicative of fraud, but we believe the implication is clearly that sales without VAT invoices should be subject to scrutiny regarding their authenticity.
- **Highly Questionable Transactions with Associates.** PwC also highlighted what it called "questionable" transactions with an unnamed "Associate," a PRC distributor jointly set up by the Company and three of its senior staff. PwC found that, without approval of the board, the Associate entity was used to consolidate orders from small distributors in order to obtain a better discount from the Company. Again, PwC stops short in its conclusion, but our interpretation of this conduct is that senior sales staff were defrauding the Company by setting up a related party distributor to obtain a higher discount than was appropriate. PwC does not discuss how such senior staff profited from this scheme, but we think it is fair to presume that they did.

It is also important to note that by PwC's own admission, its review "was subject to significant limitations," which limited PwC's ability to determine the level of involvement by senior management. This was because:

- **Conveniently Stolen Laptop.** PwC was unable to review the data contained in the laptop of previous Company CEO Chen Yuangrong, because it was allegedly **stolen** in a conveniently timed burglary of his home in May 2012, shortly after the investigation commenced. This reminds us of [China Animal Healthcare](#), which claimed that a truck carrying its financials was stolen on its way to deliver supposedly exonerating documents to regulators. This is the "dog ate my homework" equivalent of corporate fraud and we believe

that investors could reasonably infer that the missing laptop contained highly incriminating evidence which was deliberately concealed from investigators.

- **Missing Computers.** The laptop of the ex-China CFO, whom PwC implied was one of the primary orchestrators of the fraud, was not made available to investigators. Furthermore, Ausnutria claimed that his desktop computer was wiped when he resigned, supposedly as part of the Company's standard operating practice. Again, this fact pattern is highly suspicious and, in our opinion, suggests that the Company or senior employees engaged in a cover-up of incriminating evidence. It is far too convenient that Company practices resulted in the destruction of potentially probative evidence.
- **Missing Emails.** The Company also admitted that it conveniently terminated the email account of the ex-China CFO. In its review, PwC also identified spreadsheets attached to emails which included potentially incriminating entries, suggesting that the Company maintained two sets of books and records. PwC also identified records which contained "questionable" inventory records for the period from 2009 through 2011, including entries labelled "**empty transfers.**" By their title, such entries imply that the Company was fabricating sales for some time, but since PwC did not have access to the underlying records, it could not corroborate this suspicion.

PwC was unable to review the data contained in the laptop computer of Chen Yuanrong ("Mr. Chen"), the former executive Director and chief executive officer of the Company and the China Subsidiary, since the laptop computer of Mr. Chen, together with certain personal belongings and valuables of Mr. Chen and his family, were stolen during a burglary at his home on 8 May 2012. Mr. Chen reported the burglary to a branch of the Bureau of Public Security in Changsha Municipal of Changsha (長沙市公安局) (the "Bureau of Public Security") on the same date.

PwC was also unable to review the data contained in the computers of the Ex-China CFO as the laptop computer used by him for work purpose belonged to him personally and was not made available to the Group or PwC for inspection after he ceased employment with the China Subsidiary in or around April 2012. Furthermore, in line with the China Subsidiary's usual administrative practice, the desktop computer of the Ex-China CFO had been reformatted following his departure in or around April 2012 and was re-assigned to another staff.

PwC was not provided with access to the emails in the email account for the Ex-China CFO as his email account was terminated on 31 March 2012 when he was re-designated from the position of chief financial officer of the China Subsidiary to an assistant of the chief executive officer of the China Subsidiary and no data backups were arranged prior to the account termination.

Source: <https://www1.hkexnews.hk/listedco/listconews/sehk/2013/0818/ltm20130818033.pdf>

Following the PwC investigation, the Company was forced to restate its financials for 2009-2010 and adjusted previously unpublished financials for the years 2011-2012.

Ausnutria restated profits **downwards** by 22% and **46% for the years 2009 and 2010, respectively**. An almost 50% downward restatement of net profits suggests just how pervasive the accounting fraud was at the Company.

RMB'000	2009	2009	2009	2010	2010	2010
	Original	Restated	% Adjustment	Original	Restated	% Adjustment
Revenue	623,777	545,584	-13%	579,333	513,890	-11%
Cost of sales	315,530	277,224	-12%	261,789	250,710	-4%
Profit before tax	208,408	168,521	-19%	121,191	66,827	-45%
Profit for the year	182,120	142,233	-22%	110,167	59,950	-46%

Source: 2011 Annual Report

Notably, EY issued a **disclaimed opinion on the profit and cash flows** in the Company’s 2012 financial statements and gave a **qualified opinion** on the Company’s 2013 financial statements.

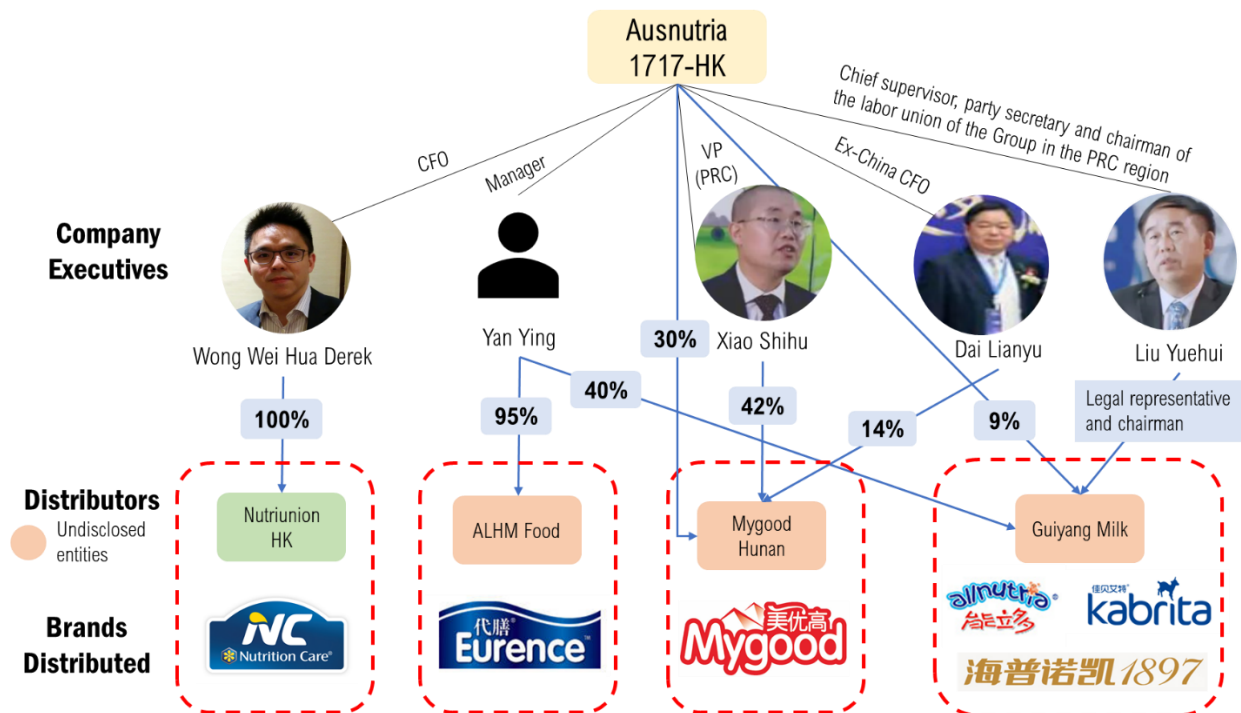
RMB M	2011	2012
Adjustment: Deduction of Revenue	(190)	(46)
Adjustment: Deduction of COGS	(53)	(10)
Net effect of adjustment on profit before tax	(137)	(36)
Reported Profit before tax	72	85
% Adjustment on profit before tax	-66%	-30%

Source: 2012 Annual Report

Former Ausnutria CEO Chen Yuanrong took the fall. Chen [resigned](#) after he was [censured](#) by the stock exchange and for the Company’s failure to make timely disclosures regarding the deterioration of its business.

Resuming trading after 2 years and 4 months of suspension, Ausnutria [promised](#) to take “appropriate actions” to remedy deficiencies in internal controls. The Company also promised to “continue to carry out restructuring on the **management** to ensure adequate and satisfactory internal control and corporate governance” for the Company going forward.

Yet despite the Company’s promises to clean up, we found evidence that Ausnutria continues to engage in undisclosed related party transactions with distributors secretly controlled by executives, including transactions with disgraced executives at the epicenter of the scandal. Leopards it would seem, do not change their spots.



1) Mygood: Disgraced Former CFO Secretly Connected to Undisclosed Related Party Distributor

Most notably, we believe that the ex-CFO of Ausnutria Dairy China Co., Ltd (“[Ausnutria China](#)”), the officer whom PwC alleged was one of those executives primarily responsible for directing both the fraud and the cover up, likely remains involved in the business.

In PwC's findings, it found that the ex-CFO of Ausnutria China fabricated or directed subordinates to fabricate accounting documents and to mislead the auditor and investors. It never names the ex-China CFO, but discusses his misconduct in detail.

Based on PwC's interview with certain personnel of the China Subsidiary, PwC was informed that certain underlying documents relating to the Questionable December Transactions were prepared under the direction of the Ex-China CFO who had left the China Subsidiary in or around April 2012. These transactions should not have been recognised as sales of the China Subsidiary in December 2011.

The Ex-China CFO had instructed the developer of the warehouse barcode system to alter the data in the warehouse barcode system for December 2011 with a view to matching the data previously provided to EY. However, PwC was not able to interview the Ex-China CFO regarding the above as the latter had left the China Subsidiary in or around April 2012.

that in the Accounting Records. The relevant personnel of the China Subsidiary informed PwC that the discrepancy was mainly due to the Questionable December Transactions and the information contained in the relevant Warehouse Records and the Accounting Records was prepared under the instruction of the Ex-China CFO. As mentioned above, PwC was not able to reconcile the

Source: <https://www1.hkexnews.hk/listedco/listconews/sehk/2013/0818/tn20130818033.pdf>

Neither the Company nor PwC, to our knowledge, ever identify the name of the individual referred to as the Ex-China CFO who was at the epicenter of the fraud. But we believe we can deduce the identity based on the Company's prior disclosures.

In the Company's last annual report before the suspension, filed in April 2011 for the 2010 financial year, Ausnutria identified Mr. Dai Lianyu as the CFO of Ausnutria China. The Company reported that he held this position from February 2006.

Mr. Dai Lianyu ("Mr. Dai"), aged 42, is the chief financial officer of Ausnutria China. He joined our Group on 27 December 2005. Mr. Dai graduated from Hunan Finance and Economy College* (湖南財經學院) and is a chartered accountant. From April 2005 to December 2005, Mr. Dai was employed at Changsha Xin Da Xin Group as the vice manager in the auditing department. From February 2006 to present, he is the chief financial controller of Ausnutria China and is primarily responsible for overseeing the financial affairs of our Group. He has approximately 5 years of experience in the industry.

Source: 2010 Annual Report, filed on April 13, 2011

We believe Mr. Dai to be the Ex-China CFO referred to by PwC. He held the position of Ausnutria China CFO from 2006 until at least April 2011, the period under which a substantial portion of the misconduct occurred. His conduct should have disqualified him from ever doing business with the Company again, yet we find evidence that Mr. Dai continues to be closely involved in Ausnutria's business.

Mygood is one of the cow-milk based infant formula brands sold by Ausnutria. The Company characterizes Mygood as an affordable, foreign produced formula which it sells mostly in lower tier cities.¹⁷ Although the Company does not disclose the annual sales for the Mygood brand, [media reports](#) suggest that sales target for Mygood was RMB 300 million in 2018. Our research indicates that Mygood products are marketed and distributed by an undisclosed related party controlled and majority owned by a combination of Ausnutria executives and the disgraced Ex-China CFO.

Mygood Dairy (Hunan) Co. ("Mygood Hunan") is not a disclosed subsidiary of the Company and is never mentioned, to our knowledge, in the Company's annual reports. Yet according to corporate records, Mygood Hunan (incorporated in November 2016), is 30% owned by Ausnutria China.

¹⁷ Research Note on Ausnutria from China Renaissance dated June 13, 2019.

Corporate records also show that 14% of Mygood Hunan is owned by Dai Lianyu, the disgraced ex-CFO of Ausuntria China. Dai Lianyu was the financial controller of an entity found to be defrauding investors. That he has any involvement with the Company is a major problem. Yet he, along with an Ausuntria Vice President in the PRC, together have majority control over an undisclosed related party which distributes one of the Company's infant milk formula brands.

Corporate records also show that 42% of Mygood Hunan is owned by Xiao Shihu, vice president of Ausuntria in the PRC region.

序号	股东 (发起人) 查看最终受益人>	持股比例	认缴出资额(万元)	认缴出资日期	关联产品/机构
1	肖诗弧 Xiao Shihu 大股东 实际控制人 最终受益人 他关联3家企业 >	42.00%	210	2016-12-18	-
2	澳优乳业(中国)有限公司 Ausuntria Dairy (China)	30.00%	150	2016-12-18	澳优乳业
3	戴联宇 Dai Lianyu 他关联3家企业 >	14.00%	70	2016-12-18	-
4	肖明海 Xiao Minghai 他关联2家企业 >	14.00%	70	2016-12-18	-

Source: Qichacha.com

Xiao Shihu was a key executive officer of Ausuntria China (Chief Operating Officer and Director of Marketing) from December 2003 until at least 2011, the entity at the epicenter of the corporate scandal.

Mr. Xiao Shihu ("Mr. Xiao"), aged 36, is the chief operating officer of Ausuntria China. He joined our Group shortly after the establishment of Ausuntria China. Mr. Xiao graduated from the Huazhong Institute of Science and Technology* (华中科技大学) with a degree in Master of Economics. Mr. Xiao has 14 years of experience in this industry at dairy products marketing, operations management and strategies management since 1997. From December 2003 to present, he is the director of marketing of our Group and is primarily responsible for all marketing activities of our Group.

Source: 2010 Annual Report (Xiao is not mentioned in the subsequent annual reports)

As the COO of the entity caught fabricating sales, we would expect him to be dismissed from the Company following the corporate scandal. Yet not only does he own 42% of an undisclosed related party distributor, he appears to still be an executive at the Company. In an article on Ausuntria's website, Xiao Shihu is referred to as a current Vice President of Ausuntria in the PRC.

青春有梦 砥砺前行
澳优十五周年



Xiao Shihu

关于澳优的十五年，每一位陪伴过澳优成长的人，都有太多的话想说。从回望初心，砥砺前行，荣耀时刻到展望未来，部分见证过澳优十余年发展的澳优合作伙伴在一段VCR里说出了自己的心里话。

伍跃时 (澳优创始股东)：我们按照国际上最严格的标准来打造澳优的第一款奶粉。我们的初心就是要用世界的优质奶源，打造让中国宝宝放心的奶粉。

陈远荣 (澳优创始股东)：在品类迭代、品类发展的机会面前，澳优重要的是把握了创新，把握了机会，这就成就了澳优的现在。

刘育标 (澳优中国区副总裁)：早年去招商的时候，基本上没有休息时间，都是披星戴月。

肖诗弧 (澳优中国区副总裁)：澳优的模式是一种全球自控产业链的模式，是利用全球资源，为中国宝宝服务的模式。

Xiao Shihu (Vice President of Ausuntria PRC region)：但是我们澳优人始终在一起，阔步向前，迈向第一阵营。

戴智勇 (澳优中国区副总裁)：通过低渗透压奶粉的专利和我们的市场推广，大大提升了澳优的品牌实力。

Source: <http://www.ausuntria.com/index.php/new/info/308>

This entity is unquestionably material. Mygood Hunan's website states that it is the subsidiary of Ausuntria responsible for marketing and sales of Mygood infant formula and nutrition products in PRC.

美优高乳业（湖南）有限公司
Mygood Dairy (Hunan) Co., Ltd.

美优高乳业（湖南）有限公司就香港主板上市公司澳优乳业（HK.01717）旗下子公司，在澳优乳业全球产业链布局下，负责澳优美优高品牌系列婴幼儿奶粉及营养品在中国市场的推广与销售。

Mygood Dairy (Hunan) Co., Ltd. is a subsidiary of HK-listed Ausuntria (HK.1717) and is responsible for the promotion and sale of Ausuntria's Mygood brand infant milk powder and nutrition products in the Chinese market

Source: <http://www.myougood.cn>

According to a [news article](#), Mygood Hunan's opening ceremony in January 2017 was attended by Ausuntria Chairman, Yan Weibin and Ausuntria executive director Ng Siu Hung (Wu Shaohong), who referred Mygood Hunan as a subsidiary of Ausuntria. Mygood Hunan announced an ambitious plan to achieve RMB 1 billion in revenue in five years.

美优高乳业（湖南）有限公司成立暨五年战略发布会在全体同仁的努力，与经销商百忙之中抽空参与，以及总部和各BU领导的莅临下取得了圆满的成功。通过此次会议澳优美高全体员工已厉兵秣马，跃跃欲试于五年十个亿的大目标。



美优高执行总监戴联宇&澳优总裁颜卫彬&美优高营销总监肖明海

Mygood Executive Director Dai Lianyu & Ausuntria CEO Yan Weibin & Mygood Marketing Director Xiao Minghai

Source: <http://www.myougood.com/view/pc/newsItem.do?code=3b5b803339b144aca6e0c6f187316f9b>

Ms. Wu Shaohong, an Executive Director of Ausuntria, on behalf of Ausuntria Group, expressed earnest wish for the newly established Mygood subsidiary.

澳优集团执行董事吴少虹女士作为代表，阐述了颜卫彬先生赠与美优高的珍贵礼物的含义，寄托了澳优集团总部对于新成立的美优高子公司的殷切期望。



吴少虹女士与肖诗孤先生交接礼物

Mygood Hunan also runs Mygood's official flagship store on Tmall and JD, and operates Mygood's WeChat account.

淘宝网 Taobao.com

美优高旗舰店 Mygood Official Flagship

描述 4.9 | 物流 4.9 | 服务 4.9 | 联系客服

掌柜: 美优高旗舰店	店铺动态评分	与同行业相比
描述相符 4.9	4.9	高於 59.61%
服务态度 4.9	4.9	高於 59.54%
发货速度 4.9	4.9	高於 60.18%

本店所有产品

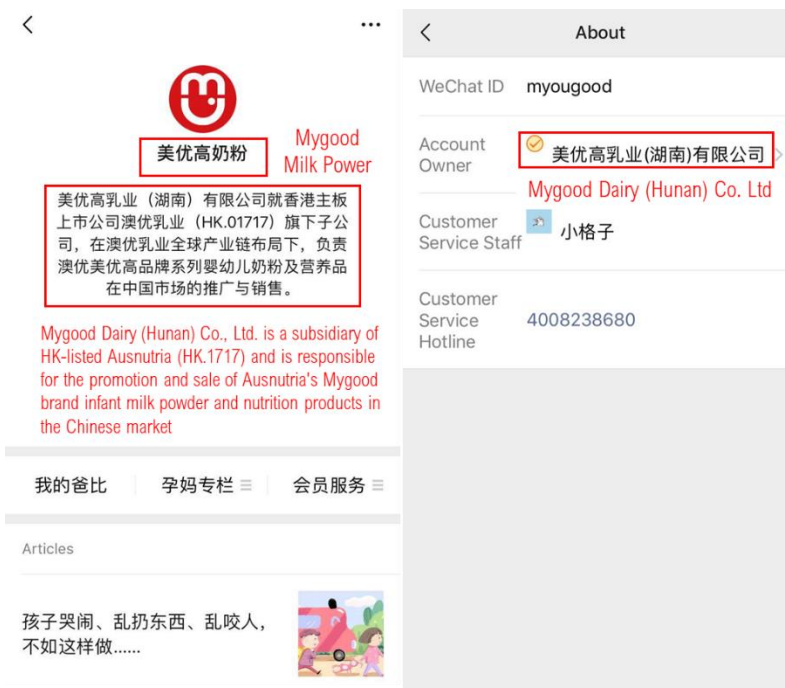
公司名称: 美优高乳业（湖南）有限公司

Company Name: Mygood Dairy (Hunan) Co. Ltd

Source: <https://meiyougao.world.tmall.com/>



Source: <https://mall.jd.com/index-808720.html>



Source: WeChat

Part of PwC's findings focused on inappropriate dealings with associates, entities partially owned by the Company, but majority owned by its employees. In response to the scandal, Ausuntria promised to divest its interests in such associates or deregister them.

Yet here, evidence indicates not only is Ausuntria engaging in undisclosed related party transactions with Mygood Hunan, but that the associated entity is majority owned by a combination of Ausuntria executives and a disgraced former CFO.

2) ALHM Foods: Undisclosed Related Party Distributor

In a recent acquisition announcement, the Company referred Hunan Aolian Hemei Foods Co. Ltd(湖南澳联和美食品有限公司) ("ALHM Foods") as an independent third party.

The GZ Purchaser

Hunan Aolian Hemei Food Co. Ltd.* (湖南澳联和美食品有限公司) is a company established in the PRC with limited liability and wholly-owned by two individuals, who are independent from the Company and its connected persons.

Source: <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0708/ltm20190708973.pdf>

Yet evidence suggests it is another undisclosed related party distributor.

According to Chinese corporate records, **ALHM Foods uses a @ausnutria.com email as its company contact email.** Yet Ausnutria holds no equity interest in ALHM Foods and never discloses the entity (or dealings with the entity) to Hong Kong investors prior to the recent acquisition of Nutriunion on July 8, 2019.

企业基本信息 2019-05-30 公布

注册号	430122000082481	统一社会信用代码	91430122MA4L1UW12C
企业经营状态	开业	企业联系电话	0731-84303228
从业人数	企业选择不公示	邮政编码	410000
有限责任公司本年度是否发生股东股权转让	否	企业是否有投资信息或购买其他公司股权	否
电子邮箱	Email zongze.li@ausnutria.com		
企业通讯地址	湖南省长沙市芙蓉区文艺路街道黄兴中路新大新B栋1203		

股东信息 2 (查看更多4条 历史股东) 企查查 认缴金额 持股比例 导出数据

序号	股东 (发起人) 查看最终受益人 >	持股比例	认缴出资额(万元)	认缴出资日期
1	 颜颖 Yan Ying 大股东 实际控制人 最终受益人 他关联2家企业 >	95.00%	950	2054-12-24
2	 周立鹏 他关联2家企业 >	5.00%	50	2054-12-24

Source: Qichacha

ALHM Foods even describes itself as a marketing subsidiary of Ausnutria China on its Baidu Baike page.

Hunan ALHM Foods Co. Ltd

湖南澳联和美食品有限公司

 编辑

本词条缺少信息栏、概述图，补充相关内容使词条更完整，还能快速升级，赶紧来编辑吧！

湖南澳联和美食品有限公司隶属于澳优乳业（中国）有限公司，是于2015年8月共同发起设立的专业营销公司。

Hunan ALHM Foods Co. Ltd belongs to Ausnutria Dairy (China) Co. It was jointly set up in August 2015 as a professional marketing company.

Source: <https://baike.baidu.com/item/湖南澳联和美食品有限公司>

Corporate records also show that ALHM Foods is 95% owned by Yan Ying (颜颖), who shares the same surname Yan (颜) as Ausnutria's chairman, Yan Weibin (颜卫彬). According to his LinkedIn page, Yan is a manager at Ausnutria China, a position he claims to have held since 2008.



Source: <https://www.linkedin.com/in/%E9%A2%96-%E9%A2%9C-315b1b130/>

A news article online in 2016 also identified Yan as the head of Mall and Supermarket Division at Ausnutria China.

民革湘潭市委专职副主委龚铁钢、社会服务科科长谭铁炎，以及澳优乳业（中国）有限公司商超项目负责人颜颖一行人等，赴湘潭、韶山、湘乡等地看望慰问了彭孟良等5位抗战老兵，给他们送去了慰问物资、慰问金，送上关爱和温暖，表达尊敬和祝福。

Translation: Tan Tiejian, the head of social services department, and **Yan Ying, the head of Mall and Supermarket Division at Ausnutria Dairy (China)** visited five veterans ...

Source: <http://news.sina.com.cn/o/2016-08-13/doc-ifyxhas1794022.shtml>

Not only is ALHM Foods an undisclosed related party, but its transactions with the Company appear unquestionably material. In an article on the Hunan Electronic Commerce Association website, ALHM Foods claims to be managing Eurence, one of Ausnutria's adult nutrition brands.

THE GROUP'S OWN BRANDS



Source: 2018 Annual Report

(Council Member) Hunan ALHM Foods

[理事单位] 湖南澳联和美食品有限公司

来源: 未知 作者: 湖南省电商协会 日期: 2019-05-17

Author: Hunan Electronic Commerce Association Date: May 17, 2019

理事单位

**ALLIESSE 澳联和美**

湖南澳联和美食品有限公司隶属于澳优乳业（中国）有限公司，于2015年8月共同发起成立。公司专注于营养及健康事业，致力成为人们信赖的，提供全面健康管理服务的领先公司。目前主营Hollisure合力素及Eurence代膳两大成人营养品牌。

Hunan ALHM Foods Co. Ltd belongs to Ausnutria Dairy (China) Co. It was jointly set up in August 2015. The company focuses on nutrition and health business and strives to become a leading company trusted by people to provide comprehensive health management services. At the present, the company is managing two major adult nutrition brands - Hollisure and Eurence.

Source: <http://www.jqmu.cn/a/huiyuanfengcai/huiyuantuijian/494.html>

ALHM Foods also operates Eurence's official store on JD.com.

代膳®
Eurence

代膳官方旗舰店
只为一杯好牛奶

卖家: 澳联和美食品专营店
卖家资质:
综合评分: ★★★★★

网店经营者资质信息公示
京东商城网店经营者营业执照信息
根据国家工商总局《网络交易管理办法》要求对网店营业执照信息公示如下:
企业名称: 湖南澳联和美食品有限公司 Company Name: Hunan ALHM Foods Co.

Source: <https://mall.jd.com/index-868749.html>

In sum, the Company claims that ALHM Foods is an independent third-party. Yet ALHM Foods is 95% owned by a Company executive, its registered email address uses an @ausnutria.com handle, and it claims to be a Company subsidiary. Evidence also indicates that far from being independent, ALHM Foods is the primary distributor for Eurence (one of Ausnutria's leading brands).

Again, this is a major problem, because Company executives have an undisclosed ownership interest in distributors. This creates the material risk that Company executives could use undisclosed influence over distributors to fake sales (again). It also creates the presumption, we believe reasonably, that Ausnutria executives are unjustly enriching themselves at the expense of Company shareholders.

3. Another Undisclosed Related Party Distributor: Guiyang Milk

Ausnutria China currently owns 9% of Guiyang Milk Supply Co. (“[Guiyang Milk](#)”), down from 35% on December 29, 2018, when Ausnutria China transferred 26% equity interest in Guiyang Milk to ALHM Foods (majority owned

by Company executive Yan Ying). ALHM Foods, the undisclosed related party discussed previously in this section, now owns 42% of Guiyang Milk. Ausnutria executive Liu Yuehui is the current legal representative and the chairman of Guiyang Milk.

股东信息 6		Shareholder information	Shareholding %	认缴金额	持股比例	导出数据
Shareholders	股东 (发起人)	查看最终受益人 >	持股比例	认缴出资额(万元)	认缴出资日期	关联产品/机构
1	 湖南澳联和美食品有限公司 大股东 Hunan ALHM Food 股权结构 >		42.00% 持股详情 >	420	2017-07-05	-
2	 贵阳市农业农垦投资发展集团有限公司 股权结构 >		34.00%	340	2017-07-05	-
3	 澳优乳业(中国)有限公司 Ausnutria Dairy (China) 股权结构 >		9.00% 持股详情 >	90	2017-07-05	澳优乳业

Source: Qichacha.com

In 2018, Guiyang Milk reported RMB 110 million in revenues.

企业资产状况信息							
资产总额	Total Asset	2528 万元	RMB 25.28 million	所有者权益合计	1270 万元		
营业总收入	Total Sales	10983 万元	RMB 109.83 million	利润总额	Total Profit	236 万元	RMB 2.36 million
营业总收入中主营业务收入	10983 万元			净利润	Net Profit	177 万元	RMB 1.77 million
纳税总额	418 万元			负债总额	1258 万元		

Source: Qichacha.com

Ausnutria does not, to our knowledge, ever mention Guiyang Milk in its annual report. Nor does it disclose that a Company executive owned a controlling stake in the distributor.

Yet according to Guiyang Milk's [website](#),¹⁸ it is selling Ausnutria-branded milk powder products including Kabrita, Hyproca and Allnutria. Guiyang Milk's website reports that it generated over RMB 72 million in annual sales primarily from selling Ausnutria's infant milk formula products, meaning its dealings with the Company are likely material.

¹⁸ <https://web.archive.org/web/20180814005606/http://www.gyntjt.com/enterprise/Index/27.html>

贵阳市奶品供应站简介

Guiyang Milk Supply Co. Description

贵阳市奶品供应站成立于1958年，地处瑞金中路60号，为全民所有制企业，企业占地面积984平方米，房屋建筑面积2418平方米。现有在册职工70余人，其中待岗19人，离退休人员61人，临时聘用市场人员约100人。在岗职工中硕士研究生1名、本科16人、专科以上26人，中级技术职称2人。现主营业务分两大类：一是商业贸易，代理荷兰、澳大利亚、法国进口优质名牌“澳优”系列奶粉。二是物业管理，目前出租临街门面、写字楼约1800平方米，年销售收入7200余万元。

Selling Ausnutria Brand Milk Powder
Annual sales revenue more than RMB 72 million



Ausnutria Hyproca Product Showcase



Kabrita, 100% Goat Milk Imported from the Netherlands



Allnutria

Source: <http://www.gyntjt.com/enterprise/Index/27.html>¹⁹

Here is yet another example of an instance of related party dealings in which Company executives, undisclosed to shareholders, hold equity interest in a distributor. A pattern of undisclosed related party distributors would render any other consumer product stock uninvestable, but in this case it is even a bigger issue because of Ausnutria’s past scandals in which it manipulated sales.

¹⁹ <https://web.archive.org/web/20180814005606/http://www.gyntjt.com/enterprise/Index/27.html>

VALUATION

We believe, based on the evidence presented in this report, that Ausnutria is overstating its revenues and understating its costs. Chinese customs data indicates that the Company is not importing nearly enough milk formula (by volume or value) for its sales to be true. For the two-year period from 2016-2017, we estimate that based on the value of imports reported by the Company's import agents, Ausnutria overstated its sales of infant milk formula by 52%. Based on such independent evidence, we think it is reasonable to value the Company by downwardly adjusting its reported and forecast revenue from infant milk formula in the PRC by this percentage.

Ausnutria is currently trading at 30x 1H19 LTM earnings, a high growth multiple befitting only companies with the highest governance standards. However, our extensive investigation suggests, in our opinion, that the Company inflates revenues, hides costs, misleads Chinese consumers and unjustly enriches executives with secret interests in its distributors. Accordingly, we apply a 25% governance discount on its P/E multiple, which we think is conservative considering that, in our opinion, the Company is a governance nightmare and its financials should not be relied upon.

HKD	LTM 1H 19	2019E	2020E
Net profit (RMB M)	563	707	1,203
EX Rate	1.1492	1.1100	1.1100
Net profit (HKD M)	646	785	1,335
# of shares outstanding (million)	1,608	1,608	1,608
EPS (HKD)	0.40	0.49	0.83
Last traded price (HKD)	12.18	12.18	12.18
P/E multiple	30.3 x	25.0 x	14.7 x
Corporate Governance Discount	25%	25%	25%
Adjusted P/E Multiple	22.7 x	18.7 x	11.0 x

Source: CCB International Estimates, Blue Orca Calculation

We then apply consensus profit before tax margin forecasts to our adjusted revenue forecast and adjusted P/E multiple to reach our valuation.

RMB M	LTM 1H 19	2019E	2020E
Infant formula revenue in the PRC	4,784	5,466	7,004
Custom data suggested revenue overstatement	-52%	-52%	-52%
Adjusted infant formula revenue in the PRC	2,319	2,649	3,395
Other segment revenues	1,171	1,342	1,567
Adjusted total revenue	3,489	3,991	4,962
Profit before tax margin	12.7%	13%	17%
Adjusted profit before tax	445	538	839
Effective tax rate	20%	20%	20%
Adjusted net profit	356	430	671
# of shares outstanding (million)	1,608	1,608	1,608
Adjusted EPS (RMB)	0.22	0.27	0.42
EX Rate	1.1492	1.1100	1.1100
Adjusted EPS (HKD)	0.25	0.30	0.46
Adjusted P/E multiple	22.7 x	18.7 x	11.0 x
Blue Orca valuation	5.78	5.56	5.10
Last traded price (HKD)	12.18	12.18	12.18
Downside %	-53%	-54%	-58%

Source: CCB International Estimates, FactSet, Blue Orca Calculation

After adjusting its revenue to reflect the independent data discussed in our report, we value Ausnutria at HKD 5.78 per share, a 53% downside from its last traded price. We consider this valuation to be very conservative, as it still gives a 23x P/E multiple to a Company whose history is tarnished by fraud and scandal, whose executives engage in brazen undisclosed related party transactions, and whose financials, in our opinion, cannot be relied upon. Ultimately, we think Ausnutria is simply uninvestable.

DISCLAIMER

We are short sellers. We are biased. So are long investors. So is Ausnutria. So are the banks that raised money for the Company. If you are invested (either long or short) in Ausnutria, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about the public companies we research is in the public interest.

You are reading a short-biased opinion piece. Obviously, we will make money if the price of Ausnutria stock declines. This report and all statements contained herein are solely the opinion of BOC Texas, LLC, and are not statements of fact. Our opinions are held in good faith, and we have based them upon publicly available evidence, which we set out in our research report to support our opinions. We conducted research and analysis based on public information in a manner that any person could have done if they had been interested in doing so. You can publicly access any piece of evidence cited in this report or that we relied on to write this report. Think critically about our report and do your own homework before making any investment decisions. We are prepared to support everything we say, if necessary, in a court of law.

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This report and its contents are not intended to be and do not constitute or contain any financial product advice as defined in the Australian Corporations Act 2001 (Cth). Because this document has been prepared without consideration of any specific clients investment objectives, financial situation or needs, no information in this report should be construed as recommending or suggesting an investment strategy. Investors should seek their own financial, legal and tax advice in respect of any decision regarding any securities discussed herein. At this time, because of ambiguity in Australian law, this report is not available to Australian residents. Australian residents are encouraged to contact their lawmakers to clarify the ambiguity under Australian financial licensing requirements.

Following publication of this report, we intend to continue transacting in the securities covered therein, and we may be long, short, or neutral at any time hereafter regardless of our initial opinion. This is not an offer to sell or a solicitation of an offer to buy any security, nor shall any security be offered or sold to any person, in any jurisdiction in which such offer would be unlawful under the securities laws of such jurisdiction. To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. As is evident by the contents of our research and analysis, we expend considerable time and attention in an effort to ensure that our research analysis and written materials are complete and accurate. We strive for accuracy and completeness to support our opinions, and we have a good-faith belief in everything we write, however, all such information is presented "as is," without warranty of any kind— whether express or implied.

If you are in the United Kingdom, you confirm that you are subscribing and/or accessing BOC Texas, LLC research and materials on behalf of: (A) a high net worth entity (e.g., a company with net assets of GBP 5 million or a high value trust) falling within Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"); or (B) an investment professional (e.g., a financial institution, government or local authority, or international organization) falling within Article 19 of the FPO.

This report should only be considered in its entirety. Each section should be read in the context of the entire report, and no section, paragraph, sentence or phrase is intended to stand alone or to be interpreted in isolation without reference to the rest of the report. The section headings contained in this report are for reference purposes only and may only be considered in conjunction with the detailed statements of opinion in their respective sections.

For convenience purposes only, we have provided a Chinese translation of this report. In case of any discrepancy or inconsistency between the Chinese and the English versions of this report, the English version is the original and should prevail. In case of any legal dispute, reference shall be made only to the English version.

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